

EXTRACT FROM MINUTES: AASB 2-3 FEBRUARY 2005 MEETING

GAAP/GFS CONVERGENCE

Agenda item 5

The Board had before it:

- (a) a memorandum from Robert Keys and Robert Orford, dated 27 January 2005 (Agenda paper 5);
- (b) a memorandum from Robert Keys and Robert Orford, dated 27 January 2005 (Agenda paper 5.1);
- (c) a memorandum from Robert Keys and Robert Orford, dated 27 January 2005 (Agenda paper 5.2);
- (d) a memorandum from Robert Keys and Robert Orford, dated 27 January 2005 (Agenda paper 5.3.1);
- (e) the following background papers to Agenda paper 5.3.1:
 - B1 Consultation Paper No.1 (issued on 18 November 2003 for comment by 1 January 2004);
 - B2 Consultation Paper No.2 (issued on 17 December 2003 for comment by 1 January 2004);
 - B3 Summary of responses to the key questions in CP1 and CP2;
 - B4 Extracts from approved AASB 2004 Board meeting minutes at which GAAP/GFS issues were discussed;
 - B5 Extracts from AASB 2004 Board meeting Action Alerts;
 - B6 GAAP/GFS Convergence Project Implementation Plan (revised 10 December 2004);
 - B7 Financial Reporting Council broad strategic direction to the AASB;
 - B8a Record of meeting of the AASB's Public Sector Sub-Committee and the Project Advisory Panel and other interested constituents on 15 December 2004; and
 - B8b Submission dated 25 January 2005 from Heads of Treasuries Accounting and Reporting Advisory Committee representatives on the Project Advisory Panel in relation to 15 December 2004 meeting.
- (f) a list of participants and apologies (Agenda paper 5.3.2);
- (g) a running order (Agenda paper 5.3.3);
- (h) a paper dealing with the status of GGS Financial Reporting – the GPFR vs SPFR issue (Agenda paper 5.3.4);
- (i) a paper dealing with the format of the income statement (Agenda paper 5.3.5);
- (j) a paper dealing with the format of the balance sheet (Agenda paper 5.3.6);
- (k) a paper dealing with the format of the cash flow statement (Agenda paper 5.3.7);
- (l) a memorandum from Robert Keys and Robert Orford dated 27 January 2005 (Agenda paper 5.4);
- (m) a tabled paper relating to Agenda paper 5.4 – a list of key issues for Board decision; and
- (n) a letter to David Boymal, Chairman, AASB, from Anne Hazell, Chief Financial Officer – Australian Government Reporting, dated 27 January 2005, re GFS/GAAP Harmonisation (Agenda paper 5.5 – tabled)

On 3 February 2005 (refer Agenda paper 5.3.1 and related papers) the Board met with a broad range of constituents including members of its GAAP/GFS Convergence Project Advisory Panel to discuss key issues relevant to drafting an ED relating to requirements for separate financial reporting of the GGS of a government. A list of attendees is attached. The Chairman informed participants that on the previous evening, 2 February 2005 some members of the Board met informally with representatives from Heads of Treasuries (HoTs) and that aspects of the GAAP/GFS project were discussed.

Following these consultations for the purposes of preparing an Exposure Draft the Board decided that:

- (a) a GGS of a government is a reporting entity for which a general purpose financial report (GPFR) should be prepared. In order to converge with GFS principles and to meet identified user needs, this GGS financial report would be prepared on a “partial consolidation” basis. In acknowledging that a requirement for the GGS to not consolidate certain controlled entities is a fundamental departure from the *Framework*, the Board decided that note 1 to the financial statements should be required to:
 - (i) explicitly state the Accounting Standard under which the GGS financial report is prepared;
 - (ii) state the purpose for which the GGS financial report is prepared;
 - (iii) describe the GGS and refer to a list of entities within the GGS, and any changes that occurred during the year;
 - (iv) provide a plain English description of how the GGS financial report differs from the whole of government, fully consolidated, GPFR; and
 - (v) provide a cross-reference to the whole of government GPFR.

