

GAAP/GFS Harmonisation Project

Collation of Comments on ED 155 *Financial Reporting by Whole of Governments*

List of respondents (as at 28 August 2007)

- 1 Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)
- 2 PricewaterhouseCoopers (PwC)
- 3 New South Wales Treasury (NSW Treasury)
- 4 CPA Australia (CPAA)
- 5 Australasian Council of Auditors-General, excluding the Auditor-General for South Australia (ACAG)

Staff note

Given the small number of responses, we have not undertaken a statistical analysis of the views expressed.

Any collation of comments on Exposure Drafts is, by its nature, subjective. Accordingly, this collation is not a substitute for reading the original submissions in their entirety, provided in agenda papers 9.3.1-9.3.5.

ED 155 Specific matter for comment (a): *One or Two Standards*

The Board intends to amend AASB 1049 to reflect its decisions arising out of ED 155 and thereby issue a single integrated Standard that specifies requirements for both WoG financial reports (incorporating GGS, PNFC sector and PFC sector financial information) and GGS financial reports.

Respondents' views:

<i>Respondent</i>	<i>View</i>
1 HoTARAC	Does not support issuing a single integrated standard
2 PwC	Supports issuing a single integrated standard
3 NSW Treasury	No comment
4 CPAA	Supports issuing a single integrated standard
5 ACAG	Supports issuing a single integrated standard

Analysis of the issue:

(a) Arguments for issuing a single integrated standard:

- Greater discipline on the AASB to ensure that the requirements are expressed in the same way for GGS and WoG, and only differ where intended. AASs 27, 29 and 31 have demonstrated the problems of issuing separate standards that ostensibly have the same requirements for different types of entities.
- Strengthens the relationship between WoG reports and GGS reports. A single Standard would be consistent with the fact that, under AASB 1049, GGS reports are not permitted to be made available prior to the release of WoG reports.
- More consistent with a topic-based approach to setting Standards.

(b) Arguments for issuing separate standards:

- AASB 1049 was only relatively recently issued. Time should be allowed for its implementation before it is subject to review and potential substantive amendment. [Although staff do not expect AASB 1049 to be implemented before the mandatory operative date of 1 July 2008 and we expect it to be implemented at the same time as a WoG GAAP/GFS harmonised Standard is implemented, at least one jurisdiction (Queensland) is effectively undertaking a comprehensive 'field test' of AASB 1049].
- Acknowledges that GGS reports may be presented separately from WoG reports. A single integrated standard may underplay the importance, and compromise the recognition, of separate financial reporting for the GGS. Furthermore, a separate WoG Standard would be consistent with a government possibly preparing a WoG report prior to making GGS reports available. (However, staff understand that it is unlikely that any jurisdictions will publish harmonised WoG reports before harmonised GGS reports).
- Acknowledges the differing GGS and WoG financial reporting objectives and requirements in terms of consolidation, budget data and sectoral reporting. AASB 1049 is a budget and budget outcome reporting framework, presented at the GGS level, while ED 155 serves to harmonise accountability reporting by governments. ED 155 states that the WoG financial report is a general purpose financial report. AASB 1049 is silent on the question of whether a GGS financial report is a general purpose or special purpose financial report.

Staff view:

On balance, staff would prefer a single integrated standard.

HoTARAC has raised a concern that such an approach may delay the release of a WoG standard. However, in line with the Board's proposal in ED 155 to issue an integrated standard, we have already made substantial progress in drafting such a standard (see agenda paper 9.4).

If the Board decides to issue a separate WoG standard, staff agree with HoTARAC that AASB 1049 should be amended for the purposes of consistency with ED 155.

ED 155 Specific matter for comment (b): *Adopt AASB 1049 principles for WoG*

The Board intends to base WoG general purpose financial reporting requirements on the principles adopted in AASB 1049 for GGS financial reporting.

Respondents' views:

<i>Respondent</i>	<i>View</i>
1 HoTARAC	Supports the proposal in ED 155 that WoG requirements should be consistent with the principles in AASB 1049, but thinks that AASB 1049 should be amended to avoid the need for GAAP/GFS reconciliations by prescribing the 'conceptually best treatment' for each potential convergence difference
2 PwC	Supports the proposal in ED 155, including a reconciliation between the two frameworks
3 NSW Treasury	No comment (except in relation to the treatment of deferred taxes – see item 12 under 'comments on the Illustrative Example' towards the end of this paper)
4 CPAA	Supports the proposal in ED 155
5 ACAG	Supports the proposal in ED 155

Analysis of the issues:

Consistency between GGS and WoG financial reporting

There is unanimous support for consistency between GGS and WoG financial reporting, therefore we have not analysed the issue further. However, see paragraph 55 and the associated text box in agenda paper 9.4 in relation to the possibility that GGS information may differ between a GGS financial report and GGS information in the WoG financial report.

Adopting the 'conceptually best treatment' (either GAAP or GFS) on an issue by issue basis

This issue was discussed at length during the development of AASB 1049. If the Board wishes to reopen this debate, staff will compile previous agenda papers relating to the issue for redeliberation by the Board at a future meeting.

HoTARAC continues to argue that, in some cases, GFS is superior to GAAP. For example, in relation to accounting for borrowing costs, it believes that expensing (the GFS treatment) is better than capitalisation (the GAAP treatment, per the June 2007 version of AASB 123).¹ Furthermore, in relation to accounting for income tax, some HoTARAC members believe that the tax payable method (the GFS approach) is better than tax-effect accounting (the GAAP approach).² HoTARAC considers that if all convergence differences are eliminated, financial reports would be more useful to users and would have a less onerous impact on preparers.

