

## **EXTRACT FROM MINUTES: AASB 21-22 MAY 2008 MEETING**

### **AMENDMENTS TO AASB 1049 *WHOLE OF GOVERNMENT AND GENERAL GOVERNMENT SECTOR FINANCIAL REPORTING***

Agenda item 3

The Board had before it:

- (a) a memorandum from Robert Keys, Bob Orford and Natalie Batsakis dated 13 May 2008 (Agenda paper 3.1);
- (b) draft Exposure Draft ED 16X *Proposed Amendments to AASB 1049 for Consistency with AASB 101* (Agenda paper 3.2); and
- (c) marked-up AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (for information only) (Agenda paper 3.3).

The Board:

- (a) considered whether there is a need to issue an Exposure Draft (ED) for these amendments, and decided, given that the amendments would require (for the first time) the preparation by whole of governments and GGSs of a separate statement of changes in equity, that a web-based ED is warranted. Given the limited changes being proposed, the Board decided that an exposure period of one month would be sufficient;
- (b) decided that the title 'statement of comprehensive income' should be used in the ED rather than 'operating statement', to achieve consistency with terminology used in AASB 101 *Presentation of Financial Statements*. The Board also decided that the basis for conclusions should note that, consistent with the flexibility on statement titles allowed for in AASB 101, whole of governments and GGSs would not be restricted to using the titles used in the Standard;
- (c) approved for issue) the draft ED 16X *Proposed Amendments to AASB 1049 for Consistency with AASB 101*, (subject to its amendment to align with the usual style of drafting EDs proposing amending Standards, consideration of any Board member's editorial comments ([to be provided to staff shortly after the meeting), final quality control processes by staff and clearance by the Chairman; and
- (d) approved for issue, at the same time as the ED, a marked-up 'compiled' draft AASB 1049 and accompanying illustrative examples reflecting all the amendments proposed in the ED, as a supporting document to the ED. The Board noted that this would help constituents to identify the impact of the amendments.

Action:

Staff

### **GAAP/GFS HARMONISATION FOR ENTITIES WITHIN THE GGS**

Agenda item 4

The Board had before it:

- (a) a memorandum from Robert Keys, Sabine Schührer and Bob Orford, dated 13 May 2008 (Agenda paper 4.1);
- (b) an issues paper: *GAAP/GFS Harmonisation for Entities within the GGS* (Agenda paper 4.2);
- (c) an information paper: *Entities within the GGS of Australian jurisdictions* (Agenda paper 4.4)
- (d) an information paper: *GFS four-digit Functional Classification* (Agenda paper 4.5); and
- (e) an extract from the Australian Government's 2008-09 Budget papers – *Statement 3: Fiscal Strategy and Outlook, Appendix A: A New Budget Accounting Framework* (tabled by Mark Jenkin), as a supplement to Agenda paper 10.8 *Budget 2008-09: Notes 1 and 2 to the Financial Statements* (Agenda paper 4.6 – tabled).

The Board noted that the anticipated Agenda paper 4.3, which was expected to be received from HoTARAC prior to the Board's May meeting, would not be available for consideration at this meeting. It is now expected to be considered by HoTARAC at its June meeting before being forwarded to the Board.

Prior to considering the agenda papers, the Board discussed the basis for applying GAAP/GFS harmonisation principles to entities within the GGS and noted the views of some that such an approach would lead to consistency between GGS reporting and the reporting of entities within the GGS. The Board also noted the view of a range of constituents who believe the benefits of harmonisation of entities within the GGS do not justify the costs.

Consistent with the FRC's direction to the Board that the GAAP/GFS Harmonisation Project should cover entities within the GGS (which includes but is not limited to government departments), the Board discussed the implications of applying the principles in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* to such entities. The Board formed tentative views on a range of issues as a basis for staff to prepare a draft ED that will be considered by the Board at a future meeting.

For the purposes of the draft ED, the Board decided that the broad principles of harmonisation currently applicable to GGSs and whole of governments through AASB 1049 should be applied to not-for-profit entities within the GGS and that the specific matters for comment included in the ED should provide respondents with an opportunity to formally express their views on this issue. Furthermore, the Board decided that the basis for conclusions to the ED should be expressed in the context of the FRC direction.

A detailed list of tentative decisions made by the Board is provided in Attachment A.

Action:

Staff

## ATTACHMENT A

### GAAP/GFS HARMONISATION FOR ENTITIES WITHIN THE GGS

Agenda item 4

#### **Board decisions regarding Agenda paper 4.2 GAAP/GFS Harmonisation for Entities within the GGS**

For ease of reference the following Board decisions have been listed under the section headings contained in Agenda paper 4.2 and numbered to align with the staff view numbers in that paper.

##### **Board view 1: Broad approach to harmonisation by entities within the GGS.**

The broad principles of harmonisation currently applied to GGSs and whole of governments through AASB 1049 (as amended for AASB 101 *Presentation of Financial Statements* (September 2007) – see agenda item 3) should be applied to not-for-profit entities (see Board view 3 below) within the GGS. The Board agreed that, if it is accepted that not-for-profit entities within the GGS should be covered by the project, there appears to be no conceptual technical reason why the broad principles of harmonisation currently applied to GGSs and whole of governments through AASB 1049 should not be applied also to not-for-profit entities within the GGS. This is particularly so because such entities are within both the GGS and whole of government.