The Board also noted that, although not necessary for progressing this project, it would in due course review the definition of “reporting entity” and “general purpose financial report” in the *Framework* in the light of this decision;

- (b) the GGS asset “investment in controlled entities” should be subject to the requirements, including the measurement requirements, in AASB 139 (although see (c) below in relation to the options in AASB 139). This decision is consistent with treating the GGS as a separate reporting entity rather than as a sector (disaggregated part) of whole of government. (The Board noted that the treatment of the GGS as a sector would be consistent with measuring the investment in controlled entities at the proportional share of the net asset value of the controlled entity);
- (c) with the exception of the non-consolidation of certain controlled entities, for definition, recognition and measurement purposes, current GAAP requirements, as reflected in the Australian equivalents to IFRSs, should be applied (including those relating to the measurement of inventory). Any differences from IMF GFS definition, recognition and measurement requirements should be disclosed as reconciliations/convergence differences (as noted in (d) below). In order to converge as far as possible with GFS practice, where an Australian equivalent to an IFRS allows for optional treatments and one of those treatments aligns with the GFS treatment, that treatment should be mandated for the purposes of GGS financial reporting; and
- (d) principles should be set out for the format of the financial statements, including that key GFS amounts, measured in accordance with GFS principles, should be required to be presented on the face of the financial statements together with current GAAP information. In particular, in relation to the:
 - (i) operating statement: information that accords with current GAAP on-the-face requirements should be presented on the face, but in a form that presents, in addition to the operating result, the comprehensive result. In contrast to the requirements in AASB 101 the comprehensive result should comprise all non-owner movements in equity. In addition, key GFS amounts should be presented on the face, including transactions, net operating balance, net acquisition of non-financial assets, net

lending/borrowing and other economic flows. To the extent there are differences between GFS amounts and amounts used in the determination of comprehensive result, they should be disclosed in a reconciliation as “convergence differences”. The Board intends including an example of an acceptable format in the ED that comprises 4 columns: GFS transactions; GFS other economic flows; convergence differences; and comprehensive result (based on attachment C1 of agenda paper 5.3.5). The Board noted the concerns of some constituents that the number of columns on the face (when combined with budget and comparative information) would be excessive. However, the Board also noted that one approach to resolving this issue would be to use separate pages to provide information on comparatives and budget information. The Board also noted that while it intends to illustrate a columnar approach this does not prevent alternative presentations being developed provided they are consistent with the proposed requirements. An explanation of technical terms would also be required to be provided in the notes to facilitate in particular the understandability of the key report balances;

- (ii) balance sheet: information that accords with current GAAP on-the-face requirements should be presented on the face. The Board noted that presenting items in a liquidity order within a GFS financial/non-financial classification would satisfy the requirements in AASB 101. In addition, key GFS amounts including net worth should be presented on the face (with an explanation of the term in the notes). To the extent convergence differences exist, they should be disclosed. The Board intends including an example of an acceptable format that comprises 3 columns: GFS assets/liabilities; convergence differences; and current GAAP assets/liabilities/equity (broadly based on attachment B of agenda paper 5.3.6, amended to include a convergence difference column); and
- (iii) cash flow statement: information that accords with current GAAP on-the-face requirements should be presented on the face, together with key GFS amounts including cash surplus/deficit and its derivation, and the GFS distinction between net cash flows from investments in financial assets for policy purposes and for liquidity purposes. The GFS cash surplus/deficit presented should be determined in accordance with IMF GFS principles, and therefore should not include the effect of notional cash flows relating to finance leases and similar arrangements. The Board noted that this would be consistent with the trend to adopt international standards and, in addition, it would avoid confusion that might arise from including non-cash flow information within a cash flow statement. The Board intends including an example of an acceptable format comprising a single column, with the derivation of GFS cash surplus/deficit at the foot of the statement (broadly based on the format of attachment C of agenda paper 5.3.7).

The Board did not make decisions on the extent to which its decisions on GGS financial reporting should be proposed for financial reporting by whole of governments, government departments, local governments, universities, government business enterprises and other public sector entities.

The Board will review a draft ED, focusing on the body of the ED, reflecting the above decisions, at its next meeting, and a revised draft ED including illustrative financial statements at future meetings. The Board, therefore, noted that its earlier objectives of issuing the ED in March 2005 and a standard in July 2005 would probably not be met. This is consistent with the advice received from constituents about the danger of proceeding with undue haste on such an important topic.

Action:

Staff
Sub-committee