Arguably, in effect, the Board's decisions reflected in AASB 1049 (and carried over into ED 155) are consistent with the 'conceptually best treatment' approach. This is because the Board decided to require GAAP definition, recognition and measurement principles in all cases, instead of GFS in some cases. Restricting GAAP options to align with GFS was one way the Board imposed the 'conceptually best treatment' and contribute to harmonisation. The approach adopted by the Board is consistent with transaction-neutrality.

1 HoTARAC notes that it will be onerous to maintain suitable records across all government entities for items that are expensed for GFS and capitalised for GAAP. There is also the ongoing financial impact on depreciation and asset revaluation.

2 HoTARAC notes that, in some jurisdictions, the GGS has recognised tax revenue/assets, eliminated at the WoG level, to mirror the position reported by PNFCs and PFCs, in accordance with AASB 112 *Income Taxes*. See in particular the response from NSW Treasury in agenda paper 5.3.3.

In relation to the future, the Preface of both AASB 1049 and ED 155 contain a commitment from the AASB that it will consider any future GAAP/GFS convergence differences that may emerge with a view to avoiding or confirming the existence of a difference (see also page 9 of the Preface in the draft integrated standard in agenda paper 9.4).

Requiring disclosure of and reconciliations to GFS key fiscal aggregates

Even if it is accepted that the Board has adopted the ‘conceptually best treatment’, the question still arises as to whether reconciliations to GFS should be required to be disclosed. HoTARAC comments (and we agree) that it is in the interests of both users and preparers that, as far as possible, GAAP/GFS convergence differences are eliminated to minimise or remove the need for reconciliations. HoTARAC argues that the reconciliations increase complexity of government financial reports and reduce the usefulness, relevance and clarity of the reports. However, arguably, the disclosure of GFS measured key fiscal aggregates and the reconciliation to equivalent GAAP measured amounts provides useful information to users who focus on ABS GFS measures. Given that the ABS will continue to publish GFS measures, there is a potential for users to be confused if reconciliations are not published.

We note that the prominence of the reconciliations to be disclosed is not prescribed in AASB 1049 (nor proposed in ED 155 or the draft integrated standard in agenda paper 9.4). Accordingly, jurisdictions could present the reconciliations with low prominence.

Staff view:

The approach adopted in AASB 1049 should continue to be adopted, and applied in a WoG context.

ED 155 Specific matter for comment (c): *Treatment of Equity Transactions*

The treatment of transactions with owners as owners and movements in reserves (paragraph 15 of ED 155). Such transactions may occur between the GGS and the PNFC/PFC sectors. They may also occur in a WoG context in relation to partly-owned subsidiaries. The Board is particularly interested in views on whether the differential treatment of transactions with owners as owners and movements in reserves is appropriate.

Respondents' views:

<i>Respondent</i>	<i>View</i>
1 HoTARAC	Does not support the proposal in ED 155. Transactions with owners as owners and movements in reserves should be able to be treated in the same way, that is, recognised on the face of the comprehensive operating statement or disclosed in the notes
2 PwC	No specific comment, supports the general approach taken in ED 155
3 NSW Treasury	No comment
4 CPAA	Supports the proposal in ED 155
5 ACAG	Supports the proposal in ED 155. Transactions with owners as owners should not be recognised on the face of the operating statement because they do not represent revenue or gains to the entity concerned. The Board might consider specifying a form of presentation to achieve consistency for disclosing owner transactions and movements in reserves

Analysis of the issue:

Paragraph BC15 of the Basis for Conclusions accompanying ED 155 notes the Board's conclusion that, because transactions with owners as owners are different in nature from other amounts recognised on the face of the operating statement, such transactions should be disclosed in the notes or a separate statement (that is, a statement other than the operating statement).

Arguably, movements in reserves are also different in nature from other amounts recognised on the face of the operating statement. It seems somewhat anomalous that under ED 155 movements in reserves can be presented on the face of the operating statement, but transactions with owners as owners cannot.

Staff view:

On reflection, staff think that the same option available for movements in reserves should be made available for transactions with owners as owners. However, those transactions should be shown below the 'comprehensive result – total change in net worth before transactions with owners as owners' line. (This potential change to ED 155 has not been reflected in agenda paper 9.4. Staff will do so for consideration at a future meeting if the Board agrees in principle with the staff view.)

HoTARAC notes that it is likely that the information about transactions with owners as owners would be disclosed in the notes only. Accordingly, the Illustrative Example should not be amended to illustrate transactions with owners as owners on the face of the operating statement.

In relation to ACAG's comment about specifying a consistent form of presentation, we believe that it is unnecessary and would be inconsistent with the principles in AASB 101.

ED 155 Specific matter for comment (d): *Sector Information*

Sector information (paragraphs 41-46 of ED 155). Given the potentially onerous nature of a requirement to disclose the financial statements and reconciliation notes for the GGS, PNFC sector and PFC sector in the WoG financial report, the Board is particularly interested in views on whether the proposal in ED 155 would provide the most effective way to meet users' needs for sector information.

