

EXTRACT FROM MINUTES: AASB 2-3 SEPTEMBER 2003 MEETING

GAAP/GFS CONVERGENCE

Agenda Item 7

The Board had before it:

- (a) a memorandum from Robert Keys and Parveen Dhaliwal dated 20 August 2003, which provided an update on the composition of the Reference Committee, Project Advisory Panel, the matters scheduled to be discussed at the HoTARAC GFS/GAAP Convergence Working Group meeting on 22 August 2003 and international activities concerning GAAP/GFS convergence (Agenda paper 7.1);
- (b) a draft paper containing preliminary views that is intended to be provided to Project Advisory Panel members as an accompaniment to the HOT's submission (Agenda papers 7.5, 7.5A and 7.5B) on GAAP/GFS convergence (Agenda paper 7.2);
- (c) an issues paper "Which basis of distinguishing between two broad components of a comprehensive performance report should be adopted:
 - 'results from transactions' and 'results from other events'; or
 - 'results from remeasurements' and 'results from other events'" (Agenda paper 7.3);
- (d) the issues paper (unamended) that was included in agenda papers for the December 2002 AASB meeting "The implications of acknowledging that a General Government Sector (GGS) is Analogous to a Parent Entity" (Agenda paper 7.4A);
- (e) an extract from AARF Discussion Paper 21 "Financial Reporting by Governments" (November 1994) relating to the reporting entity issue (Agenda paper 7.4B);
- (f) a covering letter dated 6 August 2003 from the Acting Chair of HOTARAC to the Acting Chair of the AASB (Agenda paper 7.5);
- (g) the HOT's endorsed papers: HOTARAC Working Group report and conclusions, conceptual papers, technical papers on pro-forma financial statements and consolidations, and logistical papers (Agenda paper 7.5A);
- (h) the HOT's endorsed papers: HOTARAC Working Group technical papers – other than pro-forma financial statements and consolidations papers (Agenda paper 7.5B);
- (i) a letter dated 18 August 2003 from the Acting Chair of the AASB to the Acting Chair of HOTARAC, acknowledging receipt of the HOT's submission on GAAP/GFS convergence (Agenda paper 7.6);
- (j) an issues paper "Examples of issues that may affect the Project Advisory Panel's (PAP) perception of the GAAP/GFS convergence project" (Agenda paper 7.7); and
- (k) a memorandum from Robert Keys and Parveen Dhaliwal dated 26 August 2003 which provided a report on the outcomes of the HoTARAC GFS/GAAP Convergence Working Group meeting on 22 August 2003 (Agenda paper 7.8).

Discussed 3 September, Board unquorate

Membership of the Project Advisory Panel (PAP)

Members noted that, since preparation of agenda paper 7.1, a representative from the National Local Government Financial Management Forum has been nominated to the PAP.

Staffing Resources

Members noted that it is possible that there will be two new secondees to the AASB to help progress the projects on AAS 29 and GAAP/GFS Convergence.

Preliminary Board Views on GAAP/GFS Convergence (Agenda paper 7.2)

Staff gave a presentation to members to provide a broad overview of the GAAP/GFS convergence issues and thereby provide a basis for consideration of the issues raised in Agenda paper 7.2.

Members noted that many of the current differences between GAAP and GFS may be resolved by the “IASB 2005” program and the IASB performance reporting project (and, if adopted, the GFS basis for distinguishing between two broad components of financial performance).

Discussed 3 September, Board quorate

Consistent with its policy of issuing sector neutral standards, the Board decided that the underlying guiding principle that it would adopt in addressing convergence issues should be to retain GAAP definition, recognition and measurement principles for general purpose financial reporting purposes. To the extent that differences between GAAP and GFS treatments remain, disclosures about GFS should be required. The Board decided to state the guiding principle in the introductory section of the paper (which will be based on Agenda paper 7.2) to be provided to the PAP for comment.

