



Department of Treasury and Finance

1 Treasury Place
GPO Box 4379
Melbourne Victoria 3001
Telephone: (03) 9651 5111
Facsimile: (03) 9651 2062
DX 210759

Contact: Peter Gibson
Phone: 02 6215 3551
Our Ref: RMS11/02163

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS ST WEST VIC 8007

Dear Mr Stevenson

ED 211 *Proposed Amendments to AASB 1049*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on Exposure Draft – ED 211 *Proposed Amendments to AASB1049*.

HoTARAC generally supports the proposals, except we believe that further clarification is required on the amendment to paragraph 18 of AASB 1049, regarding what can be disclosed as key fiscal aggregates or other fiscal aggregates. See attached for further details.

HoTARAC's responses to the questions from the exposure draft are attached.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Department of Finance and Deregulation on 02 6215 3551.

Yours sincerely

for

Grant Hehir
CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

1 June 2011

HoTARAC Response to ED 2011/1 Proposed Amendments to AASB 1049

General Comments

HoTARAC agrees with the majority of the proposed amendments outlined in the exposure draft.

In relation to paragraph (f) HoTARAC believes that further clarification on the amendment to paragraph 18 of AASB 1049 is required, for the reasons outlined in the response to question 1.

Question 1 – Proposals outlined in paragraphs (a) to (c), (f) and (g)

(a) Unambiguously require both GGS and whole of government financial statements to be prepared

ED paragraph 7 – HoTARAC supports the proposed requirement.

(b) Require, at all times, GGS and whole of government financial statement to be available at the same time and with a cross reference to each other

ED paragraph 8 – HoTARAC supports the proposed requirement.

ED paragraph 14 – Contained in response due on 6 April.

(c) Clarify the principle of ‘a GAAP option is limited to align with the GFS’

ED paragraphs 13 – HoTARAC supports the proposed requirement.

ED paragraph 13A – HoTARAC supports the proposed requirement.

(d) Provide relief from the current requirement to adopt the latest version of the ABS GFS Manual

Contained in response due on 6 April.

(e) amend the definition of the ABS GFS Manual and require additional disclosures in relation to the version of the Manual

Contained in response due on 6 April.

(f) Clarify the requirements for the presentation of key fiscal aggregates and any other fiscal aggregates that are disclosed

HoTARAC is unclear about the intended effect of the proposed amendment to para 18 of AASB 1049 which provides that:

‘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’

While, BC 14 provides that the amendment to para 18 of AASB 1049 is being made to be consistent with para 41(a)(i) and 52(b)(ii), these latter paragraphs do not use the words proposed in para 18 of

the revised AASB 1049. Instead, para 41(a)(i) and 52(b)(ii) provides: “...other measures of the key fiscal aggregates shall not be disclosed”.

As proposed, HoTARAC is unclear whether the amendment to para 18 of the Standard is trying to prevent “other measures” of the fiscal aggregates to be disclosed, or whether the amendment is trying to prevent a jurisdiction disclosing fiscal aggregates other than those explicitly referred to in either AASB 1049 and / or the GFS Manual.

For example, some Australian jurisdictions disclose as “other fiscal aggregates”, such as “net financial liabilities” (a non GFS fiscal aggregate) as well as “net debt” and “net financial worth” (GFS aggregates). “Net financial liabilities” are defined differently to “net debt” and “net financial worth”, based on financial assets/liabilities, excluding the investment in the other sectors. However, the financial assets / liabilities from which the “net financial liabilities” aggregate is calculated are “measured in a manner consistent with recognised amounts”. Some may even argue that “net financial liabilities” is a different aggregate to “net debt” and “net financial worth”, but not an “other measure” of these aggregates.

HoTARAC believes that disclosure of “other fiscal aggregates”, such as “net financial liabilities” is in accordance with AASB 101, para 17(c):

17 A fair presentation also requires an entity:

(c) to provide additional disclosures when compliance with the specific requirements in Australian Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.

On this basis, HoTARAC believes that AASB 1049 should not prevent disclosure of “other fiscal aggregates” such as net financial liabilities, where they provide relevant information. Therefore, we require confirmation that the effect of the proposed amendment does not prevent disclosure of “net financial liabilities” or other similar aggregates. Specifically, we require extra guidance about what types of aggregates this amendment is trying to exclude and how this is changing current practice.