Respondents' views:

<i>Respondent</i>	<i>View</i>
1 HoTARAC	(a) Supports the requirement to disclose sector financial statements (b) Suggests that the requirement to disclose a reconciliation from the sector financial statements to whole of government financial statements be clarified (c) Does not support the requirement to disclose reconciliations of GAAP and GFS key fiscal aggregates
2 PwC	No specific comment, supports the general approach taken in ED 155
3 NSW Treasury	No comment
4 CPAA	Supports the proposal in ED 155
5 ACAG	Supports the proposal in ED 155

Analysis of the issues:

Disclosure of sector financial statements

There is unanimous support for the proposals in ED 155. Therefore, we have not analysed the issue further.

Disclosure of a reconciliation of sector financial statements to whole of government financial statements

There is concern that, as drafted in ED 155, there would be a requirement to disclose eliminations between sectors (not just between the sectors and the WoG). HoTARAC questions whether users would be able to understand these elimination items.

Disclosure of the reconciliation between GAAP and GFS key fiscal aggregates

This issue is closely related to the discussion under specific matter for comment (b) above, under the heading 'Requiring reconciliations to GFS key fiscal aggregates'. HoTARAC argues that disclosure of reconciliations for the PNFC and PFC sectors is of limited value to users and excessively onerous to preparers. It argues that, presumably on the assumption that HoTARAC's 'conceptually best treatment' approach is not adopted, the accounting standards should only require disclosure of reconciliations at the WoG and GGS levels.

Staff view:

Subject to clarification of the requirements, adopt ED 155 proposals. We understand that users' greatest interest is in the GGS, and we therefore acknowledge that it would be possible to make the requirements less onerous without sacrificing significant user needs by not requiring PNFC/PFC sector GAAP/GFS reconciliations. However, because it is potentially useful information, we would prefer not to reduce the level of disclosure proposed in ED 155.

To clarify the requirement to disclose a reconciliation between sectoral information and the corresponding information in the WoG financial report, we suggest that:

- (a) paragraph 41(c) of ED 155 is amended to read "a reconciliation between the information disclosed for the sectors in total and the corresponding information in the government's financial statements ..." (see also paragraph 54(c) of the draft integrated standard in agenda paper 9.4); and
- (b) the following sentence is added to paragraph 46 of ED 155: "Disclosure of the individual eliminations between the sectors is not required." (see paragraph 60 of the draft integrated standard in agenda paper 9.4).

ED 155 Specific matter for comment (e): *Budgetary Information*

Budgetary information (paragraphs 47-53 of ED 155). The Board is particularly interested in views on whether:

- (i) *WoG budgetary information should only be required to be disclosed where WoG budgeted financial statements are presented to parliament; and*
- (ii) *sector budgetary information should not be required to be disclosed in the WoG financial report.*

Respondents' views:

<i>Respondent</i>	<i>View</i>
1 HoTARAC	Supports the proposals in ED 155, subject to some clarification of the drafting
2 PwC	No specific comment, supports the general approach taken in ED 155
3 NSW Treasury	No comment
4 CPAA	Supports the proposals in ED 155
5 ACAG	Supports the proposals in ED 155

Analysis of the issue:

Subject to clarification of the requirements, there is unanimous support for the proposals in ED 155. Therefore, we have not analysed the issue further.

Staff view:

Subject to clarification of the requirements, adopt the proposals in ED 155.

In relation to drafting of the requirements, it should be made clearer that only budgeted financial statements are required to be disclosed, not the accompanying notes. This can be achieved by amending paragraph 51 of ED 155 (and corresponding paragraph 56 of AASB 1049) to read:

“For the purpose of this Standard, governments are required to report the financial information required by paragraph 47 about their original budgets for the reporting period that are presented to parliament. This facilitates users of financial reports (including taxpayers) making and evaluating decisions about the allocation of scarce resources and for assessing the discharge of a government’s accountability. The Budget information is disclosed on the same basis, which includes in the same format, for the same scope and with the same content, as the accounting basis to facilitate a comparison of actuals against the budget.” (see paragraph 65 of the draft integrated AASB 1049 in agenda paper 9.4).

ED 155 Specific matter for comment (f): *Transitional Requirements*

Transitional requirements (paragraph 54 of ED 155). In particular, the Board is interested in assessments of the costs and benefits of the approach proposed, which is to require the principles in AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors to apply to the first WoG financial report prepared in accordance with the proposals in ED 155.

Respondents' views:

<i>Respondent</i>	<i>View</i>
1 HoTARAC	Expresses concern about a potential permanent difference between GGS and WoG as a result of the application of AASB 1 <i>First-Time Adoption of Australian Equivalents to International Financial Reporting Standards</i>
2 PwC	No specific comment, supports the general approach taken in ED 155
3 NSW Treasury	No comment
4 CPAA	Supports the proposal in ED 155
5 ACAG	Supports the proposal in ED 155. ACAG does not foresee any issues with application of the principles in AASB 108 to the first WoG financial report prepared in accordance with the proposals in ED 155. Given that AASB 1049 requires AASB 1 to be applied, an explanation of the requirement to apply AASB 108 instead of AASB 1, possibly in the Basis for Conclusions, would be useful

Analysis of the issue:

Under the principles in AASB 1049, for GAAP/GFS harmonisation purposes, GGS is prohibited from using some of the exemptions and exceptions (referred to in this paper as options) in AASB 1 despite WoG having already applied AASB 1 without the equivalent restrictions on using the options. ED 155 proposes that WoG is prohibited from having a second bite at the options in AASB 1, even if it would help facilitate GAAP/GFS harmonisation.

