

EXTRACT FROM MINUTES: AASB 4-5 MAY 2005 MEETING

GAAP/GFS CONVERGENCE

Agenda item 9

The Board had before it:

- (a) a memorandum from Robert Keys and Anne Vuong dated 28 April 2005 (Agenda paper 9.1);
- (b) a draft Exposure Draft ED 14X *Financial Reporting of General Government Sectors by Governments* (Agenda paper 9.2); and
- (c) a draft Appendix C (illustrative financial statements) for draft ED 14X (Agenda paper 9.3) for reference purposes only.

The Board reviewed paragraphs 26 to 62 of the draft ED, Appendices A & B and the Preface.

A In relation to paragraphs 26 to 62 of the draft ED, the Board decided:

- (a) not to provide explicit guidance on the initial accounting for previously contributed or acquired assets (that is, subsequent discovery of pre-existing unrecognised assets);
- (b) to retain the order of balance sheet, operating statement and cash flow statement listed in paragraph 26, which prescribes the components of a financial report and the corresponding structure of the draft ED. The Board noted that the order and structure is consistent with that presented in AASB 101 *Presentation of Financial Statements*, despite the operating statement being a greater focus in practice and also preceding the balance sheet within the Appendix C of the draft ED;
- (c) to amend the first sentence of paragraph 31 relating to the classification of assets in the balance sheet to read as follows: “Consistent with paragraph 10 of this Standard, assets are presented on the face of the balance sheet in the order of liquidity described in GFSM 2001 as financial/non-financial classification. This satisfies the requirements for the presentation of assets in AASB 101.”;
- (d) consistent with the decision noted in minute A(i) below, to remove the last two sentences of paragraph 31 relating to the classification of financial assets and liabilities into foreign and domestic components;
- (e) consistent with the drafting of paragraph 29, to amend the lead-in of paragraph 34 by deleting the phrase “In addition to the requirements in other Australian Accounting Standards”, and inserting the word “also” after “shall”. Furthermore, the Board decided to retain the requirements in paragraph 34(b), (c) & (d), which require disclosures relating to net changes in assets and liabilities, on the basis that they provide significant information, particularly from a GFS perspective;
- (f) to facilitate comparability across the nine jurisdictions affected by the draft ED, and on the presumption it meets the “more relevant” criterion in AASB 101.88, to amend paragraph 37 to mandate the classification of expenses by ‘nature’ on the face of the operating statement (following the economic classification of expenses scheme in GFSM 2001). Members agreed to seek comments from constituents on whether this proposal should be adopted or whether the principles in AASB 101.88 should apply in their own right. Members noted that, to the extent the draft ED continues to anticipate a functional classification of expenses being disclosed, it would only relate

to expenses within operating result and not necessarily to expenses included in other non-owner movements in equity;

- (g) to amend the last sentence of paragraph 40 to read as follows: “The face of the cash flow statement shall also include, at a minimum, cash surplus/deficit and its derivation, determined in accordance with GFSM 2001.”;
- (h) to amend paragraph 42(a) to read: “an explicit statement that the GGS financial report is prepared in accordance with this Standard;”;
- (i) to delete paragraph 44(c), which proposes requiring the disclosure of the GFS classification of financial assets and liabilities into foreign and domestic components, consistent with the general principle that the draft ED should propose disclosure of GFS information only where it corresponds to required GAAP information;
- (j) to delete paragraph 44(f) relating to disclosure of information about land under roads, in accordance with the Board’s decision at its April 2005 meeting (see April 2005 AASB meeting minute item 7E(e));
- (k) to add a commentary paragraph relating to paragraph 44 which notes that, where appropriate, additional disclosure is made to assist users in an understanding of the components of the numbers presented in the financial statements;
- (l) to defer the review of proposals relating to disaggregated information in paragraphs 46 – 49A and an example of the type of disclosures anticipated until the next meeting;
- (m) in relation to budgetary reporting, to revise paragraph 53 and related commentary and, where relevant, other paragraphs, to reflect its decisions:
 - (i) not to prescribe a basis or format upon which an ex ante budgetary report should be prepared, but to prescribe the basis and format for ex post budgetary reports. Members noted that the effect of this decision is that it would encourage ex ante budgeting to be done on the same basis as the ex post reports. Members also decided not to seek comments from constituents on whether the Standard should prescribe the basis for preparation of ex ante budgetary reports;
 - (ii) in noting potential implications associated with the decisions in minute item A(m)(i) above, propose the mandatory operative date for the Standard arising from the draft ED be for years ending on or after 30 June 2007, with earlier adoption permitted. Members noted that, because the Standard will prescribe requirements for ex post reporting, it is not necessary for the time between the issue of the Standard and the time at which 2006/07 ex ante budgets are prepared to be twelve months, which is the normal minimum lag between when a Standard is issued and when it becomes mandatory;
 - (iii) to retain the requirement to disclose the original budget that has been presented to Parliament for the reporting period, but restated, if necessary, to align with the accounting basis proposed in the draft ED;

- (iv) to allow, rather than require, disclosure of the latest revised budget information that was presented to Parliament;
- (v) to remove the requirement to disclose a comparison of the actual results with the latest revised budget, but require disclosure of explanations for major variances between the actual and original budgeted amounts;
- (vi) to remove the requirement to disclose a description of the budget basis where the budget basis differs from the accounting basis, and to remove the requirement to disclose the differences between the bases; and
- (vii) to the extent they would otherwise be retained in the draft ED, replace the words “approved by Parliament” and “revised by Parliament” with “presented to Parliament”, and “outcome” with “actual”.