HoTARAC also requests clarification about what is meant by “other measures” of key fiscal aggregates or other fiscal aggregates. The distinction between an “*other measure*” of a fiscal aggregate and the disclosure of a *different* fiscal aggregate is unclear, and falls along a spectrum. For example, if it is acceptable to disclose “net financial liabilities” as an “other fiscal aggregate”, is it also acceptable to disclose “underlying cash” (an adjusted GFS cash surplus/deficit aggregate)? That is, is underlying cash an “*other measure*” of the GFS cash fiscal aggregate, which may be prohibited, or a *different* / distinct aggregate, which is permitted?

(g) clarify the requirements for recasting budgeted financial statements for disclosure purposes

ED paragraph 16 – where the original budget is required to be included, HoTARAC supports the proposal to only require changes to the presentation and classification bases to achieve consistency with the financial statements, rather than changes to the recognition and measurement bases.

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

Question 2 – Whether, overall, the proposals would result in financial statements that would be beneficial to users

Overall, HoTARAC feels that the proposals would result in financial statements that would be beneficial to users, except for the additional clarification regarding the disclosure of fiscal aggregates, which HoTARAC is concerned may prevent the disclosure of additional beneficial information.

Question 3 – Whether the proposals are in the best interests of the Australian economy

No comment.

Question 4 – Unless already provided in response to specific matters for comment 1-3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

HoTARAC does not anticipate any significant costs as a result of these proposals.

Additional comments

Further guidance on classification between transactions and other economic flows

HoTARAC disagrees with the conclusion in para BC 28 that no further guidance is required to assist in classifying items between transactions and other economic flows. HoTARAC does not believe that the guidance in paras 30 and 55(b) is sufficient, as these paragraphs do not clarify, at a principle level, how to classify an item “in a manner...consistent with the principles in the ABS GFS Manual” in circumstances where such items under GFS are either not recognised or are recognised differently compared to GAAP.

“Transactions” are defined as:

“Interactions between two institutional units by mutual agreement or actions within a unit that it is analytically useful to treat as transaction.” (AASB 1049, Appendix A)

There is no guidance about when something is “analytically useful to treat as a transaction” and this is particularly problematic where under GFS this issue does not arise (e.g. where an item is recognised under GAAP but not under GFS).

Although there are a number of examples given of specific situations that require classification where there is a GFS convergence difference, the generic principle is not clearly explained (except at most through inference in the specific examples). For example, some argue that classification of GFS convergence differences as an ‘other economic flow’ ensures consistency with the principles in the ABS GFS Manual (e.g. para 31(b) dividends from PNFC / PFC). Others argue that the classification principle should be based on the underlying event (e.g. para 55(b) deferred tax), but some then question whether the ‘event’ should be viewed from a GFS or GAAP perspective.

For example:

- If GAAP defers and amortises as revenue a ‘licence’ receipt, while GFS treats the receipt as a ‘sale’, would the amortised licence revenue under AASB 1049 be treated as a ‘transaction’ or ‘other economic flow’. There are two alternative views:
 - Some argue that as GFS recognises the licence as a sale and because AASB 1049 requires an item to be classified in a manner consistent with ABS GFS principles, the outcome that best aligns with those principles is to treat the amortised licence fee as an ‘other economic flow’, as for proceeds on sale.
 - Others argue that as GAAP prevails, the classification should be viewed from a GAAP perspective; i.e. that this is not a sale and that the amortised licence revenue should be treated as a ‘transaction’ similar to rent and royalties and on the basis that this is an ‘interaction between two institutional units by mutual agreement’. In this example the underlying economic event is viewed from a GAAP perspective (i.e. the item is not a sale).

- Other examples include the treatment of:
 - Interest free loans - Does the difference between the nominal amount (which is recognised under GFS) and the fair value of the loan (required to be recognised under GAAP), which is treated as a 'grant' under GAAP, meet the definition of a 'transaction'?
 - 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 para 55(b). However, by itself, para 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.

Disclosure of carrying amount of assets attributable to functions

The Board decided to retain the disclosure of the carrying amount of recognised assets reliably attributable to each function (para 48). HoTARAC does not support this disclosure, as it is not based on the ABS GFS manual and is inconsistent with the UPF presentation, which instead discloses purchases of non-financial assets only (which reconciles to the derivation of the net lending result). Given that the issue of disaggregated disclosures is not yet resolved from a GAAP perspective, we believe that this disclosure should be omitted (or at least be amended to be consistent with the UPF presentation).