In using AASB 1 options, WoG may not have had regard to GAAP/GFS harmonisation, resulting in the possibility of permanent differences between GGS and WoG (and therefore between GGS as a separate entity and GGS as a sector; and between WoG GAAP and WoG GFS). Two particular circumstances of concern raised by HoTARAC relate to financial instruments, as a result of AASB 139's restrictions on post-AASB 1 reclassifications (see paragraphs 9, 50 and 51 of AASB 139). In particular, it is possible that WoG (and consequently the sectors disclosed in the WoG report) may be constrained in its ability to reclassify financial instruments to the categories of 'at fair value through profit and loss' and 'available-for-sale', and therefore prevented from adopting fair value measurement (see page 4 of the HoTARAC letter in agenda paper 9.3.1).

In drafting paragraph 54 (transitional requirements) of ED 155, the expectation was that WoGs would have made elections under AASB 1 having regard to the imminent GAAP/GFS harmonisation requirements. However, if that has not been the case (and the fact that HoTARAC has raised the concern, suggests that the issue exists in practice), arguably WoGs should be required to reclassify certain financial instruments to avoid a permanent difference between GGS and WoG.

Staff view:

On reflection, transitional provisions should be added that require WoG to reapply the options in AASB 1 when this will facilitate consistent GGS and WoG reporting (and thereby avoid permanent GGS/WoG differences, GGS-as-a-sector-in-the-WoG-financial-report/GGS-in-a-separate-financial-report differences, and GAAP/GFS differences that would otherwise arise). We think the benefits of this approach outweigh the adverse implications of not adhering to a strict application of the transaction-neutral principle.

We have identified two main ways in which our view could be implemented:

- (a) require WoG to make use of the options in AASB 1 in a way that results in consistency between GGS and WoG and achieves GAAP/GFS harmonisation; or
- (b) require WoG to make use of the options in AASB 1 in a way that results in consistency between GGS and WoG, but only to the extent necessary to achieve GAAP/GFS harmonisation.

The distinction between these two ways can be illustrated as follows:

Assume:

- WoG classified a financial instrument as ‘held-to-maturity’ (measurement at amortised cost) when it first applied AASB 1 in 2005;
- Under the requirements in AASB 139, the instrument can be subsequently reclassified by WoG to ‘available-for-sale’ (per paragraph 51)³ but not to ‘at fair value through profit and loss’ (per paragraph 50), both of which would result in measurement at fair value; and
- Both GGS and WoG are preparing GAAP/GFS harmonised financial reports for the first time in 2009 (that is, GGS is applying AASB 1049 [and therefore AASB 1] for the first time).

Approach (a) would require both WoG and GGS to reclassify the instrument in the same way, as either ‘at fair value through profit and loss’ or ‘available-for-sale’ – that is, making full use of the options available in AASB 1.

Approach (b) would require both WoG and GGS to reclassify the instrument in the same way, as ‘available-for-sale’ (as allowed under AASB 139). Because it is not necessary to use the options in AASB 1 to achieve GAAP/GFS harmonisation (that is, measurement at fair value), the option of reclassifying to ‘at fair value through profit and loss’ is not available.

The staff view is that because under AASB 1049 GGS can use the options in AASB 1 (subject to GAAP/GFS harmonisation principles) on first time adoption, we think that WoG should be required to align with any choices made by GGS. Accordingly, on balance, we prefer approach (a).

(This potential change to ED 155 has not been reflected in agenda paper 9.4. Staff will do so for consideration at a future meeting if the Board agrees in principle with the staff view.)

In relation to ACAG’s comment about the Basis for Conclusions, staff believe that paragraphs BC62-BC66 of agenda paper 9.4 are adequate, unless the Board decides to change the transitional requirements.

3 Under paragraph 9 of AASB 139 (definition of held-to-maturity investments), a reclassification from ‘held-to-maturity’ to ‘available-for-sale’ may result in the tainting of the ‘held-to-maturity’ classification, rendering it unavailable for the current and two subsequent annual reporting periods.

ED 155 Specific matter for comment (g): *Usefulness to Users*

Whether, overall, the proposals in ED 155 would result in financial reports that would be useful to users.

Respondents' views:

<i>Respondent</i>	<i>View</i>
1 HoTARAC	The proposals will be useful to users. The general public is unlikely to be able to understand the statements. Adopting the 'conceptually best treatment', thereby removing the need for reconciliation items, would make the statements more useful to a wider range of potential users
2 PwC	No specific comment, supports the general approach taken in ED 155
3 NSW Treasury	No comment
4 CPAA	Believes that the real test is the increasing use of the financial statements proposed by users and the phasing out of reports produced under the Uniform Presentation Format
5 ACAG	Agree that the proposals would be inherently useful to users

Analysis of the issue:

See the discussion under specific matter for comment (b) above re the 'conceptually best treatment' issue.

Staff view:

Overall, the proposals would result in financial reports that would be useful to users.

CPAA's comments suggest that the Standard should be subject to a post-implementation review. We suggest that this occurs a few years after initial implementation.

ED 155 Specific matter for comment (h): *Best Interest of the Australian Economy*

Whether the proposals in ED 155 are in the best interest of the Australian economy.

