

EXTRACT FROM MINUTES: AASB 10-11 DECEMBER 2003 MEETING

GAAP/GFS CONVERGENCE

Agenda Item 4

The Board had before it:

- (a) a covering memorandum from Robert Keys and Robert Orford dated 3 December 2003 (Agenda paper 4.1);
- (b) a draft Project Advisory Panel Consultation Paper (Consultation Paper No.2) (Agenda paper 4.2);
- (c) the Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC) submission dated 4 November 2003 (Agenda paper 4.3);
- (d) Consultation Paper No.1 (unamended) sent to Panel members on 18 November 2003 (Agenda paper 4.4);
- (e) an article by Don Challen, Chair of HOTARAC, *GAAP/GFS harmonisation*, CPA Magazine, November 2003 (Agenda paper 4.5);
- (f) a draft agenda for the HOTARAC GFS/GAAP Convergence Working Group meeting on 3 December 2003 (Agenda paper 4.6); and
- (g) a report on the HOTARAC GFS/GAAP Convergence Working Group meeting on 3 December 2003 (Agenda paper 4.7).

Review of AAS 29 *Financial Reporting by Government Departments*

The Board noted that the AASB project reviewing AAS 29 is being progressed following the arrival of a secondee, Cameron Robinson-Taylor, to the AASB technical staff from the Queensland Audit Office.

Consultation Paper No.1

The Board noted that Consultation Paper No.1 was finalised and sent out to Panel members on 18 November 2003 for comment by 31 January 2004. Thus far, only one Panel member has indicated an inability to provide comments until early February 2004.

International Activities concerning GAAP/GFS Convergence

The Board noted that Australia has taken the initiative to review a convergence issues matrix (which draws on Australian material). The matrix has been sent to other international members of the PSC-IMF Working Group for comment.

Preliminary Board Views on GAAP/GFS Convergence - Consultation Paper No.2 (Agenda paper 4.2)

The Board noted that draft Consultation Paper No.2 is based on HOTARAC's submission dated 4 November 2004 which (to a large extent) builds on issues already canvassed in Consultation Paper No.1. Accordingly, the Board decided that the comment period for Consultation Paper No.2 should end on 31 January 2004, to coincide with the comment period for Consultation Paper No.1.

The Board noted that there still exist some differing views on the meaning of "convergence". The Board confirmed its view that convergence would be to the highest quality standard, given a public sector context. The Board's intention is that public sector entities would be able to state that they are compliant with IASB Standards (IASs/IFRSs) as amended in the Australian context to account for specific not-for-profit public sector issues. To the extent that the AASB permits exemptions for

certain public sector specific issues, it will not be possible for not-for-profit public sector entities to state that they are compliant with AASB equivalents to IASB Standards. The Board noted that, subject to decisions to be made in relation to “partial consolidation” for GGS financial reporting and performance reporting, it does not expect decisions made as part of GAAP/GFS convergence to affect that position.

The Board also expressed the preliminary view that it is unlikely that GAAP/GFS convergence will be applicable to government-owned business enterprises such as Telstra. The Board noted that this issue would not be explicitly addressed until Phase 3 of the GAAP/GFS convergence project.

The Board’s decisions on the draft questions in Agenda paper 4.2 and its preliminary views on those questions are as follows:

- (a) *Background and Guide to answering questions:* The Board agreed with the commentary as expressed in agenda paper 4.2.
- (b) *Question 1.1 relating to differences between the public sector business model and the private sector business model.* The Board broadly agreed with the preliminary staff view and decided that the commentary in the second paragraph should be re-drafted to delete the first sentence and to focus on the Board’s underlying general principle that, consistent with its policy of issuing sector neutral standards, unless there are compelling reasons to do otherwise, GAAP definition, recognition and measurement principles should be adopted. The Board also decided to delete the third paragraph in the preliminary view textbox.
- (c) *Question 1.2 relating to whether the GGS should be treated as a reporting entity, a sector of whole of government and/or a parent entity; and the appropriateness of the private sector notions of control.* The Board agreed with the preliminary staff view and decided, in relation to the preliminary view expressed on issue (b), to include a lead-in sentence to clarify that the view expressed is the Board’s, and to delete the last sentence of the paragraph.
- (d) *Question 1.3 relating to the disclosure of GFS analytical balances in general purpose financial statements.* The Board agreed with the preliminary staff view and decided that Attachment B of Consultation Paper No.1 would be sufficient to exemplify a possible approach that could be undertaken by the Board in addressing the issues identified in this question and in the relevant questions in Consultation Paper No.1. Accordingly, Attachment A of Consultation Paper No.2 would be deleted.
- (e) *Question 1.4 relating to the calculation of GFS analytical balances and its relationship to ABS GFS analytical balances.* The Board decided that the question should be re-drafted to reflect the sub-questions involved, including:
 - (i) if, in response to question 1.3, GFS analytical balances (that is net operating balance, net lending/borrowing, net worth and cash surplus/deficit) are required to be included on the face of the primary “converged” financial statements (as preferred by HOTARAC), should they be calculated:
 - using the “converged” GAAP measures of the underlying components of the analytical balances; or
 - using ABS GFS measures of the underlying components of the analytical balances; and

(ii) if option (i) first dot point is adopted:

- should GFS analytical balances calculated using ABS GFS be disclosed in the notes; and, if so;
- should there be note disclosure of a reconciliation between the GFS analytical balances calculated using “converged” GAAP with the GFS analytical balances calculated using ABS GFS.

In addition, the Board decided that the following preliminary views relating to question 1.4 should be included in Consultation Paper No.2 rather than waiting for input from PAP members:

- GFS analytical balances should be calculated using the “converged” GAAP measures of the underlying components of the analytical balances; and
 - note disclosure of the GFS analytical balances based on ABS GFS (and a reconciliation of those GFS analytical balances to GFS analytical balances based on “converged” GAAP) should not be required, as it would potentially create confusion for users of general purpose financial reports.
- (f) The Board decided that the Consultation Paper (and in particular question 1.4) should be revised and circulated to a sub-committee of the Board (comprising Mr Boymal, Mr Appleyard, Mr Cameron and Mr Kaufmann) for approval, before it is sent to Project Advisory Panel members for comment (and posted on the AASB’s website).
- (g) *Question 2.1 relating to specific technical issues where HOTARAC recommends the adoption of current GAAP (rather than GFS), with disclosure of GFS information where appropriate.* The Board agreed that current GAAP (rather than GFS) should be adopted for constructive obligations and tax effect accounting.
- (h) *Question 3.1 relating to other specific technical issues:* The Board agreed with the preliminary staff view relating to inventories.

Action:

Staff
Sub-Committee