

Issues raised by respondents to ED 211

Issue 1: Further guidance on classification between transactions and other economic flows

Summary of Respondents' Comments

The Board decided at its July 2010 meeting [July 2010 Meeting Minutes, Attachment A, Agenda item 11(1)] not to amend AASB 1049 paragraphs 30 and 55(b) in relation to providing further guidance to assist in classification between 'transactions' and 'other economic flows'. The rationale for this decision was as follows:

- (a) in relation to paragraph 30, the Board noted that AASB 1049 already clearly requires GFS principles for distinguishing between 'transactions' and 'other economic flows' to be applied in a GAAP context; and
- (b) in relation to paragraph 55(b), which addresses the classification of deferred tax amounts, the Board confirmed its October 2007 decision that GFS does not recognise deferred tax expense and therefore it is necessary to extrapolate from the general GFS principles for classification.

The Board's decision and rationale are captured in paragraph BC28 of ED 211.

One respondent, HoTARAC, disagrees with the Board's decision. HoTARAC does not believe that the guidance in AASB 1049 paragraphs 30 and 55(b) is sufficient for the classification between 'transactions' and 'other economic flows' where items are not recognised or are recognised differently under GFS, compared to GAAP.

HoTARAC provided some examples for which there are alternative views in classifying between 'transactions' and 'other economic flows', including the following:

- Provision for rehabilitation

Does the rehabilitation expense satisfy the definition of a 'transaction' or an 'other economic flow'? Under one interpretation, expenses arising from such provisions must be classified as an 'other economic flow', given that at the time the provision is first created there is no 'interaction between two institutional units', as the counterparty has not yet been identified.

HoTARAC's preferred view is that where there is a GFS convergence difference, the classification principle should be based on the nature of the underlying event, viewed from a

GAAP perspective, as inferred in paragraph 55(b). However, by itself, HoTARAC argues paragraph 55(b) is insufficient as it is said in the context of a specific example and is not otherwise referred to in the other examples.

Staff Analysis

HoTARAC's concern is consistent with the comments we heard whilst undertaking the post-implementation review interviews. It was noted that most jurisdictions encountered issues in interpreting and applying the ABS GFS Manual, with some jurisdictions arguing that GAAP items that do not have GFS equivalents should be classified as other economic flows, making other economic flows the 'bucket'.

We think that the principles for classification between transactions and other economic flows (for presentation purpose) for items that are recognised differently or are not recognised under GFS, are already captured in paragraphs 30 and 55(b). However, we acknowledge that paragraph 30 could usefully express the principle more explicitly by referring to GAAP as the relevant perspective.

Staff View

We suggest that paragraph 30 is amended as follows:

- '30 All amounts relating to an item included in the determination of comprehensive result (total change in net worth [before transactions with owners in their capacity as owners]) shall be classified as *transactions* or other economic flows in a manner that is consistent with the principles in the ABS GFS Manual based on the underlying event giving rise to the item, viewed from the GAAP perspective'**

Question to Board Members

- 1.1 Does the Board agree broadly with the staff's view? (If Board members have specific non-substantive drafting suggestions, they can be provided to us out of session)

Issue 2: Disclosure of key fiscal aggregates relative to other information

Summary of Respondents' Comments

Both EY and ACAG commented that the wording for the proposed amended paragraph 18 (ED 211 paragraph 11) should be revised to facilitate easier reading. In addition, HoTARAC expressed more serious concern that the proposed amended paragraph 18 may inappropriately prohibit the disclosure of non-GFS fiscal aggregates, such as 'net financial liabilities'.

HoTARAC also comments that the distinction between ‘other measure’ of a fiscal aggregate and the disclosure of a different fiscal aggregate is unclear, particularly in relation to the proposed last sentence of paragraph 18:

‘Fiscal aggregates that are not measured in a manner consistent with recognised amounts or the ABS GFS Manual are not disclosed as key fiscal aggregates or other fiscal aggregates’

It also specifically asks if it is acceptable to disclose ‘net financial liabilities’ and ‘underlying cash’¹ as other fiscal aggregates.

Staff Analysis

The Board’s objective in amending paragraph 18, as per its decision in July 2010 meeting [July 2010 Meeting Minutes, Attachment A, Agenda item 11(g)], was:

- (a) to require entities to clearly differentiate between key fiscal aggregates and other fiscal aggregates, to help avoid potential confusion for users; and
- (b) to explicitly prohibit the disclosure of other measures of key fiscal aggregates as either key fiscal aggregates or other fiscal aggregates.

The comments received from all three respondents indicate that the amendment to paragraph 18 could be better worded to achieve the Board’s objective in a way that is easier to understand.