Respondents' views:

<i>Respondent</i>	<i>View</i>
1 HoTARAC	Doubts that reports prepared under ED 155 will have any impact on the Australian economy
2 PwC	No specific comment, supports the general approach taken in ED 155
3 NSW Treasury	No comment
4 CPAA	Believes that this will only be achieved: (a) when the FRC's objective of harmonising GFS and GAAP "to achieve an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements" is realised; and (b) when the financial reports and data produced proposed by ED 155 is increasingly used by the users including the Australian Loan Council.
5 ACAG	Believes that audited GFS/GAAP information will be in the best interests of the Australian economy

Analysis of the issue:

There is a broad consensus on this issue. Therefore, we have not analysed the issue further.

Staff view:

Overall, the proposals are in the best interest of the Australian economy.

Again, in response to CPAA's comments, a post-implementation review should be undertaken in due course.

Other Issues Raised by Respondents:

	RESPONDENT COMMENT	STAFF VIEW
<i>Comments on the text of ED 155</i>		
1	(HoTARAC) Para 6: The phrase “in accordance with” should be changed to “in a manner consistent with” to avoid the perception that paras 6 and 7 are inconsistent.	In a WoG context, “in accordance with” is the appropriate phrase. However, in an integrated Standard, “in a manner consistent with” would be more suitable (see para 9 of the draft integrated standard in agenda paper 9.4).
2	(HoTARAC) Para 6: Should include a statement that ED 155 prevails in the event of an inconsistency with another Standard.	For clarity, we suggest that the first sentence of para 7 is amended as follows: “With limited significant exceptions, this Standard requires the definition, recognition, measurement, classification, consolidation, presentation and disclosure requirements specified in other <u>applicable</u> Australian Accounting Standards to be adopted in the financial report. This Standard only requires a different treatment from another <u>applicable</u> Australian Accounting Standard when the requirements of this Standard directly conflict with the requirements of that other Standard...” (see para 10 of the draft integrated standard in agenda paper 9.4)
3	(HoTARAC) Para 7: Only one Standard in conflict is listed. ED 155 should include a list of those Standards that are not to be applied when preparing financial statements under ED 155. This could include AASB 114 <i>Segment Reporting</i> and AASB 124 <i>Related Parties</i> .	It is not necessary to list AASB 114 and AASB 124 in a WoG context, because they do not apply to WoG by virtue of their application paragraphs. However, in a single integrated standard, they should be listed. (see para 11 of the draft integrated standard in agenda paper 9.4)
4	(HoTARAC) Para 9(a): states that historical cost is not characterised as fair value. However, it is often the case that historical cost is deemed as fair value, for example where an active market does not exist. The AASB should clarify the implications of the statement ‘not characterised’.	Although in some circumstances historical cost may equate to fair value, in other circumstances historical cost should not be characterised as fair value. For clarity, the paragraph could include an amended sentence: “Where historical cost is adopted because fair value cannot be measured reliably, <u>historical cost is unlikely to be equal to fair value. Where historical cost is not fair value, it should not be</u> characterised as fair value.” (see paragraph 14(a) of the draft integrated standard in agenda paper 9.4)
5	(HoTARAC) Para 9(e): the assumption “that because of the format of the GFS cash flow statement the direct method must be used for the cash flow statement” may be incorrect. Some jurisdictions using the indirect method are not able to use the direct method.	No change should be made to the paragraph. There is no compelling reason to provide an exception to the requirement that a choice in GAAP should be restricted by GFS requirements. GFS adopts the direct method – see Table 5.2.2 on page 67 of the ABS GFS Manual (and Table 4.2 on page 42 of the IMF GFS Manual).
6	(HoTARAC) Para 9: As a result of AASB 2007-4 <i>Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments</i> , additional grey letter items should be added as examples of particular optional treatments that para 8 has the effect of limiting: * Classification of dividends paid in the Cash Flow Statement; and * Use of the government bond rate in the WoG financial report (even though for-profit entities may use the high quality corporate bond rate)	Para 9 does not provide an exhaustive list of options in GAAP. However, there is no reason to not add the example of the classification of dividends. (see paragraph 14(f) of the draft integrated standard in agenda paper 9.4) We do not believe that it would be appropriate to characterise the requirements relating to government bond rates in AASB 119 <i>Employee Benefits</i> as an option in GAAP. Para Aus78.1 of AASB 119 states: “Notwithstanding paragraph 78, in respect of not-for-profit public sector entities, post-employment benefit obligations denominated in Australian currency shall be discounted using market yields on government bonds.” (emphasis added)

