

EXTRACT FROM MINUTES: AASB 13-14 OCTOBER 2004 MEETING

GAAP/GFS CONVERGENCE

Agenda item 4

The Board had before it:

- (a) a memorandum from Robert Keys, Robert Orford and Ami Lammerts Van Bueren dated 7 October 2004 (Agenda paper 4.1);

GGs reporting status

- (b) a revised paper on arguments for and against four approaches to facilitating the preparation of financial reports for the General Government Sector (GGs) (Agenda paper 4.2);
- (c) extracts from Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* dealing with the scope of the reporting entity (Agenda paper 4.3);
- (d) email correspondence between David Boymal and Don Challen, dated 16 and 24 September 2004, (Agenda paper 4.4);
- (e) a draft paper by Don Challen and Craig Jeffrey titled "Definition of the Reporting Entity" (Agenda paper 4.5);
- (f) a summary of responses to the GAAP/GFS Consultation Paper questions dealing with the GGs as a reporting entity (Agenda paper 4.6);
- (g) a collation of responses to the questions in GAAP/GFS Consultation Papers dealing with the GGs as a reporting entity and as a sector of whole of government – provided as a supporting reference document in relation to Agenda papers 4.2 and 4.6 (Agenda paper 4.7);

GGs investments in other sectors

- (h) a paper concerning whether the GGs controls an asset "equity in government controlled non-GGs entities" in all or some or none of such entities (Agenda paper 4.8);

Illustrative financial statements

- (i) illustrative financial statements of "financial performance and fiscal impact" (Agenda paper 4.9);
- (j) cover note to the 4.10 series of agenda papers (Agenda paper 4.10a);
- (k) Agenda paper 3.5a for 8-9 September 2004 meeting – presentation of financial performance/comprehensive income (Agenda paper 4.10b);
- (l) Agenda paper 3.5b for 8-9 September 2004 meeting – further consideration of GFS basis for disaggregating comprehensive income (Agenda paper 4.10c);
- (m) Agenda paper 3.6 for 8-9 September 2004 meeting – presentation and measurement of GFS analytical balances (Agenda paper 4.10d);
- (n) Agenda paper 3.9 for 8-9 September 2004 meeting – which includes reference material for Agenda papers 3.5a, 3.5b and 3.6 for the September meeting – collation and analysis of submissions in relation to Consultation Paper No. 1 (CP1) questions 2, 3, 4 and 14, and Consultation Paper No. 2 (CP2) questions 1.1 and 1.4 (Agenda paper 4.10e);

- (o) Agenda paper 3.8 for 8-9 September 2004 meeting – accounting issues where Heads of Treasuries (HOTs) recommends adoption of GAAP rather than GFS (Agenda paper 4.10f);
- (p) Agenda paper 3.10 for 8-9 September 2004 meeting – reference document for Agenda paper 3.8 for September meeting – collation and analysis of submissions in relation to CP1 question 5 and CP2 question 2 (Agenda paper 4.10g);

Further collation of responses to Consultation Papers

- (q) collation of responses to issues where HOTs recommend adoption of GFS in the short run with the expectation that in the longer term GAAP would be brought into line (due to IASB 2005 and the IASB's Reporting Comprehensive Income Project) (CP1 question 6) (Agenda paper 4.11);
- (r) collation of responses on other technical issues (CP1 question 7 and CP2 question 3) (Agenda paper 4.12); and
- (s) collation of responses on unidentified technical issues (CP1 question 8) (Agenda paper 4.13).

Project timetable

The Board noted that the GAAP/GFS Convergence Project implementation timetable envisages that:

- in October 2004 AASB staff will meet with Project Advisory Panel (PAP) members and other interested parties to discuss follow-up issues emerging from or identified subsequent to CP1 and CP2 – the meeting is to be chaired by AASB member, Mr Appleyard; and
- in December 2004 the AASB will meet with a broad range of interested constituents drawn from the PAP and the AASB's Consultative Group.

In order to streamline this consultation process, and bearing in mind the delay in the Board's consideration of responses to the Consultation Papers, the Board decided that its public sector sub-committee (comprising Mr Appleyard, Mr Cameron, Mr Kaufmann and Professor Leo) should meet with Panel members as soon as appropriate (later than October 2004) to discuss follow-up issues emerging from, or identified subsequent to, CP1 and CP2.

GGS reporting status

The Board considered the arguments (in Agenda paper 4.2) relating to the status of GGS financial reporting, including arguments for and against treating the GGS as a separate reporting entity, and whether a GGS financial report, prepared on a "partial consolidation" basis, ought to be characterised as a general purpose financial report. The Board confirmed its decision (expressed at its 27 May 2004 meeting) to regard the GGS as a sector of whole of government and specify whole of government general purpose financial report requirements that include disclosure of a "partially consolidated" GGS financial report, which could be extracted as a stand-alone financial report that is not a general purpose financial report.

In addition to a standard specifying such whole of government requirements, the Board decided to develop a separate industry-based standard that specifies requirements for a special purpose financial report for the GGS, as defined under GFS, in which the GGS is exempted from full consolidation of certain controlled entities. Requirements relating to such a report should be

equivalent to the requirements relating to the sector report to be disclosed in the whole of government report (including measurement of the asset “investments in controlled entities in other sectors”). In addition, the standard should include requirements that the stand-alone GGS financial report includes disclosures about its relationship to the whole of government general purpose financial report, and other disclosures explaining the nature of the financial report and the scope of the entity to which it relates.

