

## **EXTRACT FROM MINUTES: AASB 6-7 JULY 2005 MEETING**

### **GAAP/GFS CONVERGENCE**

Agenda item 6

The Board had before it:

- (a) a memorandum from Robert Keys and Anne Vuong, dated 29 July 2005 (Agenda paper 6.1);
- (b) a draft Exposure Draft ED 14X *Financial Reporting of General Government Sectors by Governments* (marked-up copy) (Agenda paper 6.2);
- (c) a draft Exposure Draft ED 14X *Financial Reporting of General Government Sectors by Governments* (clean copy) (Agenda paper 6.3);
- (d) a paper listing changes since the 21 June 2005 out-of-session version of the draft ED that were not contemplated in that version (Agenda paper 6.4);
- (e) a report on key issues arising from the meeting of the HoTARAC GFS/GAAP Convergence Working Group (Agenda paper 6.5); and
- (f) an extract from draft minutes: AASB June 2005 meeting (Agenda paper 6.6).

The Board reviewed the draft ED and approved it for issue, subject to some minor amendments (as set out in Attachment 1) and final review by the Chairman. The Board decided to allow a three-month comment period from the date of issuing the ED.

The Board noted that, to the extent the ED addresses requirements that are not directly related to GAAP/GFS convergence and that are applicable to a broader range of entities than just General Government Sectors (GGSSs), such as budget reporting, those requirements may be located in another standard in due course (Refer to Agenda items 9 and 13 for further information).

Detailed notes of the discussion including drafting instructions are shown in Attachment 1.

Action:

Staff  
Chairman

### **Attachment 1 to Minutes of AASB Meeting 6-7 July 2005**

#### **GAAP/GFS Convergence (Agenda item 6)**

The AASB noted:

- (a) issues raised at the HoTARAC GFS/GAAP Convergence Working Group meeting held on 14-15 June 2005, particularly those commenting on the June 2005 AASB meeting version of the draft ED;
- (b) a status report on activities relating to GAAP/GFS convergence being undertaken by the international Task Force on Harmonisation of Public Sector Accounting and the IPSASB;

- (c) that, because the proposals in the draft ED do not apply to “business”, the Office of Regulation Review has granted an exemption from the requirement to prepare a Regulation Impact Statement;
- (d) a verbal report from the Chairman that the FRC has acknowledged the progress that the Board has made to date in implementing the GAAP/GFS convergence directive; and
- (e) the differential voting thresholds for an ED relative to a Standard may have implications for progressing the project in due course, but it is now timely to issue the ED for public comment. The decision about whether to adopt the proposals in the ED into a Standard can then be considered in the light of comments from a broad range of constituents.

The Board undertook a page-by-page review of the draft ED (Agenda paper 6.2). With the exception of the matters raised below, the Board agreed that all draft marked-up amendments should be accepted and reflected in an ED for public comment.

- A In relation to the ‘Preface’ and the ‘Comparison with International Pronouncements’ of the draft ED, the Board decided to:
- (a) replace the term ‘the Australian equivalents to International Financial Reporting Standards (IFRSs)’ in paragraph (d) of the ‘Main Features of this Exposure Draft’ section, with ‘Australian Accounting Standards’ to capture other Australian Accounting Standards as well as the Australian equivalents to IFRSs, for example, AASB 1004 *Contributions*;
  - (b) replace the current wording of paragraph (e) of the ‘Main Features of this Exposure Draft’ with the following: ‘that, where Australian Accounting Standards allow for optional treatments, only those treatments aligned with GFSM 2001 may be applied’ to improve the drafting of this paragraph and for consistency with the decision recorded in (a) immediately above;
  - (c) add the words “and notes” to the first sentence of paragraph (l) of the ‘Main Features of this Exposure Draft’ after the words “financial statements” to clarify that the budget information to be disclosed is that which corresponds to the accounting information required to be disclosed by the Standard arising from the ED;
  - (d) replace, throughout the ED, the term “corridor and amortisation approach” with “corridor approach” to be consistent with the terminology used in AASB 119 *Employee Benefits* (December 2004);
  - (e) with regard to paragraph (n) of the ‘Specific Matters for Comment’, remove sub-paragraph (ii) relating to the transitional requirements, and combine sub-paragraph (i) with the paragraph immediately above it after the word “including” to read as one whole paragraph, as follows: “the proposals...including remaining silent in the Standard ...in its own right.” as the lead-in phrase of paragraph (n) is adequate in inviting comments from constituents on transitional requirements;
  - (f) with regard to ‘Comparison with International Pronouncements’, add a paragraph in the ‘AASB 10XX and IPSAS’ section stating that the IPSASB has certain projects, including its projects on Budget Reporting and on GGS Financial Reporting, that have particular relevance to GAAP/GFS Convergence.; and

- (g) not include a paragraph regarding the ability of an entity to make an ‘explicit and unreserved statement of compliance with IFRS’ in the AASB 10XX and IFRS section of ‘Comparison with International Pronouncements’ (Refer also item E(a) below).