	RESPONDENT COMMENT	STAFF VIEW
7	(NSW Treasury) Para 21: Guidance should be provided on whether to classify deferred tax expense/revenue as a transaction or other economic flow.	Para 21 does not purport to provide an exhaustive list of possible applications of the GAAP principles for classifying items between transactions and other economic flows. However, there is no reason to not add the example of deferred tax expense/revenue, particularly given that NSW Treasury has pointed out that different interpretations might emerge. Consistent with the broad principle in AASB 112 <i>Income Taxes</i> (whereby current and deferred tax is charged or credited directly to equity if the tax relates to items credited or charged directly to equity) our view is that the classification of deferred tax should follow the classification of the item that gave rise to the deferred tax. Accordingly, where deferred tax arises from a movement in an asset or liability that itself is recognised as a transaction, then the associated deferred tax on that movement should also be recognised as a transaction (but not otherwise). This would mean that deferred tax would need to be dissected between transactions and other economic flows, depending on the treatment of the underlying asset/liability. (see paragraph 57(b) of the draft integrated standard in agenda paper 9.4)
8	(HoTARAC) Para 32: if AASB 123 <i>Borrowing Costs</i> is not amended to mandate expensing of borrowing costs (see specific matter for comment (b) above re 'conceptually best treatment'), para 32 should include capitalised interest as an example of a convergence difference because borrowing costs need to be expensed for GFS.	Although para 32 does not purport to provide an exhaustive list of possible convergence differences, para 32 could be extended to include a reference to borrowing costs. (see paragraph 44(a)(v) of the draft integrated standard in agenda paper 9.4) To avoid a situation where a WoG (and GGS) is required to expense borrowing costs until the option is removed from GAAP, the WoG (and GGS) standard should require early adoption of revised AASB 123. (see paragraphs 13 and 44(a)(v) of the draft integrated standard in agenda paper 9.4)
9	(HoTARAC) Para 37-40: the requirement to present disaggregated functional information about all assets should be removed. There is no conceptual basis for comprehensively allocating assets to particular functions nor are there users who require this information. In addition, such a requirement is extremely resource intensive for preparers and auditors, for limited benefit. Instead, the information should be limited to disaggregated functional information about assets to the net capital investment, as required by the ABS and IMF.	This issue was discussed extensively during the development of AASB 1049. ED 155 reflects the requirements from AASB 1049. Para 39 of ED 155 provides a rationale for the requirement. We believe that the rationale still holds and therefore the proposals in ED 155 should be incorporated into a standard (see paragraphs 50-53 and BC53-BC55 of the draft integrated standard in agenda paper 9.4)
10	(HoTARAC) General comment: for many jurisdictions, dividends paid will be a reconciling item disclosed in the Sector Reconciliation to GFS Net Operating Balance. For some jurisdictions, this will be the only reconciling item. The need for reconciliations would be removed if the GFS Sector Income Statement included an Income Tax Equivalents and Dividends line item under Operating Surplus.	See our comments under specific matter for comment (c) above. We note that HoTARAC's suggestion would not entirely remove the need for reconciliation, because there would still be a difference between GAAP and GFS measures of net operating balances (because GFS treats dividends as an expense and GAAP treats them as distributions to owners).
11	(CPAA) General comment: It is important that the AASB considers the implications of, and response to, ED 156 prior to issuing the standard arising out of ED 155.	The objective is to issue the standard arising out of ED 155 around the same time as standards arising out of ED 156 are issued (although it is likely that the outcome of ED 156 will lag a bit behind ED 155). ED 156 comment period closes on 3 September 2007. Our aim is to bring a collation of comments on ED 156 to the Board's October 2007 meeting.

	RESPONDENT COMMENT	STAFF VIEW
<i>Comments on the Illustrative Example</i>		
1	(HoTARAC) The use of differing terms in financial statements to describe the same item may confuse users. For example, 'distributions' in the Cash Flow Statement and 'dividends' in the Operating Statement. Items should be consistently referred to throughout the Illustrative Example.	Change. Terminology should be aligned. To address the distributions/dividends issue, we suggest that the term 'dividends' is used throughout and, where necessary, expanded to note the nature of the dividend (see the Illustrative Example in the draft integrated standard in agenda paper 9.4).
2	(HoTARAC) The treatment of transactions with an owner, as an owner, are not illustrated. The inclusion of a transaction to illustrate the differential treatment with an owner, as an owner, would clarify the treatment to be adopted.	No change. Dividends from PNFC/PFC sectors to GGS are already illustrated. In relation to transactions with minority interests, it is appropriate for the WoG standard to contemplate that such transactions may arise. However, it is not appropriate/necessary to illustrate such transactions because they do not presently arise in practice. It is not necessary to illustrate, for example, contributions of equity by the GGS to PNFC/PFC sector entities.
3	(HoTARAC) Where differences in elimination do not cause a difference in measurement of key fiscal aggregates, and are not included in key reconciliation notes, the disclosure on consolidation of these differences should not be required. At best, this information will be an estimate, because at the time of preparing the statements, jurisdictions will not be in a position to know the final GFS numbers finalised by the ABS. Users requiring this information can refer to ABS publications.	No change. The illustration is consistent with paragraph 41(c) of ED 155 (which would require a reconciliation between the information disclosed for the sectors and the corresponding information in the WoG's financial statements). The illustration shows only 'eliminations' that cause a difference in measurement of key fiscal aggregates or are shown in key reconciliation notes. The more general concern raised about GPFRs being published prior to ABS finalising its numbers, and therefore the risk that ABS will publish different numbers from the numbers published in the GPFR, is a general issue pertinent to the principles in ED 155 (and indeed AASB 1049). Therefore, it should not/cannot be addressed through the illustration alone. The concern primarily arises from the requirement to publish GFS measures, and reconciliations thereto, in the financial report, which is discussed under specific matter for comment (b) above. We note that some jurisdictions liaise closely with the ABS in determining GFS amounts, thereby minimising the risk of ABS subsequently publishing different amounts to those published in the GPFR.
4	(HoTARAC) Note (f) is intended to explain the convergence differences for the Net acquisition of non-financial assets. The inclusion of the tables from the perspective of providing information on how this item is derived is supported. However, the tables do not explain the convergence differences. The note should include a short narrative component similar to Note k to explain the convergence differences.	Change: Further explanations of the differences should be provided by cross-referencing to the differences explained in explanatory notes (a) and (b), combined with the amount shown for 'amortisation of non-produced assets' in the operating statement. (see the Illustrative Example in the draft integrated standard in agenda paper 9.4)
5	(HoTARAC) The illustrated negative net worth in the Balance Sheet may confuse readers. The AASB should cast the illustrative example as a positive net worth entity. "Buildings and structures" and/or "land" could be increased to reflect positive net worth.	No change: Although an earlier draft of the example had negative WoG net worth, ED 155 illustrates a positive WoG net worth.
6	(HoTARAC) The reference to 'unfunded superannuation liability' in the Balance Sheet should be replaced by 'superannuation' or 'defined benefit superannuation' since this item is under the heading of liabilities. In addition, these terms are more flexible and accommodate jurisdictions that have partly funded superannuation.	Change: Advice from ABS staff is that using only 'superannuation' is acceptable under the ABS GFS Manual. (see the Illustrative Example in the draft integrated standard in agenda paper 9.4)