We understand HoTARAC’s concern and note that the proposed drafting in ED 211 appears to go beyond the Board’s objective by inadvertently prohibiting other measures of other fiscal aggregates to be disclosed.

We see merit in the suggested revised wording from ACAG, as it is better structured to facilitate easier understanding. However, we do not think that it goes far enough to resolve HoTARAC’s concerns.

¹ ‘Underlying cash’ is calculated as follows:
‘net cash flows from operating activities’ *plus*
‘net cash flows from investments in non-financial assets’ *less*
‘net acquisitions of assets acquired under finance leases and similar arrangements’ *equals*
ABS GFS cash surplus/deficit *less*
Future fund earnings *equals*
‘underlying cash balance’

Staff View

On balance, on the assumption that Board's objective is still the same, we suggest that the wording of proposed paragraph 18 be revised as follows:

- 18A A government may elect to disclose key fiscal aggregates (as defined) or other information ~~in accordance with the ABS GFS Manual that are~~ additional to the requirements of this Standard. If a government elects to make additional disclosures, they ~~are~~ shall be made in a way that does not detract from the information prescribed in this Standard. ~~If a government elects to disclose aggregates that are not key fiscal aggregates, they are made in a way that clearly differentiates them from key fiscal aggregates. Examples of additional disclosures that may be made voluntarily include the classification of other economic flows consistent with Table 7.4 of the ABS publication Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005 (ABS Catalogue No. 5514.0) and additional key fiscal aggregates such as change in net worth due to revaluations and change in net worth due to other changes in the volume of assets.~~
- 18D Examples of additional disclosures that may be made voluntarily include the classification of other economic flows consistent with Table 7.4 of the ABS publication Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005 (ABS Catalogue No. 5514.0) and additional key fiscal aggregates such as change in net worth due to revaluations and change in net worth due to other changes in the volume of assets.
- 18B Consistent with the requirements in paragraph 16 of this Standard, additional key fiscal aggregates ~~are~~ shall be measured in a manner consistent with recognised amounts. Consistent with paragraphs 41(a)(i) and 52(b)(ii) of this Standard, where they differ, corresponding key fiscal aggregates measured in accordance with the ABS GFS Manual ~~are~~ shall be disclosed, together with a reconciliation of the two measures of each key fiscal aggregate. Key fiscal aggregates that are not measured in a manner consistent with recognised amounts or the ABS GFS Manual ~~are~~ shall not be disclosed presented as key fiscal aggregates or other fiscal aggregates.
- 18C If a government elects to disclose aggregates that are not key fiscal aggregates, they shall be made in a way that clearly differentiates them from key fiscal aggregates.

We think our suggestion, which is largely based on ACAG's drafting suggestions, addresses HoTARAC's concerns by allowing a jurisdiction to disclose fiscal aggregates in addition to those explicitly referred to in either AASB 1049 and/or the ABS GFS Manual. Accordingly, subject to the other criteria (i.e. not to detract from prescribed information, and clearly differentiated from key fiscal aggregates), 'net financial liabilities', an adjusted GFS cash surplus/deficit aggregate, would be permitted.

Questions to Board Members

- 2.1 Does the Board's objective remain as per the July 2010 meeting decision?
- 2.2 Does the Board agree broadly with the staff's drafting suggestion? (If Board members have specific non-substantive drafting suggestions, they can be provided to us out of session)

Issue 3: Disclosure of carrying amount of assets attributable to functions**Summary of Respondents' Comments**

Two respondents, ACAG and HoTARAC, disagree with the Board's decision (captured in paragraph BC34 of ED 211) to retain the requirement of AASB 1049 paragraph 48(b) to disclose the carrying amount of recognised assets reliably attributable to each function, pending the outcome of the Disaggregated Disclosures project. Their main argument is that the requirement is not based on the ABS GFS Manual, and ACAG also added that it is not useful to users and the fact that the Disaggregated Disclosure project will address this issue is not a sufficient reason to retain.

Accordingly, HoTARAC and ACAG comment that this disclosure requirement should be omitted from AASB 1049 until the issue of disaggregated disclosures is resolved from a GAAP perspective. HoTARAC goes on to comment that, if the Board decides to retain disaggregated disclosure requirements, then the requirements should at least be amended to be consistent with the Uniform Presentation Framework presentation (i.e. disclosure of purchases of non-financial assets only by functions, which reconciles to the derivation of the net lending/borrowing result).

Staff Analysis

We understand from our discussions during the post-implementation review interviews that, although the requirement of AASB 1049 paragraph 48(b) is clear, certain jurisdictions found difficulties in disclosing carrying amounts of assets by functions, due to multiple uses for assets or some assets being maintained centrally. In response however, we note that the requirement in paragraph 48(b) only applies to assets that are 'reliably' attributable to functions. This involves the exercise of professional judgement by the preparer. If not reliably attributable, preparers have the scope under AASB 1049 not to provide the disclosure.

