

EXTRACT FROM MINUTES: AASB 8-9 JUNE 2005 MEETING

GAAP/GFS CONVERGENCE

Agenda item 5

The Board had before it:

- (a) a memorandum from Robert Keys and Anne Vuong dated 1 June 2005 (Agenda paper 5.1);
- (b) a draft Exposure Draft ED 14X *Financial Reporting of General Government Sectors by Governments* (Agenda paper 5.2);
- (c) a draft Appendix C (illustrative financial statements) for draft ED 14X (Agenda paper 5.3);
- (d) a draft Appendix C (illustrative financial statements) for draft ED 14X (clean copy) (Agenda paper 5.4);
- (e) an Issues Paper – Selected Issues on Convergence Differences (Agenda paper 5.5);
- (f) an Issues Paper – Disaggregated Information Illustration (Agenda paper 5.6);
- (g) an illustration of a format of disaggregated information under GFS (Agenda paper 5.7);
- (h) an extract from minutes: AASB April 2005 meeting (Agenda paper 5.8);
- (i) an extract from draft minutes: AASB May 2005 meeting (Agenda paper 5.9);
- (j) a letter from Keith Alfredson to the Chairman, AASB, dated 23/5/05 (Agenda paper 5.10);
- (k) an Issues Paper – Staff Response to Constituents' Comments on Draft ED 14X (Agenda paper 5.11);
- (l) an alternative illustration of disaggregated information disclosure (Agenda paper 5.12); and
- (m) proposed amendment to draft paragraph 31 of ED 14X (Agenda paper 5.13 - tabled).

The Board decided:

- (a) in relation to the single-column format for the operating statement, the Board noted that a single-column is not prohibited by the ED even if it applies GFS principles of Transactions/Other Economic Flows to GAAP amounts, so long as it conforms with all aspects of the ED;
- (b) subject to drafting amendments (as set out in Attachment 1), the draft ED adequately articulates the proposals on which the Board will seek comments;
- (c) to finalise the draft ED for out-of-session review by members, with an expectation of formally approving the ED for issue at the July 2005 meeting;
- (d) to allow a three-month comment period from the date of issuing the ED; and
- (e) to acknowledge the contribution of constituents to the development of the ED and to encourage them to also comment on the ED when it is issued.

(See Attachment 1 for detailed notes of the discussion including drafting instructions.)

Action:

Staff
Members

Attachment 1 To Minutes of AASB Meeting 8-9 June 2005

GAAP/GFS Convergence (Agenda item 5)

A In relation to the Preface of the draft ED, the Board decided:

- (a) to provide in the fourth paragraph the web address of the GFSM 2001 which resides on the IMF website;
- (b) to amend the fourth paragraph to say that the Board has deferred decisions on the extent to which its proposals on GGS should be applied to the remaining aspects of phase 1, comprising financial reporting by whole of governments and the sectors of public financial and public non-financial corporations, as well as phases 2 and 3, and that comments on this ED will provide input for the Board's future deliberations on the remainder of phase 1 and, subsequently, phases 2 and 3;
- (c) to amend the "Main Features of this Exposure Draft" section to align with amendments to paragraphs arising from Board decisions noted in B below;
- (d) to replace the phrase "The AASB notes the concern expressed by some..." with "The AASB has some concern and notes the concern expressed by others..." in the second sentence of the first paragraph of the "Request for Comments" section, to reflect the concern expressed by some Board members on the ED's proposal to treat the GGS financial report as a 'general purpose financial report';
- (e) as a consequence of (d), to replace the words "In response, the AASB notes that, .." with "The AASB intends that...." ; and
- (f) to propose a three-month comment period from the date of issuing the ED. Hence, the first sentence of the second paragraph after the heading "Request for Comments" is to be amended to reflect this decision.

B In relation to paragraphs 1 to 62 of the draft ED, the Board decided:

- (a) to delete the words "of events" and "of certain events" in paragraph 16(d) as these words are not necessary;
- (b) that it is not necessary for the ED to refer to the Board's intention to amend AASB 116 to address "Land Under Roads" issues;
- (c) because financial assets are defined differently between GFS & GAAP (for example, 'prepaid expenses' are classified as 'financial assets' under GFS but classified as 'non-financial' assets under GAAP), to amend 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 order of liquidity under the financial/non-financial classification, as defined in Australian Accounting Standards. This satisfies the requirements for the presentation of assets in AASB 101. As noted in paragraph 32 of this Standard, convergence differences arising from classification differences, if any, are disclosed in accordance with paragraph 30 of this Standard";
- (d) to mandate the classification of all recognised income, as well as expenses, by 'nature' on the face of the operating statement. Consistent with this decision, the term "expenses" is to be replaced with "items" in paragraph 33A;
- (e) to amend paragraph 37, which currently addresses the classification of expenses to extend the same principles to the classification of revenue;
- (f) to keep, for the purposes of exposure, paragraphs 34(c) & (d) of the draft ED, which propose requiring disclosure on the face of the operating statement of 'net change in non-financial

assets' and 'net change in liabilities', noting that some have argued that the information is not central to GFS;