	RESPONDENT COMMENT	STAFF VIEW
7	(HoTARAC) Include an additional line item on the face of the Operating Statement: "Transactions with Owners as Owners". For preparers who disclose these movements on the face rather than in the notes, this item would reconcile the full movement in (non-GFS) net worth and be consistent with the purposes of the current statement of changes in equity under AASB 101 paragraph 97(a). Further, this would provide users with a single reference point to review all such movements. (See also item 8 under 'comments on the text of ED 155' above)	No change: as noted in specific matter for comment (c) above, we agree that transactions with owners as owners should be permitted to be disclosed on the face of the operating statement. However, we do not believe that it is necessary to illustrate such a presentation. Furthermore, given the assumptions in the illustration, the WoG does not have any transactions with owners as owners. (see comment 2 above)
8	(HoTARAC) It is unclear whether the item 'superannuation interest expenses' in the Operating Statement includes the off-setting actuarial-determined expected return on plan assets or if this component of superannuation is included under the item 'employee expenses – superannuation'. This should be clarified, with the word 'net' being included in the item description.	Change: the line item description should be changed to 'superannuation net interest expenses'. (see the Illustrative Example in the draft integrated standard in agenda paper 9.4). Staff note that in developing the example, we assumed that the line item 'superannuation interest expenses' is net of expected return on plan assets (based on paragraphs 61 and 119 of AASB 119 <i>Employee Benefits</i>).
9	(HoTARAC) The item 'Dividends from associates (part of share of net profit/(loss) from associates)' in the WoG Cash Flow Statement should be shortened to 'Dividends from associates' or be included in the item 'Other receipts'.	Change: the line item should be changed to 'dividends from associates', for consistency with the equivalent line item in Note R3. (see the Illustrative Example in the draft integrated standard in agenda paper 9.4)
10	(HoTARAC) The complementary item to 'Sale of investments' in the Cash Flow Statement should be 'Purchases of investments' rather than 'Increases in investments'.	Change: 'increases in investments' should be changed to 'purchases of investments', in the interest of using complementary terminology. (see the Illustrative Example in the draft integrated standard in agenda paper 9.4)
11	(HoTARAC) The reference to the Operating Statement for the WoG by Sector as Note 'R' should be extended to all sectoral statements.	No change: Although an earlier draft of the example only used R, ED 155 uses R1, R2 and R3, which addresses the concern.
12	(NSW Treasury) GGS (in a separate financial report and as sector information in the WoG financial report) should recognise the mirror to the deferred tax balances recognised by the PNFC and PFC sectors. NSW Treasury has provided a comprehensive analysis of the issue (see agenda paper 9.3.3).	No change: non-recognition by the GGS of the mirror accounting is consistent with the principles in proposed revised AASB 1004 presented in ED 156. It states at para 25: "Control over assets acquired from involuntary non-reciprocal transfers, such as rates, taxes and fines, is obtained when the underlying transaction or other event giving rise to control of the future economic benefits occurs. For example, taxes are recognised when the underlying transaction or event that gives rise to the government's right to collect the tax occurs and can be measured reliably." However, we acknowledge that, as the proposed application paras in ED 156 are currently drafted, para 25 would only apply to "general purpose financial reports of local governments, government departments that are reporting entities, and governments" (para 1.2) and therefore would not apply to GGSs. Staff suggest that the scope should be expanded to GGS financial reports at the time ED 156 is converted into a Standard.
13	(ACAG) The Illustrative Example does not show comparative information as required by AASB 101 and it would be useful to indicate whether a separate table showing comparatives would be acceptable.	No change: consistent with a principle-based style of standard-setting, we do not believe that such detailed guidance is warranted.

Other Changes to the Illustrative Examples

The following table provides a list of other possible changes to the Illustrative Example in ED 155, most of which staff believe should be made, and which are reflected in agenda paper 9.4. They are in addition to the changes advocated by respondents to ED 155. Most of them were identified by reviewers of an earlier draft of the Illustrative Example that could not be reflected in ED 155 at the time, as noted by the Board at its June 2007 meeting. Some of the changes (for example, items 4 and 5 below) are predicated on developing an integrated Standard.