##### **Board view 2: Scope of requirements: *should there be differential reporting between 'big' and 'small' entities within the GGS?***

Differential reporting issues should not be considered as part of this GAAP/GFS harmonisation project. The Board should consider as part of its separate Differential Reporting Project whether it is appropriate that certain not-for profit entities within the GGS be relieved from the full effect of GAAP/GFS harmonisation and, if so, what those entities should do instead.

##### **Board view 3: Scope of requirements: *should GAAP/GFS harmonisation be imposed on for-profit entities within the GGS?***

Harmonisation should only be applied to not-for-profit entities within the GGS because for-profit entities generally cannot avail themselves of non-IFRS treatments in Australian Accounting Standards and they should not be required to apply GAAP/GFS harmonisation principles as well, as this would lead to two sets of financial statements. The Board noted the argument that requiring for-profit entities to apply GAAP/GFS harmonisation principles would help facilitate consolidation, but considered that consolidation processes could be facilitated without requiring for-profit entities to adopt GAAP/GFS harmonisation in their financial statements. The Board also noted that an argument in support of requiring for-profit entities to adopt GAAP/GFS harmonisation – namely that it is consistent with the harmonisation requirements for whole of governments and GGSs, is not valid. This is because whole of governments and GGSs are not-for-profit entities (even though they consolidate some for-profit entities).

##### **Board view 4: Technical issues: *accounting for controlled entities - controlled PNFC/PFC sector entities.***

Consistent with the treatment required of the whole of government under AASB 1049, not-for-profit entities within the GGS should be required to consolidate, on a line-by-line basis,

all controlled entities, including those in the PNFC and PFC sectors. In addition, they should be required to separately present ‘sector’ financial statements whereby the entity within the GGS does not consolidate its controlled PNFC/PFC entities, rather they are shown as a single line ‘investment’ asset (measured at the carrying amount of the net assets of the controlled entities) and as separate column(s) in a sector note (see Board view 9 below). The Board noted that this approach provides relevant information within both the GAAP and GFS frameworks.

**Board view 5: Technical issues: *accounting for controlled entities - controlled GGS entities.***

Where a parent entity report is prepared by a not-for-profit entity within the GGS it should be presented in the same format as the consolidated report, but it should measure investments in subsidiaries in accordance with AASB 127 *Consolidated and Separate Financial Statements*. The Board noted that GFS does not require parent entity reports and therefore GAAP requirements should apply to the measurement of investments in subsidiaries in those reports.

**Board view 6: Technical issues: *are there any GAAP/GFS convergence differences that are unique to entities within the GGS that warrant separate attention?***

The Board noted that no additional convergence differences have been identified to date, and decided that convergence differences for not-for-profit entities within the GGS should be treated in the same way that AASB 1049 treats the same kind of differences for whole of governments and GGSs, i.e. GAAP should be applied and GFS treatment should be disclosed, together with a reconciliation and an explanation of the differing treatments.

**Board view 7: Technical issues: *are there any financial statement presentation issues that are unique to entities within the GGS?***

A net cost of services format for the statement of comprehensive income should continue to be allowed for not-for-profit entities within the GGS. The Board noted that this format is relevant to some jurisdictions. The Board also noted that work is needed to see if the format can be accommodated within the current harmonised statements and, if not, what needs to be done in order to accommodate it (see also Board view 17).

GFS key fiscal aggregates should be included in the proposed financial statements for not-for-profit entities within the GGS in accordance with the current approach in AASB 1049. The Board noted the view expressed by some that GFS key fiscal aggregates are not relevant at the individual entity level within the GGS, and that terminology associated with such aggregates may not be meaningful – for example, given that departments are prohibited from borrowing, it may not be meaningful to have them present a key fiscal aggregate titled ‘net lending/borrowing’. In response to this issue, the Board decided that the ED should specifically ask constituents for their views on GFS key fiscal aggregates relating to not-for-profit entities within the GGS.

**Board view 8: Technical issues: *what information should be included in the notes? Summary of significant accounting policies and other explanatory notes.***

The ‘summary of significant accounting policies’ and ‘other explanatory notes’ disclosures in AASB 1049 that are applicable to not-for-profit entities within the GGS should be required.

**Board view 9: Technical issues: *what information should be included in the notes? Sector information.***

Consistent with Board view 4 above, not-for-profit entities within the GGS should disclose sector-information that is analogous to the requirements for whole of government reporting currently in AASB 1049. [The Board noted the basic example illustrating what the note disclosure might look like for a statement of financial position in Appendix A of Agenda paper 4.2 under the heading ‘whole of government approach’.] The Board noted the view held by some that such disclosures are not relevant for not-for-profit entities within the GGS. In response, the Board observed that to question the relevance of these disclosures could call into question the relevance of the entire harmonisation project for entities within the GGS. The Board decided that the ED should specifically ask constituents for their views on sector-like reporting for not-for-profit entities within the GGS.