The Board decided that it should seek Panel members’ views on a range of issues, and in particular seek comments on issues where HOTs have advocated a departure from expected future GAAP (for example, in relation to the questions of whether the General Government Sector (GGS) as defined by GFS is a reporting entity and whether the preparation of a financial report that is not prepared on a full-consolidation basis should be regarded as a general purpose financial report; and in relation to the question of information to be presented on the face of the financial statements) to discern whether there are compelling reasons for the Board to depart from its guiding principle in certain circumstances.

The Board’s decisions on the draft questions in Agenda paper 7.2 and its preliminary views on those questions included the following:

- (a) *Question 2.1 relating to the scope of Phase 1 of the Project:* the Board decided that, subject to the availability of staff resources, issues relating to entities within the GGS (including government departments currently within the scope of AAS 29) should be progressed concurrently with the GAAP/GFS convergence project with a view to issuing a standard that replaces AAS 29 and incorporates a GAAP/GFS convergence solution as soon as possible after the Phase 1 solution (relating to whole of government and sector reporting) is issued. Accordingly, the Board decided that it is not necessary to ask PAP members to comment on whether GGS entities should be included within Phase 1 of the project. Rather, PAP members should be informed of the Board’s decision and that the project would be divided into three phases: whole of government and sector reporting (phase 1); entities within GGS including government departments (phase 2); and other public sector entities including local governments, universities and government business enterprises (phase 3);
- (b) *Question 3.1 relating to the status of GGS financial reporting:* the Board noted that questions to PAP members relating to GGS financial reporting within WOG reports (section 4) are dependent upon the outcome of questions on the status of GGS reports as stand-alone reports (section 3). The Board decided that the questions should be re-structured and re-drafted to reflect this inter-dependency. In particular, the Board decided that Panel members should be asked to comment on whether:
 - (i) the GGS is a reporting entity. The Board decided that the GGS meets some of the criteria for a reporting entity. Specifically, there are users who are dependent upon GGS information. However, the Board noted that, as defined by GFS, the boundaries of the GGS are not consistent with the GAAP notion that the scope of a reporting entity is defined by it and its controlled entities;

- (ii) assuming that the GGS is regarded as a reporting entity, there are compelling reasons for GGS to be exempted from the GAAP full consolidation requirement. The Board decided that it should not form a preliminary view on this matter at this stage of the project; and
 - (iii) the GGS is a sector of the WOG [see minute items (f), (g) and (h) below].
- (c) *Question 3.2 relating to the measurement of inter-sector investments in a stand-alone GGS general purpose financial report:* consistent with its guiding principle and the preliminary staff view, the Board formed the preliminary view that, if the GGS were regarded as a stand-alone reporting entity, inter-sector investments should be measured at their initially recognised amount (consistent with UIG 38) or alternatively, at fair value. In relation to the drafting of the question, the Board decided to delete the bracketed text “(that is, investments in unconsolidated subsidiaries)” as it is unnecessary and the phrase “unconsolidated subsidiaries” may not be readily understood by PAP members;
- (d) *Question 3.3 relating to the types of disclosures about the GGS that would be appropriate in a GGS stand-alone general purpose financial report:* consistent with its guiding principle and the preliminary staff view, the Board formed the preliminary view that, if the GGS were regarded as a stand-alone reporting entity there would need to be disclosures, of the type described in the preliminary staff view in agenda paper 7.2, to ensure user understanding of the nature of the GGS report;
- (e) *Question 3.4 relating to whether the scope of the budget report should determine the nature and scope of the outcome report:* consistent with the preliminary staff view, the Board formed the preliminary view that, the scope of an entity’s budget reporting does not determine the scope and nature of that entity’s general purpose financial report;
- (f) *Question 4.1 relating to the prominence of GGS information in WOG reports and question 4.3 relating to disclosure of financial information about other GFS sectors:* the Board formed the preliminary view that, if whole of government reports are prepared and include sector (including GGS) information, a Standard should allow sector information to be displayed with equal prominence to the WOG information (that is, as columns on the face of the financial statements);

