



<b>To:</b>	AASB members	<b>Date:</b>	28 June 2011
<b>From:</b>	Shu In Oei	<b>Agenda Item:</b>	15.1
<b>Subject:</b>	<b>ED 211 GAAP/GFS Harmonisation: Post-Implementation Review of AASB 1049 – Part 2</b>	<b>File:</b>	

## Action

Resolve issues raised by respondents in relation to the outstanding set of proposals in ED 211 *Proposed Amendments to AASB 1049*, with a view to providing staff with final instructions for drafting a pre-ballot draft Amending Standard.

## Attachments

- issues raised by respondents to ED 211 (Agenda paper 15.2);
- submissions relating to outstanding set of proposals in ED 211 (Agenda paper 15.3); and
- outstanding set of proposals from ED 211 and accompanying Basis for Conclusions (Agenda paper 15.4).

## Background

Given the substantial change to financial reporting brought about by AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007), the Board decided to undertake a post-implementation review of that Standard. The objective was to identify any material issues at an operational level with a view to improving financial reporting.

Various methods were used to identify the implementation issues that were the subject of ED 211 (issued in March 2011), including consulting with personnel with at least one year of AASB 1049 implementation experience from each jurisdiction's Department of Treasury and Finance and Auditor-General's Office.

ED 211 has two sets of proposals that would give rise to amendments to AASB 1049:

- The first set of proposals was open for comment until 6 April 2011, and related to the definition of the ABS GFS Manual, relief from adoption of the latest version of the Manual, and related disclosures. The Board has resolved these matters, reflected in Amending Standard AASB

2011-3 *Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049]* issued in 27 May 2011; and

- The second set of proposals was open for comment until 6 June 2011, and related to a range of other issues.

The Basis for Conclusions accompanying ED 211, in addition to explaining the Board’s reasons for proposing each amendment to AASB 1049, also explained the Board’s reasons for deciding not to make certain amendments – under a heading ‘Significant Issues that did not give rise to Amendments to AASB 1049’ in paragraphs BC22 – BC39.

This memorandum focuses on the second set of proposals to amend AASB 1049 and the proposals to not amend AASB 1049 for certain issues – the details of which are contained in agenda paper 15.4.

## Submissions received on the second set of proposals in ED 211

Three submissions were received, from Ernst & Young (EY), the Australasian Council of Auditors-General (ACAG) and the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC). Each expresses broad support for most of the proposals to amend AASB 1049 and has not disagreed with most of the proposals to not amend AASB 1049 in relation to particular issues (a list of proposals with which respondents agree is provided in Appendix A of this paper).

The main issues raised by respondents, and a summary of staff’s views, are provided in the following table. Some drafting suggestions are also made, which would normally be addressed out of session. However, we consider it more efficient to deal with them in-session at the same time the Board reviews the comment letters.

No.	Issue	Staff View
1	Classification between ‘transactions’ and ‘other economic flows’ (paragraph 30)	Reword paragraph 30 to more clearly express the principle of classification
2	Clarification of disclosure requirements for key fiscal aggregates relative to other information (paragraph 18)	Assuming the Board’s objective remains the same (to clearly differentiate between key fiscal aggregates and other fiscal aggregates, and to explicitly prohibit the disclosure of other measures of key fiscal aggregates as either key fiscal aggregates or other fiscal aggregates), reword of paragraph 18 to address identified concerns
3	Disclosure of carrying amount of assets attributable to functions (paragraph 48(b))	The disclosure requirement should be retained unamended
4	‘expenses excluding losses, included in operating result attributable to functions’ vs ‘expenses from	The requirement, referring to ‘expenses, excluding losses’ should be retained unamended. However, the

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	transactions included in operating result attributable to functions' (paragraph 48(c))	rationale for its retention should be included in the Basis for Conclusions
5	Text in square brackets in Explanatory Note r(ii) accompanying the Illustrative Example, which explains the tax-effect accounting for deferred tax balance in GGS (Explanatory Note r(ii))	The text should be retained, with amendments, to avoid inadvertent implications (e.g. that the income tax regime is necessarily a tax equivalent regime)
6	Presentation of more recent vs original budget (paragraph 59)	Retain the requirement unamended
7	Non-substantive editorial amendments suggested by respondents (paragraphs 7 and 64)	Adopt the editorial suggestions

Agenda paper 15.2 provides further detail of suggestions for addressing these issues and further explains the staff's views.

The Agenda paper 15.2 is not intended to be a substitute for reading the full submissions made by respondents.

### **Proposals in ED 211 that respondents unanimously agree with**

#### ***Proposed amendments that were the subject of Specific Matters for Comment***

1. unambiguously require both GGS and whole of government financial statements to be prepared (see ED 211 paragraph BC5);
2. require, at all times, GGS and whole of government financial statements to be available at the same time and with a cross reference to each other (See ED 211 paragraph 6); and
3. clarify the principle of 'a GAAP option is limited to align with GFS', that an entity is not required to early adopt a new or revised Standard, even if the early adoption would more quickly allow alignment with GFS (See ED 211 paragraph BC7).

#### ***Proposed amendments that were not the subject of Specific Matters for Comment***

1. amend paragraph 23(c) to clarify that individual amounts for GGS equity investment in a PNFC sector of PFC sector entity cannot be less than zero, consistent with paragraph 20(c) (see ED 211 paragraph BC16);
2. amend the last sentence of paragraph 34B to acknowledge that transactions with owners in their capacity as owners that are not eliminated on consolidation could arise because of non-controlling interest attributable to entities outside the GGS (see ED 211 paragraph BC17); and
3. no longer specify transitional requirements because all jurisdictions have previously first-time adopted AASB 1049 (see ED 211 paragraph BC21).

#### ***Proposed retention of the approach/requirements in AASB 1049***

1. not amend paragraph 12, and thereby continue to not require disclosure of whether GGS financial statements are general purpose financial statements or special purpose financial statements (see ED 211 paragraph BC22);
2. retain the principle-based approach in AASB 1049 rather than provide an exhaustive list of GAAP options that align with GFS (see ED 211 paragraph BC23);
3. not amend the illustrative examples to remove the sub-classification of non-financial assets that is not explicitly required by the ABS GFS Manual (see ED 211 paragraph BC25);
4. continue to require jurisdictions to present the operating result (a GAAP subtotal) on the face of the statement of comprehensive income (see ED 211 paragraph BC27);
5. not amend AASB 1049 to clarify the treatment of non-cash items in relation to cash flow statements (see ED 211 paragraph BC29);
6. retain the AASB 1049 requirement for reconciliations and explanations for differences between GAAP and GFS measures of certain key fiscal aggregates. Furthermore, it is not necessary to explicitly address the circumstances where GFS amounts determined by the ABS differ from the GFS amounts in the financial statements (see ED 211 paragraphs BC30 and BC31);
7. not clarify the meaning of 'other distributions' in paragraph 41(b)(iii) (see ED 211 paragraph BC32);
8. not require the disclosure of contributions from the GGS in its capacity as owner to PNFC sector and PFC sector entities to enable derivation of 'net distributions' (see ED 211 paragraph BC33);
9. not amend paragraph 59(f) in relation to the requirement to include explanations of variances between budgeted and actual financial information (see ED 211 paragraph BC36 and BC37); and
10. consider whether to retain or remove the exemption from presenting certain capital management disclosures for whole of government and GGSs as part of the second phase of the AASB/FRSB joint Trans-Tasman Convergence project, rather than as part of the post-implementation review of AASB 1049 (See ED 211 paragraph BC38 and BC39).