

EXTRACT FROM MINUTES: AASB 9-10 MARCH 2005 MEETING

GAAP/GFS CONVERGENCE

Agenda item 8

The Board had before it:

- (a) a memorandum from Robert Keys and Robert Orford dated 3 March 2005 (Agenda paper 8.1);
- (b) draft Exposure Draft ED 14X *Financial Reporting of General Government Sectors by Governments* (Agenda paper 8.2);
- (c) IMF's Government Finance Statistics Manual 2001 (Agenda paper 8.3);
- (d) an extract from IMF's Government Finance Statistics Yearbook 2004 relating to Australia (Agenda paper 8.4);
- (e) a letter from Tom Ravlic (Policy Adviser – Financial Reporting & Governance, National Institute of Accountants) to David Boymal, Chairman AASB, dated 15 February 2005, and reply dated 17 February 2005 (Agenda paper 8.5);
- (f) a letter from Tom Ravlic to David Boymal, Chairman AASB, dated 2 March 2005, and attachments (Agenda paper 8.6);
- (g) a letter from Graeme MacMillan, Director – the International Accounting & Auditing Institute, to David Boymal, Chairman AASB, dated 28 February 2005, (Agenda paper 8.7 - tabled); and
- (h) a letter from Derek Ryan, Chairman – Contemporary Accounting & Audit Discussion Group, The Institute of Chartered Accountants in Australia, dated 7 March 2005, (Agenda paper 8.8 - tabled).

International activities

The Board noted the various activities being undertaken in international forums relating to GAAP/GFS convergence. It noted progress being made by the IPSASB on its project to specify requirements relating to the disclosure, where it is made, of GGS information within a whole of government general purpose financial report. It also received a verbal report from Mr Kaufmann and Mr Ram on the recent meeting of the international Taskforce on the Harmonisation of Public Sector Accounting. In particular, it was reported that a recommendation would be going forward from the Taskforce for the System of National Accounts (SNA) to accept the emerging IPSASB requirements relating to non-exchange revenue and social policy obligations. It was also reported that, although the words describing the concept of control differ between IPSASs and SNA, the concepts are the same. Other issues discussed by the Taskforce included the treatment of tax credits and equity contributions. Mr Kaufmann also reported that the OECD Canberra II Group would be meeting at the end of March and will discuss matters relating to weapons platforms, service concessions and provisioning.

Constituent comments

The Board noted the correspondence received from a number of constituents, in particular Agenda papers 8.5 to 8.8, that explain concern about the Board's decision to treat a GGS financial report as a general purpose financial report. The Board decided that the Preface to the ED should explicitly note the controversial nature of the issue and thereby help elicit a broader range of constituents to comment on the issue. The Board will consider the issue in the context of its review of all comments made on the ED proposals.

Review of Draft ED

The Board reviewed the draft ED (Agenda paper 8.2) and agreed with the ED as drafted except in relation to the amendments identified in the following tables.

Preface

Minute	ED section	Amendment
a	Reasons for Issuing this Exposure Draft	<p>(i) Quote the Financial Reporting Council’s strategic direction on GAAP/GFS harmonisation following the first paragraph in order to provide more detailed background information to the ED.</p> <p>(ii) Add “statutory bodies” to the list of entities in the last sentence of the third paragraph.</p>
b	GFS compared with Current GAAP Reporting by a Government of the GGS	<p>(i) In order to reduce the apparent emphasis in the ED on GFS (as distinct from GAAP) this section should be moved to follow the section “Main Features of this Exposure Draft”.</p> <p>(ii) Amend the first paragraph to more fully explain the distinction between non-market and market, for example by noting that market entities transact with external bodies, frequently at arm’s length.</p> <p>(iii) Delete “In the interest of GAAP/GFS harmonisation” from the last sentence of the first paragraph. In this regard the ED should be reviewed by staff to ensure a consistent approach is taken to explanations of the reasons for its requirements.</p>
c	Main Features of this Exposure Draft	<p>(i) To clarify the text, amend sub-paragraph (a) to read: “that a GGS of a government is a reporting entity for which a stand-alone general purpose financial report (GPFR) should be prepared. Consistent with GFSM 2001 principles the financial report does not consolidate GGS controlled entities located in the PNFC and PFC sectors.”</p> <p>(ii) Amend the remaining text in the light of decisions taken on the main body of the ED identified below.</p>
d	Request for Comments	<p>(i) Amend the section in the light of decisions taken on the main body of the ED identified below.</p> <p>(ii) In addition, questions should elicit constituent views on whether the proposals result in financial reports that are useful to users and whether it is appropriate for the Standard to cross-reference to GFSM 2001.</p>