In forming this view, the Board expressed the preliminary view that despite the relative importance given by users to the GGS as opposed to the other sectors in the public sector, it would not be appropriate to only display that particular sector, alongside WOG numbers, on the face of the financial reports (with the other sectors disclosed in the notes). The Board noted the concern about having an excessive number of columns on the face of the financial statements and formed a preliminary view that an approach could be to disclose financial information relating to the other sectors in a single “other sector” column on the face, with the associated details of each sector in the notes;

- (g) *Question 4.2 relating to the disclosure and measurement of inter-sector investments where the GGS is treated as a sector:* consistent with GFS, the HOT’s view and the preliminary staff view, assuming that the GGS is treated as a sector of the WOG, the Board formed the preliminary view that, the GGS asset “investments in other sectors” should be disclosed in the sector financial information and be measured at the carrying amount of the net assets of the controlled entities;

- (h) *Question 4.4 relating to whether GGS stand-alone general purpose financial reports would be necessary if appropriate prominence is given to GGS information in WOG general purpose financial reports:* the Board decided that this question should be asked but that it should be amended to make it clear that it assumes that the GGS is a sector of the WOG. The Board deferred forming its preliminary view on the question until its October 2003 meeting;
- (i) *Questions 5.1 and 5.1.1 relating to having an appropriate dichotomy applicable to performance reporting:* the Board decided that Panel members should be asked to comment on whether, to facilitate a high degree of convergence, an appropriate dichotomy should apply to performance reporting and if so, what that dichotomy should be. The Board formed a preliminary view that the dichotomy should not necessarily follow that being developed by the IASB, noting that the GFS dichotomy may have merit in a GAAP context. However, the Board deferred its consideration of the dot points in the preliminary staff view under question 5.1.1. which relate to the suitability of the GFS definition of “transactions” for performance reporting in a GAAP context;
- (j) *Question 5.1.2 relating to the presentation (if applicable) of the performance reporting dichotomy (vertically per HOT’s submission or horizontally per the IASB Performance Reporting project):* assuming that a performance reporting dichotomy applies, the Board deferred its consideration of the suitable presentation format to apply to its components. The Board noted that members of the HoTARAC GFS/GAAP Convergence Working Group on are in the process of field-testing HOT’s proposed pro-forma statements of financial performance;
- (k) *Question 5.2 relating to the presentation of “below-the-line” GFS analytical balances relating to the statement of financial performance:* consistent with its guiding principle and the preliminary staff view, the Board formed the preliminary view that, net lending/borrowing, which is a GFS “below-the-line” analytical balance, should not be presented on the face of the statement of financial performance. Noting the importance of information about net lending/borrowing to users of government financial reports, the Board decided that Panel members should be asked to comment on whether it would be appropriate for an accounting Standard to require a fourth financial statement that focuses on net lending/borrowing to be included in a general purpose financial report;
- (l) *Question 5.3 relating to the disclosure of “transactions with owners”:* the Board noted that the contemplated fourth financial statement (see minute item (k) above), if required and depending on the content of the statement, may resolve the issue of where “transactions with owners” should be presented; and
- (m) *Question 5.4 relating to the presentation of “below-the-line” GFS analytical balances relating to the statement of cash flows:* consistent with its guiding principle and the preliminary staff view, the Board formed the preliminary view that, the GFS analytical balances relating to the statement of cash flows such as “cash surplus/(deficit)” should not be presented on the face of the statement of cash flows.

Preliminary Board views on the matters noted above, the specific technical differences between GAAP and GFS (questions 6 to 8) and other questions (9 to 17) identified in Agenda paper 7.2 will be further discussed at the Board’s October 2003 meeting. The Board noted that, as a consequence, the original expectation that an Exposure Draft containing proposals for a convergence solution being finalised by May 2004 may not be met.

Board members agreed to provide staff with their comments on Agenda paper 7.2, out of session, either via email or hardcopy before the paper is redrafted for consideration at the October Board meeting.

Action:

Staff
Board