**Board view 10: Technical issues: *what information should be included in the notes? GFS functional classification.***

Consistent with AASB 1049, not-for-profit entities within the GGS should be required to disclose information about the recognised expenses, excluding losses, included in operating result and assets that are reliably attributable to broad functions determined to the ABS GFS Manual four-digit level of classification shown in Appendix 3 of that Manual (and reproduced in Agenda paper 4.5). The Board noted that the GFS functional classification is more ‘rules-based’ than the disaggregated disclosures required by AASB 1052 *Disaggregated Disclosures*, but has the benefit of encouraging greater consistency in functional classification across jurisdictions. The Board noted, however, that the classification scheme would not be useful in all cases – for example, for defence, the one to four digit levels of classification are all described as ‘defence’.

**Board view 11: Technical issues: *what information should be included in the notes? AASB 1052 Disaggregated Disclosures.***

In light of Board view 10, the requirements in AASB 1052 *Disaggregated Disclosures* should no longer be mandatory for government departments. A subsequent Board review of AASB 1052 should consider what the appropriate segment-like reporting requirements should be for not-for-profit entities, having regard to Board view 10.

**Board view 12: Technical issues: *how should we deal with administered items?***

The current accounting treatment for administered items under AASB 1050 *Administered Items* should continue to apply. The Board noted that the current requirements are not inconsistent with what the Board is contemplating for GAAP/GFS harmonisation requirements for not-for-profit entities within the GGS. Accordingly, the Board decided that when it undertakes its separate Administered Items Project, it should include consideration of GAAP/GFS harmonisation issues.

**Board view 13: Technical issues: *budgetary information - should AASB 1049 requirements relating to disclosure of budgetary information be imposed on entities within the GGS?***

Not-for-profit entities within the GGS should be required to disclose budgetary information under the same circumstances and consistent with the same requirements as in AASB 1049 for whole of governments and GGSs.

**Board view 14: Technical issues: *budgetary information - should the ‘compliance with appropriations’ disclosure requirements in AASB 1004 Contributions continue to apply?***

The AASB 1004 *Contributions* requirements for ‘compliance with appropriations’ disclosure should coexist with the GAAP/GFS harmonisation budgetary information disclosure requirements. The Board noted that although there is some overlap in the information content of the two sets of requirements (AASB 1049 and AASB 1004), their focus is different. For example, at least in some jurisdictions, the disclosures made under AASB 1004 focus on the legal concept of appropriations and are cash based. The Board noted that, arguably, the requirements could be merged, but that could unduly delay the completion of the GAAP/GFS Harmonisation Project. The Board decided that, when instigated, the separate Compliance with Externally-Imposed Requirements Project should have regard to the GAAP/GFS harmonisation requirements.

**Board view 15: Technical issues: *transitional requirements – elections previously made under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards.***

Consistent with the view taken in AASB 1049, not-for-profit entities within the GGS should be required (as per paragraph 66 of AASB 1049) to revisit the elections previously made under AASB 1 in order to facilitate GAAP/GFS harmonisation.

**Board view 16: Amend AASB 1049 or create a new Standard?**

For the purpose of the first draft of an ED, requirements for not-for-profit entities within the GGS should be incorporated into AASB 1049 rather than issued as a separate Standard as this is more consistent with the topic-based approach to writing Standards, an approach that the Board has agreed on previously. At this early stage, the Board notes that because many of its views recorded above are consistent with AASB 1049, much of AASB 1049 can be expressed generically.

**Board view 17: Illustrative examples.**

An illustrative example (using a net cost of services format for the statement of comprehensive income [see Board view 7]) should be provided with the ED or shortly after the ED is issued. The Board noted that the HOTARAC GFS/GAAP Harmonisation Working Group had informally offered assistance in developing this example, and agreed that staff should discuss this possibility further with the HOTARAC Working Group. The Board noted the significant demand on resources needed to develop an illustrative example and, therefore, decided that only a net cost of services format be illustrated, given that it is the preferred format and most likely to be used in practice.

**Board view 18: Level of consultation.**

There should be a high degree of consultation within the timeframe imposed by the FRC. This may need to include roundtables, but participants from not-for-profit entities within the GGS may need some preliminary education to be most effective. The Board noted that this education could potentially be provided by the HOTARAC GFS/GAAP Working Group.

**Board view 19: Operative date.**

There should be sufficient time before the proposed Standard becomes operative to allow for appropriate training, education and systems development to take place.

**Board view 20: Legislative impediments.**

Further input should be obtained from the HOTARAC GFS/GAAP Harmonisation Working Group on whether there are any legislative impediments to harmonisation for not-for-profit entities within the GGS and, if so, what the Board's response should be.

**Proposed timeline:**

The Board considered a timeline for the project and noted the plan to issue an ED early in 2009 and a Standard early in 2010. The Board asked staff to consider options for shortening the ED development phase, particularly between August and November 2008. The Board noted that the timetable had been developed before staff became aware that the HOTARAC Working Group may be able to lead the development of the illustrative example at the same time that staff are developing the body, preface and basis for conclusions.