- (g) to keep, for the purposes of exposure, the option in paragraph 35 of the draft ED to disclose convergence differences in the notes rather than on the face of the financial statements, noting that some have argued that disclosures "on the face" are more effective;
- (h) to delete paragraphs 37A and 49A relating to the elective option to disclose in the notes the classification of expenses by function, given the Board decision to retain paragraph 46(d), which mandates this option in the context of disaggregated information;
- (i) not to require disclosure of whether the ex ante budget basis differs from the ex post budget basis and explanations of differences;
- (j) to amend the first sentence of paragraph 55 to read "The original budget is the first budget adopted by parliament in respect of the reporting period", and thereby allow for circumstances where the budget has been adopted after the beginning of the reporting period. Also, the words "adopted by" instead of "presented by" should be retained on the basis that, when the upper house causes a change in budgeted amounts, it is appropriate for the government to report against the budget agreed by parliament, not what it had hoped to get through the parliament; and
- (k) to delete the last three words "restated if necessary" of paragraph 56 because they are unnecessary given the earlier part of the sentence.

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

- (a) to amend the first sentence of the second paragraph on the covering page to read as follows: "The illustration does not purport to identify all possible convergence differences nor to present on the face of the financial statements all the line items as might be required by AASB 101 *Presentation of Financial Statements* under particular circumstances";
- (b) to delete the third paragraph on the covering page except the following sentence: "The numbers used are based on assumptions made for illustrative purposes only";
- (c) to change the words 'Net Assets' on the balance sheet to 'Net Assets/(Liabilities)';
- (d) to change the words 'Accumulated results' on the balance sheet to 'Accumulated surplus/(deficit)';
- (e) to underline sub-total/total amounts on the cash flow statement;
- (f) to place a box around the line items 'GFS Key Fiscal Aggregates', 'GFS Cash Surplus/(Deficit)', its components and their amounts on the face of the cash flow statement, to highlight the GFS numbers separately from the GAAP numbers;
- (g) to change the current heading of 'Notes to the Financial Statements Relating Mainly to Convergence Differences' to 'Explanations of Convergence Differences' to reflect the Board's decision to focus the notes on convergence differences;
- (h) to delete all the notes (and/or part of any note) that do not focus on convergence differences, consistent with the Board decision noted in item C(g) immediately above;

- (i) to amend Note 19 to ensure the components of the convergence difference illustrated add to the total;
- (j) to amend the heading of Note 26 of the Explanations Note to read as follows: 'Selected Key Technical Terms Used in the Financial Report';
- (k) to add an introductory paragraph under the heading of Note 26 to say that the definitions in this section comprise mainly GFS definitions unless otherwise stated, and that the corresponding terminology under GAAP may be different. An example similar to the following example should also be given: the GAAP equivalent of the GFS term of 'consumption of fixed capital' is 'depreciation';
- (l) to change 'Financial asset' to 'GAAP financial asset';
- (m) to not reduce the number of the definitions in Note 26 as these definitions may be beneficial to a wider range of readers;
- (n) after considering Agenda paper 5.5 outlining selected issues on convergence differences, to agree with staff views expressed in the Agenda paper. In particular, the Board decided that it is not appropriate or necessary to illustrate convergence differences relating to 'corrections of errors', 'finance cost from wages and salaries', 'subsidised loans', 'impairment of subsidised loans', and 'loan fees';
- (o) after considering Agenda paper 5.6 outlining the approach taken in developing the illustration of disaggregated information, to segregate the function of 'General Public Services/Unallocated' into three separate columns showing three sub-functions: 'Public Debt Transactions', 'Other General Public Services' and 'Unallocated' in Note 27 *Disaggregated Information*. It is not necessary to change the paragraphs in the body of the ED as a result of this decision. The Board noted the views about the cross-classification illustration of GFS outlays and also noted that the draft ED would not prevent such information from being included in financial reports. The Board also noted that specific matters for comment would elicit constituents' views and rationale on the issue, together with the view expressed by some that only GFS outlays should be prescribed to be disclosed on a disaggregated basis; and
- (p) in the context of the fair value option being restricted under the recent amendment to AASB 139 by the Board, to direct that the illustration should continue to assume that the criteria for adopting the fair value option under AASB 139 has been satisfied.