Main body of ED

Minute	ED paragraphs	Amendment/other decision
e	7 and 8 (Compliance with Australian Accounting Standards and GFSM 2001)	<p>(i) The Board decided to keep these paragraphs (because they are clearer) rather than follow the alternative contemplated in the text box to “delete paragraph 7 and amend paragraph 8 to “The financial report shall be prepared in accordance with Australian Accounting Standards and this Standard prevails when it conflicts with other Australian Accounting Standards.” ”</p> <p>(ii) The Board noted that the reference to GFSM 2001 in the first sentence (and throughout the ED) is a stationary reference and therefore that if GFSM 2001 is amended in the future it would be necessary for the Board to review it for the purposes of considering whether to issue an amendment to the Standard.</p>
f	10, 11 and 12 (Compliance with Australian Accounting Standards and GFSM 2001)	<p>(i) Amend paragraph 10 by effectively switching the second part of the sentence with the first part of the sentence, to give more emphasis to compliance with Australian Accounting Standards, and by incorporating the sentiment of the first and second sentence in paragraph 11 to make the black letter in paragraph 10 clearer.</p> <p>(ii) Combine the example in paragraph 11 with those in 12 and add other examples that may become apparent as the project progresses in order to provide more guidance to users.</p> <p>(iii) The Board decided to retain paragraph 10 (on the basis that all issues particular to the GGS are dealt with in one place) rather than follow the alternative contemplated in the text box to specify directly in each Standard that contains an explicit option that the option that aligns with GFS treatment is mandatory for the GGS.</p>
g	14 (Compliance with Australian Accounting Standards and GFSM 2001)	<p>(i) The Board decided to retain paragraph 14, which anticipates that a government may elect to provide GFS disclosures that are additional to the requirements proposed in the ED, rather than prescribe the disclosure of all GFS information (as discussed in the text box against paragraph 14).</p>

h	16 (Compliance with Australian Accounting Standards and GFSM 2001)	<p>(i) In order to provide more guidance, the range of examples in paragraph 16 where GFSM 2001 would conflict with Australian Accounting Standards should be expanded. In particular, the difference between GAAP and GFSM 2001 on the measurement of investments in jointly controlled entities and associates should be included. However, examples should only be included if they are relevant to a broad range of governments. Therefore, examples that are only relevant to the Federal Government such as defence weapons platforms and seigniorage should not be included in paragraph 16.</p> <p>(ii) Redraft sub-paragraph (a) to clarify that GFS recognises bad debts written off but not provisions for doubtful debts.</p>
i	19 (Presentation and Scope of GGS Financial Statements)	<p>(i) Amend paragraph 19 (and related commentary) to require that the GGS asset “investments in controlled entities” be measured at fair value where fair value is measurable reliably, and at the government’s proportional share of the net asset value of controlled entities (consistent with the net assets that are consolidated into the whole of government general purpose financial report) where fair value is not measurable reliably. The Board decided that it is not appropriate for the ED (last sentence of paragraph 20) to imply that net assets was necessarily a reliable measure of fair value.</p>
j	23 to 25 (land under roads)	<p>(i) Amend the proposals relating to land under roads, to be consistent with the decisions made by the Board in relation to the review of <i>AAS 27 Financial Reporting by Local Governments</i> (refer to minutes relating to agenda item 3). The Board noted that although in principle GFSM 2001 requires the recognition of land under roads, in the context of paragraphs 1.31 and 1.32 of GFSM 2001, the proposed approach might be harmonised with GFSM 2001.</p>
k	Margin text box on page 20	<p>(i) The Board decided that it was not necessary to include specific guidance in the ED on the measurement of previously contributed or acquired assets that are subsequently discovered.</p>
l	31 (balance sheet)	<p>(i) The Board decided to require financial assets and liabilities classified into foreign and domestic components to be disclosed in a note (as this information is useful). The Board noted that disclosure of such a classification on the face of the balance sheet would not be consistent with the current/noncurrent or liquidity order requirements in <i>AASB 101 Presentation of Financial Statements</i>.</p>