In addition, in response to ACAG's comment about usefulness, we believe that disclosure of the carrying amount of assets attributable to functions is useful to users, as it would assist in identifying the resources committed to particular functions relative to the costs of service delivery that are reliably attributable to those functions (which is also required to be

disclosed), facilitating a ‘return on assets’ type of analysis (AASB 1049 paragraphs 50 and BC54²).

Staff View

We think that the disclosure requirement for assets that are reliably attributable to broad functions should be retained unamended.

We note that the Disaggregated Disclosure project is listed in Table 1 of AASB Work Program (prepared in May 2011) as an active project, with an Issue Paper planned to be issued in Q4 2011 plus. Staff has not commenced work on this project due to other priorities.

Question to Board Members

3.1 Does the Board agree with the staff's view?

Issue 4: Expenses excluding losses included in operating result

In addition to disclosure of carrying amounts of assets attributable to functions (see issue 3 above), AASB 1049 paragraph 48(c) also requires disclosure of expenses, excluding losses, that are reliably attributable to functions.

Summary of Respondents' Comments

HoTARAC comments that the Board decision to retain the requirement to disclose ‘expenses, excluding losses, included in operating result that are reliably attributable to functions’, is not aligned with the aim of the Standard, which is (they believe) to align with GFS requirements (especially where there is no GAAP equivalent). Therefore, it argues that the Standard should use the GFS terminology, which is ‘expenses from transactions’ instead.

Staff Analysis

During the post-implementation review, interviewees commented that using the term ‘expenses excluding losses’, which is not used elsewhere in the financial statements, may confuse users, and therefore suggested the use of ‘expenses from transactions’ instead. We note that the requirement of AASB 1049 paragraph 49 for a reconciliation of ‘expenses

² Extract from AASB 1049 paragraph 50:

‘...Disclosure of this information assists users in identifying the resources that are reliably attributable to those functions. Functional classification of financial information, where it can be determined reliably, will also assist users in assessing the significance of financial or non-financial performance indicators reported by the government.’

excluding losses included in operating result’ to ‘expenses from transaction recognised in the operating statement’ is intended to alleviate some of the potential for confusion.

We note that there are two reasons (see the July 2010 meeting Agenda Paper 11.2, no. 3.20) for the current requirement in AASB 1049:

- (a) if the reference to ‘excluding losses’ were omitted, it would seem to be anomalous to include losses, but not gains, given that gains and losses relating to an item might be netted off; and
- (b) ‘expenses (excluding losses)’ more closely aligns with GAAP than ‘expenses from transactions’, because ‘expenses from transactions’ does not include GAAP expenses classified as other economic flows.

Staff View

We continue to agree with the rationale for the approach taken in AASB 1049. However, we consider that it may be worthwhile to include the two reasons (a and b), as discussed under ‘staff analysis’ above, in the basis for conclusions, so that respondents understand why the term ‘expenses excluding losses’ rather than ‘expenses from transactions’ is used.

Question to Board Members

4.1 Does the Board agree with staff’s view?

Issue 5: Tax-effect accounting by the GGS (Explanatory Note r(ii))

Summary of Respondents’ Comments

Some HoTARAC jurisdictions disagreed with the proposal to remove the text in square brackets in Explanatory Note r(ii) to the Illustrative Example A accompanying AASB 1049 relating to the tax-effect accounting by GGS. Explanatory Note r(ii) is as follows:

‘...Convergence differences relating to the Balance Sheets

r(ii) \$506m in the PNFC sector because GFS does not recognise the deferred tax liability.

This difference does not flow through to the whole of government amounts as it arises from a PNFC sector liability that is not a whole of government liability.

[Note: Depending on the nature of the tax equivalents regime operating in a particular jurisdiction, a GGS, as the tax collector, may not be able to recognise a related revenue unless it meets the criteria in AASB 1004 *Contributions*. For the purpose of this example, the GGS, as the tax collector, does not recognise deferred tax balances to the extent the tax events associated with the PNFC sector’s

deferred tax balances have not occurred, even though from the PNFC sector's viewpoint, the event is the recognition of the underlying assets and/or liabilities in accordance with AASB 112 *Income Taxes*. This treatment in the GGS accords with GFS and therefore does not give rise to a convergence difference.]'

We note that the Board had considered, in its July 2010 meeting, the issues relating to:

- (a) the fact that only some jurisdictions recognise GGS revenue corresponding to the deferred tax liabilities recognised at the PNFC/PFC level;
- (b) the view that mirror accounting can be justified given the amount is known in a 'closed system' (i.e. the taxpayer and taxing authority are within the government); and
- (c) the question of whether the amounts are in the nature of a tax or distribution to owners as owners.