	Concern with ED 155 and related issues	How AASB staff have dealt with the issue in the draft integrated standard in agenda paper 9.4
1	Use of “owners” terminology introduced into ED 155 whereas it was removed from AASB 1049. Consistency of terminology between ED 155 and AASB 1049 is advisable.	No change: The terms ‘Owner’ and ‘Non-Owner’ are not needed in a GGS context compared with the WoG context. Therefore, reference to ‘owner’ is only used where relevant. Where both GGS and WoG are referred to, we feel that it is appropriate to refer to ‘owner’.
2	Not clear what the distributions transaction relates to in explanatory note (g) and (i), and why GFS treats the transaction as withdrawal of equity as opposed to dividend revenue under GAAP. More explanation could be provided (e.g. sale of major assets, return on capital versus return of capital).	Change: Additional information provided in explanatory notes (g) and (i) to explain that, in the example, dividends are assumed to be funded from proceeds from sale of PNFC sector assets.
3	The name of the line item 'Net gain on equity investment in other sector entities measured at proportional share of net assets/(liabilities)' should be changed to something along the lines of 'Revaluation of PNFC/PFC'. The measurement basis is more appropriate as an accounting policy note disclosure.	No change: We consider that reference to the measurement basis is necessary to allow readers to distinguish between gains/(losses) that result from different types of financial assets measured using different measurement bases (eg net gain on financial assets at fair value).
4	If both GGS and WoG are illustrated, explanations of key technical terms would be repetitive.	Change: In creating the draft integrated Standard, we have separated the illustration of key technical terms from Illustrative Examples A and B into Illustrative Example D. This enables us to illustrate generic explanations suitable in both a WoG and GGS context. Explanatory notes have been provided throughout where differences between the WoG and GGS definitions might be warranted. As a consequence, we have removed the reference to Note Y at the bottom of each illustrated financial statement.
5	If both GGS and WoG are illustrated, explanatory notes would be repetitive.	Change: The explanatory notes have been merged into one set for both WoG and GGS, with corresponding changes to cross-references. It means, for example, that cross-references from GGS reconciliation notes do not refer to some WoG and PNFC/PFC sector-only convergence differences.
6	Inconsistent terminology used throughout the illustrative example, e.g. “Employee Expenses” in Operating Statement and “Compensation of Employees” in Cash Flow Statement. Apply consistent terminology, provide commentary where not possible. 'Compensation of employees' - we suggest that the name should be changed to 'Employee costs' or similar as the word 'compensation' denotes some sort of ex gratia payment for damages.	Change: Although the operating statement has retained the term ‘employee expenses’, the cash flow statement has been changed to refer to ‘payments to employees’. This has been consistently applied throughout Illustrative Examples A and B.

	Concern with ED 155 and related issues	How AASB staff have dealt with the issue in the draft integrated standard in agenda paper 9.4
7	'Superannuation interest expense' is an inappropriate description. It should be renamed "Unfunded superannuation nominal interest expense". Adding "unfunded" makes it clear we are talking about the expense on the net liability (rather than the gross) and also makes it clear it is the expense associated with the "unfunded superannuation" liability shown on the balance sheet. "Nominal" needs to be included as the amount is not an actual interest expense - the amount is actually the unwinding of the discount on the PV of the benefits, minus a long term assumed earnings rate on the assets, neither of which is "interest" in a literal sense.	No change: We do not believe such detailed description is necessary. We have added the word 'net' to the line item description – see item 6 in the previous table under 'Comments on Illustrative Example'.
8	The line NET RESULT FROM TRANSACTIONS - NET OPERATING BALANCE is potentially confusing. While it was included in AASB 1049, the line description may be less confusing to readers of the financial statements if the NET OPERATING BALANCE was removed.	No change: The term "net result from transactions" is consistent with the ABS GFS manual, as is the term 'net operating balance' and therefore both terms have been retained in Illustrative Examples A and B.
9	The suitability of sub-headings 'Other Revenue' and 'Other Expenses'. These are not needed. If anything, showing these sub-headings could be confusing as it will lead to a line item of Other Revenue/Expenses under the Other Revenue/Expenses heading.	Change: The sub-heading 'other expenses' has been removed from Illustrative Examples A and B as it is superfluous. However, 'other revenue' sub-heading has been retained as it is consistent with the ABS GFS manual.
10	There are no Advances in the balance sheet and yet they appear in the cash flow statement. This is confusing. They should be shown on the balance sheet.	Change: Amounts for 'advances' in assets (i.e. loans made for policy purposes) have been added to the balance sheets of Illustrative Examples A and B. In addition, 'advances paid' and 'advances received' have been removed from financing activities in the cash flow statement because we have assumed that advances are already captured in the cash flows from investing activities line item titled 'purchases of investments' under the 'Financial Assets (Policy Purposes)' sub-heading.
11	The year 200X could be interpreted as implying that it is the first year of adoption of the Standard.	Change: Year changed to 20XX for illustrative purposes. (Furthermore, the year in Illustrative Example C has also been changed to refer to 20XX).
12	The Illustrative Example for the GGS in AASB 1049 differs from the GGS in ED 155 in relation to GGS investment in a PNFC sector entity with traded shares.	Change: AASB 1049 included a hypothetical PNFC entity with traded shares. ED 155 did not. If AASB 1049 is to be retained to apply only to GGS, the Illustrative Example in AASB 1049 should be amended to reflect an assumption that there are no controlled entities with traded shares.
13	Disaggregated information – it is not clear how 'expenses, excluding losses, included in operating result' is derived from items recognised in the operating statement.	Change: Reconciliation of 'expenses from transactions' to 'expenses, excluding losses, included in operating result' is now provided in Note Z of Illustrative Examples A and B.
14	Explanatory notes (e) and (v) ignore classification convergence differences from a WoG perspective.	Change: Explanatory notes (e) and (v) have been amended to refer to both GGS and WoG.