B In relation to paragraphs 1 to 67 of the draft ED, the Board decided:

- (a) consistent with item A(b) above, to amend the last sentence of paragraph 10 to state “Only those options aligned with the principles or rules in GFSM 2001 shall be applied”;
- (b) to accept the marked-up amendments to paragraphs 13, 14 and 16 and throughout the draft ED to clarify that classification convergence differences are required to be disclosed;
- (c) to add the phrase “in relation to the changes” at the end of the second sentence of paragraph 21, which addresses the application of the principles in AASB 139 *Financial Instruments: Recognition and Measurement* to changes in the carrying amounts of the government’s proportional interest in the net assets of its controlled entities. Members also noted the addition of the phrase “or other non-owner movements in equity” to the end of paragraph 21 to reflect the presentation choices permitted by AASB 139 in relation to changes in values;
- (d) in the context of paragraph 38, not to explicitly address the extent to which the requirement to use GFS classifications implies that GFS terminology is mandated. Members noted that this decision is consistent with the policy of drafting principle-based standards; and
- (e) consistent with item A(c) above, add the phrase “and with the same content” to the last sentence of paragraph 60 after the words “for the same scope” to clarify that more than just the budgeted financial statements are required.

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

- (a) amend the last sentence of the first paragraph on page 37 to read “Other styles and formats may be equally appropriate so long as they meet the disclosure requirements of both GAAP and GFSM 2001 as outlined in the Standard”. The Board agreed that the ‘health warning’ should not state “The convergence differences illustrated are based on an interpretation of the principles and rules in GFSM 2001” for the purposes of the ED. (Refer also item E(a) below);
- (b) remove the convergence difference relating to ‘property expense attributed to insurance policyholders’ on the operating statement on the basis that GFSM 2001 can be interpreted (consistent with a preliminary view received from IMF staff) as calculating the item on the same basis as GAAP, that is, on the “gross” defined benefit obligations;
- (c) accept the additional amount of \$300m being deducted as a convergence difference to the line item ‘Net gain on equity investments in unconsolidated subsidiaries measured at proportional share of net assets/(liabilities)’ on the operating statement to give the full effect of the convergence difference adjustment related to dividends, which is expressed at Note 2 of the operating statement;
- (d) for the purposes of the ED, not attach footnotes to Notes 8 and 9 on the face of the operating statement, relating to net gains/losses on changes in values of financial assets, to refer to the choice of presenting a change in value in either ‘operating result’ or ‘other non-owner movement in equity’, because paragraph 21 of the Draft ED adequately explains the existence of the choice. (Refer also item E(a) below);

- (e) remove, as a consequence of item C(b) above, the convergence difference relating to ‘insurance technical reserves’ on the balance sheet;
- (f) fit, to the extent practical, each financial statement on one page to facilitate the continuous reading of the items presented on the statement;
- (g) add the words “Convergence Difference” immediately preceding, and to form part of, each of the headings of ‘Notes to the Operating Statement’, ‘Notes to the Balance Sheet’, and ‘Notes to the Cash Flow Statement’ to emphasise that these Notes focus on convergence differences only;
- (h) amend the phrase ‘mutually agreed bad debts’ at Note 6, referring to the classification convergence difference recognised under GFSM 2001 as ‘grants’, to read ‘mutually agreed inter-governmental bad debts’. The Board noted that, on this basis, it is still appropriate to illustrate the bad debts as a classification convergence difference relating to ‘grants’. Members also noted that GFSM 2001 classifies bad debts relating to other governments and international institutions as grants, and classifies those arising from individuals, corporations and non-profit institutions as other expenses and agreed that for the purpose of the ED it is not necessary to illustrate the latter kind of bad debt;
- (i) not illustrate a classification convergence difference related to income tax receivable on the basis that the illustration should continue to assume that there are no material outstanding taxes. The Board noted that such a classification convergence difference could arise because, under Application Guidance AG12 of AASB 132 *Financial Instruments: Disclosure and Presentation*, income tax receivable is not classified as a financial asset (since it is statutory rather than contractual), whereas under GFSM 2001 it is classified as a financial asset; and
- (j) amend the total of GFS Expenses and the amount of GFS Expenses allocated to ‘Other General Public Services’ on the “disaggregated information” schedule (Note 23) to show the correct amounts of (\$214,467) and (\$51,919), respectively. Members noted that the correction is necessary to reflect the removal of the convergence difference related to ‘property expense attributed to insurance policyholders’. (Refer item C(b) above).

D In relation to the draft Appendix C, the Board decided to:

- (a) clarify the meaning of the fourth paragraph by amending it (except the last sentence) to read as follows: “The Standard under which the GGS financial report is prepared does not require full application of AASB 127 *Consolidated and Separate Financial Statements* and AASB 139 *Financial Instruments: Recognition and Measurement*. Assets, liabilities, income, expenses and cash flows of government controlled entities that are in the public corporations sector are not separately recognised in the GGS of [name of government’s] financial statements. Instead, the GGS financial statements recognise an asset, being the controlling equity investment in those entities, and recognise a gain or loss relating to changes in the carrying amount of that asset, measured in accordance with AASB 10XX. ...”.

E In relation to matters for future review for the purposes of developing a Standard, the Board intends to:

- (a) reconsider decisions made at items A(g), C(a) and C(d) above after it receives constituents’ comments on the ED.