

EXTRACT FROM MINUTES: AASB 7-8 APRIL 2004 MEETING

GAAP/GFS CONVERGENCE

Agenda Item 9

The Board had before it:

- (a) a covering memorandum from Robert Keys and Robert Orford dated 31 March 2004 (Agenda paper 9.1);
- (b) collation and analysis of submissions in relation to Consultation Paper No.1 (CP1) questions 1, 2, 3, 4 and 14, and Consultation Paper No.2 (CP2) question 1.4 (Agenda paper 9.2);
- (c) submissions on CP1 and CP2 (Agenda paper 9.3);
- (d) report on the 28 January 2004 Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC) GFS/GAAP Convergence Working Group meeting (and subsequent e-mail communications) (Agenda paper 9.4);
- (e) report on Working Group I of the Task Force on the Harmonization of Public Sector Accounting (TFHPSA) meeting held on 6 and 7 February 2004 (Agenda paper 9.5); and
- (f) a copy of the powerpoint presentation on the TFHPSA made to the 9 and 10 February 2004 OECD Senior Budget Officers Public Sector Accruals Symposium (Agenda paper 9.6).

International activities and timing of finalisation of the AASB's GAAP/GFS Convergence Project

The Board noted progress being made internationally on GAAP/GFS convergence, including that the Public Sector Committee (PSC) of the International Federation of Accountants has agreed to consider issues relating to:

- (a) the status and nature of GGS financial reporting in the context of whole of government reporting; and
- (b) comprehensive financial performance reporting.

The Board also noted that:

- (a) the PSC is unlikely to address the issues to match the AASB's "urgent priority" in relation to GAAP/GFS convergence, as required by the FRC's strategic direction;
- (b) the interrelationship between the GAAP/GFS Convergence Project and the adoption of International Accounting Standards in Australia, noting the desire of some to align operative dates. However, given the complexity of many issues addressed in CP1 and CP2, it was noted that a GAAP/GFS convergence solution may not be forthcoming at the same time as IASB standards adoption; and
- (c) issues that are not directly addressed in CP1 and CP2 (such as resolving revenue recognition issues addressed in ED 125 *Financial Reporting by Local Governments* and guidance on "control", to be included in AASB 127 *Consolidated and Separate Financial Statements*) will also need to be addressed in finalising the GAAP/GFS Convergence Project and that resolution of these issues may also impact on the timeline for completion of the Project.

Consultation process

Some Board members expressed concern that the participation of user groups, for example, rating agencies, in the Project Advisory Panel is limited and that some user group Panel members did not comment on the Consultation Papers.

The question of whether users (as distinct from preparers) have a strong interest in this issue was raised by some Board members. The Board noted that:

- (a) at the Australian Government level, Parliamentary users, for example, the Joint Committee of Public Accounts and Audit, has expressed a desire that GAAP/GFS convergence be pursued; and
- (b) the HOTARAC GFS/GAAP Convergence Working Group processes have included interviews with a range of users who have expressed an interest in the GAAP/GFS Convergence Project. The results of those interviews are contained in the Heads of Treasuries' submission to the Board dated 6 August 2003.

The question was raised whether user groups, for example the Grants Commission, could be approached to see if they were now in a position to express their views. Staff pointed out that the need to meet the FRC strategic direction as a matter of urgency may limit the possibility of significant further direct consultation. However, it would be possible to include those users in future consultation processes, including inviting them to attend a meeting of respondents to CP1 and CP2 to further discuss issues (to be convened once the Board has fully considered the submissions).

The Board decided that a meeting with the Project Reference Committee should be organised once the Board has made decisions in relation to the full range of issues in CP1 and CP2.

Consideration of collation of responses

CP1 Question 1.1 - is convergence worthwhile? (p4 of Agenda Paper 9.2)

The Board noted that the responses to CP1 and CP2 are mainly in favour of convergence.

CP1 Question 1.2 – scope of convergence (p8 of Agenda Paper 9.2)

The Board noted that a key threshold issue are the extent to which decisions in relation to the GGS should be extended to financial reporting by whole of government and by individual entities within the GGS; and that these are issues to be raised with the Panel for further discussion.

The Board decided that the issue of flowing its decisions through to other entities should focus on two separate components:

- (a) the flow-through of recognition and measurement decisions, to the extent they differ from GAAP; and
- (b) the flow-through of presentation issues (including the format of a statement titled something like “statement of financial performance and fiscal impact”).

The Board decided that decisions concerning the flow-through of GAAP/GFS convergence solutions for the GGS to other entities (including entities in Phase 2 and Phase 3 of the Project) should be deferred until decisions in relation to the GGS have been made by the Board.

CP1 QUESTION 2 GGS as reporting entity

CP1 Question 2.1 – the nature of the GGS (p 14 of Agenda Paper 9.2)

CP2 Question 1.2(b) – the GGS as a parent entity (p22 of Agenda Paper 9.2)

CPI Question 2.2 – exemption from full consolidation (p24 Agenda Paper 9.2)

The Board debated alternative approaches that would result in a Standard that required the GGS financial report to be prepared on a basis that did not consolidate certain controlled entities (that is those in sectors other than the GGS), including:

- (a) regarding the GGS as a reporting entity and exempting it from full consolidation;
- (b) deeming the GGS to be analogous to a parent entity within the whole of government;
- (c) specifying whole of government general purpose financial reporting requirements that include requirements for a GGS sector financial report, which could be extracted as a stand alone financial report (that is not a general purpose financial report); and
- (d) specifying requirements for a stand alone GGS financial report that is not a general purpose financial report.

The Board directed staff to prepare a paper describing each alternative, including its advantages and disadvantages, for consideration at the May 2004 Board meeting. The Board considered that a decision on the choice of approach is a key issue that needs to be resolved before it proceeds to consider the more detailed technical convergence issues.

The Board identified the following issues that would be relevant to the paper:

- (a) the risk associated with focusing on the GGS financial report without concurrent regard to the whole of government financial report; and
- (b) the timing of the release of GGS financial reports compared with the release of whole of government financial reports.

Action:

Staff