

AASB staff list of possible additional issues relevant to the current review of GFSM 2001

Introduction

This paper lists a number of additional issues we think could be relevant to the current review of IMF GFSM 2001. The issues were identified by AASB staff during a post-implementation review of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which is the Australian Accounting Standard that addresses GAAP/GFS harmonisation.

Although our post-implementation review addressed issues pertinent to the ABS GFS Manual relative to GAAP, we think some of our findings, including those listed below, are still relevant to the IMF given the relationship of the ABS GFS Manual to IMF GFSM 2001.¹

Issues

1 Definition of 'institutional unit' and 'transactions'

Although the focus of GFSM 2001 is whole of government and GGS, some believe the principles should also apply to entities within the GGS (such as government departments). However, some entities within the GGS do not satisfy the definition of 'institutional unit', which is integral to the definition of 'transactions', on the basis that those entities are administrative structures rather than legal structures. Because of this, in contemplating applying GAAP/GFS harmonisation principles to those entities, the AASB is considering deeming those entities to be institutional units. As part of the current review of GFSM 2001, consideration could be given to providing guidance on applying GFS principles to entities within the GGS.

2 Transitional matters

We acknowledge that paragraphs 1.31-1.33 of GFSM 2001 comment on the practical issues surrounding the implementation of GFS. However, it does not provide explicit guidance to facilitate transition. In contrast, accounting standards facilitate orderly adoption of changes, typically by providing transitional relief (such as a delay in mandatory operative dates), to allow sufficient time for affected parties to become familiar with requirements and introduce any new systems that might be needed. As part of the current review of GFSM 2001, consideration could be given to providing explicit transitional guidance for changes to GFSM 2001.

3 Dividends

Paragraph 5.87 of GFSM 2001 states:

"When payments are received from public corporations, it can be difficult to decide whether they are dividends or withdrawals of equity. Dividends are payments a corporation makes out of its current income, which is derived from its ongoing productive activities. A corporation may, however, smooth the dividends its pays from one period to the next so that in some periods it pays more in dividends than it earns from its productive activities. Such payments are still dividends. Distributions by corporations to shareholders of proceeds from privatization receipts and other sales of

1 Given that there are some differences between the ABS GFS Manual and IMF GFSM 2001, our post-implementation review also identified some issues that arise in relation to the ABS GFS Manual and not GFSM 2001, including:

- Unlike GFSM 2001, the ABS GFS Manual does not clearly indicate whether non-financial assets should be classified between produced/non-produced in a balance sheet; and
- Unlike GFSM 2001, the ABS GFS Manual contemplates the inclusion of certain non-cash items in a cash flow statement.

assets and large and exceptional one-off payments based on accumulated reserves or holding gains are withdrawals of equity rather than dividends.”

The current wording of ‘dividends are payments a corporation makes out of its current income’ in paragraph 5.87 is arguably too narrow by implying that dividends cannot be paid from accumulated profits. As part of the current review of GFSM 2001, consideration could be given to more explicitly clarifying the circumstances under which dividends can be paid out of accumulated profits. (We note that the Australian Corporations Law was recently amended to replace the previous ‘profits test’ with the new ‘solvency test’.)

4 *Treatment of a GGS investment in a PNFC sector of PFC sector entity*

Paragraph 7.119 of GFSM 2001 is not clear on how to treat a GGS investment in a PNFC or PFC sector entity if the value of assets less liabilities of the entity is less than zero. AASB 1049 currently requires jurisdictions to measure net assets at zero if the carrying amount of net assets is less than zero. As part of the current review of GFSM 2001, consideration could be given to providing clarifying guidance on this issue from a GFS perspective.

5 *Companion material*

We are aware that the IMF publishes ‘companion material’. As part of the current review of GFSM 2001, consideration could be given to clarifying the status of that companion material, particularly any material that might be helpful to interpret the Manual. Furthermore, we note that the GFSM 2001 Glossary (October 2002) is labelled a ‘draft’. It would be helpful for it to be issued as a ‘final’ document.