In coming to these decisions the Board considered the following Board member comments:

- (a) the views expressed by Mr Challen reflected the views of HOTs and were strongly in favour of viewing the GGS as a reporting entity that produces a general purpose financial report in order to discharge its accountability for budget outcomes;
- (b) it may be possible to view the GGS as akin to a parent entity which could be allowed to produce a separate partially consolidated report, provided that a statement is included that refers users to the whole of government report where a fully consolidated report is produced. On the other hand it was noted that the GGS is not a parent entity and that in the private sector the parent entity financial statements must be presented with the group financial statements;
- (c) the stand-alone GGS report would be a statement of budget outcome rather than the overall government result; and
- (d) it is important to protect the integrity of the IFRS brand and AASB standards.

The Board discussed the issues associated with an audit report of special purpose financial report, noting that the qualified nature of such audit reports, which was designed for financial reports prepared without regard to some standards, may not be appropriate for special purpose financial reports that are prepared in accordance with the requirements of a specific accounting standard. The Chairman undertook to discuss issues related to the nature of the audit report for a stand alone GGS special purpose financial report with the Chair of the Australian Auditing and Assurance Standards Board.

Illustrative financial statements

In relation to agenda paper 4.9, which gave effect to the Board’s decisions at its 8-9 September 2004 meeting by illustrating the presentation of information at a whole of government and a GGS level, the Board focused on the GGS aspects of the draft format for a statement of “financial performance and fiscal impact”. The Board:

- (a) confirmed that GGS comprehensive income, comprising all non-owner movements in equity (including direct-to-equity movements) identified, recognised and measured in accordance with accounting standards, should be presented for the GGS rather than separated in an income statement and a statement of changes in equity (see footnote 3 to illustrative statements at Agenda paper 4.9);
- (b) decided that the reconciliation between comprehensive income calculated under GAAP, (\$899m in Agenda paper 4.9), and comprehensive income under GFS, (\$3095), in the “total” GGS column is not required as it does not reflect a modified AASB 101 approach. The bottom line in the “total” column for the GGS should be GAAP comprehensive income (\$899m). It is only necessary to reconcile GAAP numbers to GFS numbers in the transactions and other economic flows columns;

- (c) confirmed that GGS comprehensive income, and the line items that make it up, should not be required to be split into columns. If a government elects to split amounts into columns, it must do so on a “transactions”/“other economic flows” basis, as defined by GFS (see footnote 2 to illustrative statements at Agenda paper 4.9). The Board will consider at a later meeting whether a GAAP amount, for example, depreciation of defence weapons platforms, that does not have an equivalent GFS amount should be split in a manner consistent with GFS principles, or whether no such split should be presented, and instead the net amount of the difference between GAAP and GFS, for example, acquisition of defence weapons platforms, shown as part of the reconciliation of GAAP to GFS amounts (see item (g) below). The Board noted that the breakdown of the total GGS GAAP based column into GFS “transactions” and “other economic flows” components would require consideration of some GAAP items where there is no equivalent GFS item – for example the recognition of “doubtful debt” expenses in relation to impairment of accounts receivable. The Board decided that such items should be identified for its consideration as part of the Board’s consideration of the draft financial statements to be prepared in relation to item (h) below;
- (d) decided to review the terminology in the statements (particularly relating to headings, line items and sub-totals) for clarity and meaning;
- (e) decided that there should be disclosures to clarify the meaning of key results and balances;
- (f) decided that to the extent that differences between GAAP and GFS continue to exist there will be a need for a reconciliation between GAAP and GFS results in the transactions and other economic flows columns. However, it was noted that an otherwise longer list of reconciling differences will be avoided through adoption of Australian equivalents to IFRSs, and through adoption of the GFS definitions of transactions and other economic flows (see item (c) above). It was also noted that the extent of the reconciliations required may further reduce over time and that the number of reconciling items may not be great. It may also be possible for some reconciling items to be merged, for example a single reconciling line item may be able to reflect differences that relate to a number of items for which GFS requires measurement using market values but GAAP does not. It would also be possible to include immaterial items in an “other” reconciliation line item. It was noted that current reconciliations in published government accounts do not appear to be extensive;
- (g) decided that, in relation to the manner in which the reconciliation is presented on the face of the financial statement, the staff should provide alternative presentations at a future meeting – including one in which offsetting adjustments are not shown (for example, in Agenda paper 4.9 (see footnote 8), the minus \$2,100m in the transactions column relating to depreciation expense for defence weapons platforms that is offset by a reconciling positive \$2,100m under “derivation of GFS analytical balances” also in the transactions column);
- (h) decided that staff should prepare for consideration at a future Board meeting a full set of financial statements illustrating how GAAP/GFS information would be presented for the GGS in line with the foregoing decisions. To the extent possible the statements should use numbers from a recently produced set of financial statements by an Australian government. The Board should also be provided (for comparison purposes) with the relevant separate GAAP and GFS GGS statements and reconciliations that are published for that government; and
- (i) decided that its priority should be to develop an exposure draft relating to the separate GGS special purpose financial report before the more substantive review of AAS 31 (which would involve specifying requirements for disclosure of sector information (including GGS

information) in whole of government general purpose financial reports, as well as non-GAAP/GFS convergence related issues currently contained in AAS 31).

Action:

Staff
Chairman