m	34 (operating statement)	<p>(i) The Board decided to not require the disclosure of GFS gross operating balance on the face of the operating statement.</p> <p>(ii) The Board decided to defer a decision on whether to retain requirements in sub-paragraphs (c) and (d) until it had an illustration of the presentation to consider.</p> <p>(iii) The Board decided to not require the disclosure of the break-up of other economic flows into holding gains and other changes in the volume of assets.</p>
n	37 (operating statement)	(i) The Board decided that it is not necessary for a paragraph that is equivalent to paragraph 37, which relates to the classification of expenses, to be drafted in relation to the classification of revenue.
o	40 (cash flow statement)	(i) The Board decided to not require the disclosure of cash flows from investments in financial assets for policy purposes and cash flows from investments in financial assets for liquidity purposes. However, an illustration to be included in the ED will illustrate this disclosure.
p	42 (summary of significant accounting policies)	(i) Delete “non-technical” from sub-paragraph (e) as its meaning is not clear.
q	45(d) (other explanatory notes)	(i) The Board decided to require disclosure of an explanation of key technical terms, whether GAAP or GFS, used in the financial report.
r	46 to 49 (disaggregated information)	(i) Amend the proposals relating to disaggregated information, to be consistent with the decisions made by the Board in relation to the review of AAS 27 (refer to minutes relating to agenda item 3).
s	50 to 52 (performance indicators)	(i) Amend the proposals relating to performance indicators to be consistent with the decisions made by the Board in relation to the review of AAS 27 (refer to minutes relating to agenda item 3).
t	53 to 57 (budgetary information)	(i) Amend the proposals relating to budgetary information to be consistent with the decisions made by the Board in relation to the review of AAS 27 (refer to minutes relating to agenda item 3), except that the proposals should address the fact that in relation to a GGS there may be both original and revised budgets.
u	58 & 59 (transitional arrangements)	(i) Add text to clarify the requirements and acknowledge the implications of the requirements, including the requirement to present comparatives.

Appendices

Minute	Section	Amendment
v	Appendix A	(i) Move the phrase “Defined in GFSM 2001 (paragraph xxx)” to the end of each term’s definition. Given that the GFSM 2001 does not include a glossary of defined terms, each GFS definition should be reviewed by ABS staff to ensure that it accurately articulates the notion.
w	Appendix B	(i) Incorporate a sentence into the third paragraph that states that, in the general government sector financial reports, the Standard does not require full application of <i>AASB 127 Consolidated and Separate Financial Statements</i> . The third paragraph should also note the extent to which AASB 101 is not complied with.

Other issues

As noted above under “constituent comments”, the Board noted that there are strong views (both for and against) in relation to certain proposals in the ED – for example the proposal in paragraph 5 that the GGS financial report is a general purpose financial report combined with the proposal in paragraph 18 to not allow consolidation of government controlled entities that are located outside the GGS. Some are concerned that adopting such an approach undermines the Australian Accounting Standards “brand”. In light of this, the Board decided that the Preface to the ED should include an identification of the key contentious issues to help elicit constituent feedback in relation to them.

The Board will consider an amended draft ED, together with a first draft of an illustrative example of the form and content of GGS financial statements and notes, at its next meeting. The draft ED and, if time permits, the illustration, should be reviewed by the sub-committee before being included in the Board agenda papers.

In relation to the implications of the Board’s decisions to date in relation to GGS financial reporting for financial reporting by whole of governments (AAS 31 *Financial Reporting by Governments*), government departments (AAS 29 *Financial Reporting by Government Departments*), statutory authorities, local governments (AAS 27), universities, government business enterprises and other public sector entities, the Board will consider an issues paper at a future meeting.

Action:

Staff
Sub-committee