As a consequence, the Board decided that the subject matter of the text in square brackets in Explanatory Note r(ii) is beyond the scope of the GAAP/GFS Harmonisation project. The Board's decision is captured in paragraph BC20 of ED 211.

Some HoTARAC jurisdictions disagree with the Board's view expressed in paragraph BC20 and argue that it is a relevant GAAP/GFS issue, as there is potentially a GAAP/GFS convergence difference in jurisdictions that recognise GGS revenue, to mirror the deferred tax position reported by PNFCs and PFCs. They also argue that the GGS controls the PNFC and PFC sectors, and as such controls the mirror deferred tax asset/revenue.

Staff Analysis

On reflection, we think that the view of some HoTARAC jurisdictions to retain the text has merit. Although we do not agree with their argument relating to mirror accounting based on the fact that GGS controls the PNFC and PFC sectors, we think that the text in the square brackets is useful in explaining why there is no convergence difference for GGS in relation to deferred tax balances as illustrated in Example A. It helps in understanding the Illustrative Example. In addition, we note that even if the text in the square brackets were removed, Example A still contains the illustration of the treatment of deferred tax balances for each sector, including GGS, which implies a particular kind of tax regime (which in turn implies, at a minimum, that the amounts, for the purposes of the example, are not in substance distributions to owners as owners). Furthermore, we note that it is conceivable for an income tax regime to exist that is not a 'tax equivalents regime'.

Staff View

On balance, we suggest the text in the square brackets of Explanatory Note r(ii), with amendments, is retained.

[Note: Depending on the arrangements operating ~~nature of the tax equivalents regime operating~~ in a particular jurisdiction, a GGS, as an income ~~the~~ tax collector, may not be able to recognise a related revenue unless it meets the criteria in AASB 1004 *Contributions*. Under the tax regime assumed ~~For~~ the purpose of this example, the GGS, as the tax collector, does not recognise deferred tax balances ~~to the extent~~ because the tax events associated with the PNFC sector's deferred tax balances have not occurred, even though from the PNFC sector's viewpoint, the event is the recognition of the underlying assets and/or liabilities in accordance with AASB 112 *Income Taxes*. This treatment in the GGS accords with GFS, which does not recognise the deferred tax assets. ~~and~~ Therefore, ~~does not give rise to a~~ no convergence difference arises.]

Question to Board Members

5.1 Does the Board agree with the staff's view? (If Board members have specific non-substantive drafting suggestions, they can be provided to us out of session)

Issue 6: Requirement to disclose original budgeted financial statements

The proposed amended paragraph 59 would continue to require the whole of government or GGS to disclose the original budgeted financial statements (the first budget) presented to parliament in respect of the reporting period. The proposed amendments would now require the information to be presented on a basis that is consistent with the presentation and classification bases prescribed for financial statements.

Summary of Respondents' Comments

One HoTARAC jurisdiction disagrees with the requirement to include the original budgeted financial statements rather than more recently presented budgeted financial statements.

Staff Analysis

Staff note the Board's conclusion (see AASB 1049 paragraph BC59) that the first budget presented to parliament is the one most widely publicised, and accordingly, is the primary reference point for any assessment of the reliability of budgeting, identification of major variances and assessment of the quality of stewardship in relation to the period.

We also note that AASB 1049 allows the additional disclosure of a revised budget presented to parliament, if the entity chooses to do so.

Staff View

We continue to agree with the Board's conclusion reflected in the original AASB 1049 and as proposed in ED 211, and therefore we suggest that the requirement for disclosure of the original budget be retained unamended.

Question to Board Members

6.1 Does the Board agree with the staff's view?

Issue 7: Non-substantive editorial amendments suggested by respondents**Summary of Respondents' Comments**

EY suggested the following non-substantive editorial improvements to the proposals in ED 211 (new text is underlined and deleted text is struck through):

- '7 A government shall prepare both whole of government financial statements and GGS financial statements, whether presented together or separately, ~~and that are~~ in accordance with the requirements of this Standard.'
- '64 ...To the extent the presentation and classification bases adopted in the first budget presented to parliament are not consistent with the presentation and classification bases adopted in the corresponding financial statements, the budget presented to parliament is restated for budget disclosure purposes to align with the presentation and classification bases specified in this Standard. As the presentation and classification bases adopted in the budget ~~to be disclosed~~ are consistent with the presentation and classification bases in the financial statements, budget information may be presented in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flow.'

Staff View

We agree with EY's suggestions for removing redundancy and suggest that the editorial amendments be adopted.

Question to Board Members

Does the Board agree with the staff's view?