In making the above decisions relating to budgetary reporting, Members noted the approach being taken to budgetary reporting in NZ, as reflected in paragraph 55 of the NZ draft ED 103 *Prospective Financial Information*, which states:

“Comparison of prospective financial information with actual results is an essential element of accountability. In the case of issuers a comparison of actual results against the originally published information is important because it provides users with a comparison of actual performance with the projected performance at the time the entity raised funds. In the case of public sector entities comparisons between projected performance and actual performance for a period are a means of demonstrating accountability for the resources used and the financial management of assets and liabilities. Some entities provide long-term prospective financial information, which is updated annually, prior to the beginning of year. In such cases a comparison of actual results with the most recent prospective financial information published prior to the beginning of the period is generally relevant. Where information is revised during the course of a year, the reasons for revising the information and an explanation for the differences between the originally published information and the actual results should be given.”.

The Board also noted that the IPSASB’s decision to propose in an ED on ex post budgetary reporting that the original budgets should be required to be disclosed in the general purpose financial report, is now uncertain, and is expected to be clarified at the July 2005 IPSASB meeting.

The Board also decided that its decisions relating to budgetary reporting should not change the decisions it previously made on budgetary reporting by Local Governments and would not necessarily be adopted for government departments; and

- (n) in relation to transitional requirements to amend:
 - (i) the first sentence of paragraph 58 by inserting the phrase “the limitations of options in” between the phrases “subject to” and “paragraph 10 of this Standard” to make the paragraph more readable;
 - (ii) the requirements and commentary to provide an exemption from the requirement in AASB 1 *First-time Adoption of Australian Equivalents to*

International Financial Reporting Standards to disclose a reconciliation from previous GAAP to new GAAP on pragmatic/cost-benefit grounds; and

- (iii) paragraph 61 to read: “The transitional approach in this Standard also results in comparative period information being presented in the first financial report.” and thereby remove the reference to the AASB 1 relief from disclosing comparative information in relation to certain standards (AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts*, and AASB 1038 *Life Insurance Contracts*), which is only available under limited circumstances. Members noted that the limited circumstances under which AASB 1 provides relief are unlikely to arise in a GGS financial reporting context.

B In relation to Appendix A, the Board decided to:

- (a) retain the Glossary in Appendix A amended according to minutes B(b) & (c) below, because “the Glossary of Defined Terms” published with GFSM 2001 as Companion Material is still only in draft form;
- (b) remove the first “or” from the definition of “government”; and
- (c) remove the definition of “land under roads” (See minute item A(j) above).

C In relation to Appendix B, the Board decided to:

- (a) replace the word “revenues” with “income”;
- (b) split the last paragraph into two separate paragraphs: the first relating to the modification of AASB 101 in the preparation of the financial report; and the second relating to the source reference for the basis upon which GFS information contained in the financial report is prepared;
- (c) amend the first sentence of the first paragraph to read: “This financial report of the General Government Sector (GGS) of [*name of government*] has been prepared in accordance with AASB 10XX [*Financial Reporting by a Government of its General Government Sector – title yet to be finalised*], which requires compliance with all Australian Accounting Standards except where clarified below”. Members noted that it is not necessary to change paragraph 42(a) for this decision; and
- (d) amend the third paragraph to make it consistent with the second sentence of paragraph 1 of the body of the draft ED, after amending the second sentence of paragraph 1 to include a reference to accountability and stewardship of the government for the GGS.

D In relation to the Preface, the Board decided to:

- (a) retain the current structure and format of the draft ED, noting differences between the structure and format of the draft ED and the general structure and format of an ED typically issued by the IASB, relating to Preface, Basis for Conclusions, Request for Comment and Implementation Guidance;

- (b) retain the current content of the Preface (as amended per minute D(c) and include in the Preface a statement indicating that certain information in the current Preface and elsewhere in the draft ED may be moved to other parts of the Standard or material accompanying the Standard, for example, Basis of Conclusion, Implementation Guidance, once the Standard is finalised. The content of the draft ED and location of that content will be subject to the completion of the AASB's policy on the structure and format of AASB documents referred to below;
- (c) amend the remainder of the Preface to be consistent with the Board decisions made at the Board meetings held on 13-14 April and 4-5 May 2005; and
- (d) retain the current referencing to the *Framework* or the *Framework for the Preparation and Presentation of Financial Statements* in the Preface and throughout the draft ED. In making this decision, the Board noted that the reference to the *Framework* is to the Australian Framework, which effectively adopts the IASB's Framework and extends it by cross-referencing to SAC 1 *Definition of the Reporting Entity* and SAC 2 *Objective of General Purpose Financial Reporting*. The Board also noted concerns by some about possible inconsistencies between SACs 1 & 2 and the IASB's *Framework*, and decided that they should be addressed separately from the GAAP/GFS Convergence Project.

The Board decided to accept all other mark-ups throughout the draft ED.

Members agreed to provide editorial comments on the draft ED out of session and that the amended draft ED will be circulated to the GAAP/GFS Convergence Project Liaison Board members before being finalised for inclusion in the June 2005 Board papers.

As a result of the discussions on minute D(a) members directed staff to prepare a policy document setting out the Board's policies for the structure and format of each of the AASB documents to be issued at each phase of the standard setting process for consideration at a future meeting.

Action:

Staff
Sub-committee