

EXTRACT FROM MINUTES: AASB 8-9 SEPTEMBER 2004 MEETING

GAAP/GFS CONVERGENCE

Agenda item 3

The Board had before it:

- (a) a memorandum from Robert Keys, Robert Orford and Ami Lammerts Van Bueren dated 26 August 2004 (Agenda paper 3.1);
- (b) GGS as a reporting entity – residual issues (Agenda paper 3.2);
- (c) GGS as sector of whole of government – residual issues (Agenda paper 3.3);
- (d) Issues Paper: Disclosure and measurement of GGS investments in controlled entities in other sectors (Agenda paper 3.4);
- (e) Issues Paper: Presentation of financial performance/comprehensive income (Agenda paper 3.5a);
- (f) Issues Paper: Further consideration of GFS basis for disaggregating comprehensive income (Agenda paper 3.5b);
- (g) Issues Paper: Presentation and measurement of GFS analytical balances (Agenda paper 3.6);
- (h) Issues Paper: Sector neutrality (Agenda paper 3.7);
- (i) Accounting issues where HOTS recommends adoption of GAAP rather than GFS (Agenda paper 3.8);
- (j) Reference document for Agenda papers 3.2 to 3.7 – collation and analysis of submissions in relation to CP1 questions 2, 3, 4 and 14, and CP2 questions 1.1 and 1.4 (Agenda paper 3.9); and
- (k) Reference document for Agenda paper 3.8 – collation and analysis of submissions in relation to CP1 question 5 and CP2 question 2 (Agenda paper 3.10).

The Board continued its consideration of responses to its Consultation Papers No.1 and No.2 on GAAP/GFS convergence.

The Board noted that the GAAP/GFS Convergence Project implementation timetable envisages the issue of an exposure draft in March 2005 and a standard in July 2005. The Board noted that this is a tight timeframe, given the remaining issues to be resolved.

The Board noted that, in response to a request for clarification from staff, respondent 14 (HOTARAC, Commonwealth) has advised that the staff's classification of its responses to the following questions should be amended as indicated:

- CP 1 question 2.5: amend classification from "no clear view" to "yes"; and
- CP2 question 1.4(b): amend classification from "yes with qualifications" to "no".

Status of GGS financial reporting

In relation to Agenda paper 3.2 the Board decided that:

- (a) the status of financial reporting by the GGS, including whether it would be appropriate to treat the GGS as a separate reporting entity as well as a sector of whole of government, (previously discussed at its 27 May 2004 meeting), should be reconsidered at a future meeting to ascertain whether there are additional arguments or alternative approaches to dealing with the issue that were not fully considered previously. The Board noted that this should be done in the light of the discussion Heads of Treasuries had with various Board members at a closed meeting on 14 July 2004; and

- (b) the Board's consideration of responses to CPI:
- (i) questions 2.3 [if the GGS is regarded as a reporting entity that is exempted from fully consolidating certain controlled entities (being controlled non-GGS entities), how should investments in those controlled entities be measured?];
 - (ii) question 2.4 [if GGS is regarded as a reporting entity that is exempted from consolidating certain controlled entities, what types of disclosures should be required to ensure that users understand the nature of the financial report?]; and
 - (iii) question 2.5 [to what extent do you believe that the scope and nature of an entity's budget (which, from a GAAP perspective, may be determined at the discretion of an entity because it is not prescribed in accounting standards) should determine the scope and nature of that entity's general purpose financial (outcome) report to facilitate comparisons between outcomes and budgets?] should be held in abeyance pending the Board's further consideration of the status of GGS reporting. The focus of these questions (within the context of the GGS as a separate reporting entity) is as follows.

Decisions relating to financial reporting by the GGS as a sector within a whole of government general purpose financial report

The Board discussed a range of financial reporting issues in relation to providing financial information about the GGS as a sector of whole of government within a whole of government's general purpose financial report. In that context the Board tentatively decided that:

- (a) in relation to Agenda paper 3.3 page 1, GGS financial information should be required to be presented as a separate column on the face of the whole of government financial statements. It was noted that it is envisaged that the GGS financial information would comprise a full set of financial statements (including comparatives) and associated notes. It was also noted that, consistent with user interest in GGS financial information, this would give GGS information a status equal to (but not greater than) whole of government financial information;
- (b) in relation to Agenda paper 3.3 page 2, financial information about other government sectors (public non-financial corporations and public financial corporations) should be disclosed in the notes to the whole of government financial statements;
- (c) in relation to Agenda paper 3.4, GGS investments in controlled entities in other sectors should be required to be presented as an asset in the GGS column; measured at the GGS's proportional share of the carrying amount of the net assets of the controlled entities, updated at each reporting date.

The rationale for this decision is that it is appropriate to have consistency of measurement between the GGS investments in controlled entities in other sectors and the way in which the net assets are measured in the other sectors' disclosures. It was noted that the same rationale would not necessarily apply in relation to GGS financial reports if the GGS was being reported on as a separate reporting entity. Staff were asked to consider and report back to the Board at a future meeting on the scope of the public sector under GFS – including whether there are any GFS public sector entities included in the public non-financial corporations and public financial corporations sectors that GFS would treat as being controlled by the GGS that GAAP would not treat as controlled;

- (d) in relation to Agenda papers 3.5a and 3.5b, GGS comprehensive income (comprising all non-owner movements in equity [including direct-to-equity movements] identified, recognised and measured in accordance with accounting standards) should be presented in the GGS column of the income statement (rather than, consistent with the requirements in AASB 101 *Presentation of Financial Statements*, separated in an income statement and a statement of changes in equity). The Board noted that this is consistent with expected developments in the IASB's reporting comprehensive income project;
- (e) GGS comprehensive income should be required to be split in the GGS column between the equivalent of profit and loss as it is described in AASB 101 and other non-owner movements in equity;
- (f) GGS comprehensive income should not be required to be split in the GGS column in any other way. If a government elects to split comprehensive income in another way, it must do so on a "transactions"/"other economic flows" basis in accordance with GFS principles, showing totals of each component without an accompanying descriptor;
- (g) in relation to Agenda paper 3.6, GFS analytical balances (including "net operating balance" and "net lending/borrowing") should be presented in the GGS column, together with reconciliations where definition, recognition and measurement treatments differ from the treatments used to determine amounts presented in accordance with items (c) to (f) above; and
- (h) staff should prepare an illustrative set of financial statements (incorporating a wide range of line items) reflecting the above tentative decisions to facilitate discussion at a future Board meeting.

Sector neutrality

The Board confirmed its broad guiding principle that, in the interest of neutrality of standards between the public sector and the private sector, unless there are compelling reasons to do otherwise, definition, recognition and measurement requirements contained in accounting standards should be adopted as part of any GAAP/GFS convergence solution.

Action:

Staff