Expenses excluding losses included in operating result

The Board decided to retain the disclosure of expenses excluding losses included in the operating result reliably attributable to each function (para 48). HoTARAC believes that as this requirement is included to harmonise with GFS requirements (i.e. there is no GAAP equivalent), then contrary to the Board's views at para BC35, it should align with the GFS terminology; i.e. 'expenses from transactions' rather than GAAP terminology.

Explanatory note regarding tax equivalents

Some HoTARAC jurisdictions object to the omission of the explanatory note supporting illustrative examples A and B, regarding the tax equivalents regime. BC 20 explains its omission on the basis that it is beyond the scope of GAAP/GFS. However, some HoTARAC jurisdictions disagree with this view and argue that this is a relevant GAAP/GFS issue, as it potentially gives rise to a GAAP/GFS convergence difference, in jurisdictions that recognise a GGS revenue, to mirror the deferred tax position reported by PNFCs and PFCs. These jurisdictions argue that the GGS controls the PNFC and PFC entities and as such controls the mirror deferred tax asset / revenue taken up by the PNFC / PFC sectors.



6 June 2011

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Dear Mr Stevenson,

Exposure Draft ED 211 proposed amendments to AASB 1049

Attached is the Australasian Council of Auditors-General (ACAG) response to the proposals outlined in paragraphs (a) to (c) and (f) to (g) of the Main Requirements section in the Preface of the Exposure Draft referred to above, together with comments on other specific matters outlined in ED 211. ACAG has previously commented on the proposals outlined in paragraphs (d) and (e).

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S O'Neill', is written over a horizontal line.

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

ED 211 PROPOSED AMENDMENTS TO AASB 1049 (EXCLUDING QUESTIONS PREVIOUSLY ADDRESSED).

ACAG has the following comments on question 1 – paragraphs (a) to (c) and (f) to (g) of the Main Requirements Section of ED 211.

1(a) unambiguously require both GGS and whole of government financial statements to be prepared

ACAG supports this change. It reduces possible misinterpretations of the requirement to present GGS financial statements.

1(b) 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

ACAG supports this change. It emphasises the important relationship between the two documents.

1(c) clarify the principle of ‘a GAAP option is limited to align with GFS’

ACAG supports this change. It would not be desirable to force governments to early adopt an Australian Accounting Standard merely to align with GFS.

1(f) clarify the requirements for the presentation of key fiscal aggregates and any other fiscal aggregates that are disclosed

ACAG supports clarification of the requirements for the presentation of key fiscal aggregates and any other fiscal aggregates that are disclosed. However, it believes that the text of the proposed revised paragraph 18 could be made easier to follow, particularly to distinguish between those requirements that apply to key fiscal aggregates, those that apply to other fiscal aggregates and those that apply to both. ACAG submits the following as an example of how paragraph 18 might be modified to this end.

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 such disclosures, they shall be made in a way that does not detract from the information prescribed in this Standard.

18B. Consistent with the requirements in paragraph 16 of this Standard, additional key fiscal aggregates 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 disclosed, together with a reconciliation of the two measures of each key fiscal aggregate. Measures of key fiscal aggregates that are not measured in a manner consistent with recognised amounts in accordance with this Standard or the ABS GFS Manual are ~~not disclosed as key fiscal aggregates or other fiscal aggregates~~. [ACAG does not understand the need for the struck out words. If the disclosure of the key fiscal aggregates in question is intended to be prohibited, then the struck out words could simply be replaced with “not permitted”].

18C. 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.

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) GFS Manual 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.

1(g) clarify the requirements for recasting budgeted financial statements for disclosure purposes

ACAG supports this change. It reduces possible misinterpretations that the recognition and measurement rules adopted in a budget need to be changed for the purposes of the financial statements.

2. Whether, overall, the proposals would result in financial statements that would be useful to users.

ACAG believes that, overall, the proposals would result in financial statements that would be useful to users.

3. Whether the proposals are in the best interests of the Australian economy.

ACAG believes that the proposals are in the best interests of the Australian economy.

4. Unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or nonfinancial) or qualitative.

Since the proposed changes are largely in the nature of clarifications, ACAG expects that there will be a reduction in the costs of future financial statements, because less time will need to be spent by preparers and auditors discussing issues that now are clarified.

Given the nature of the proposed changes, ACAG does not expect major benefits to users of financial statements, although clarifying the status of additional fiscal aggregates will be helpful.

ACAG further views on issues not included in proposed revised AASB 1049

ACAG has an additional comment on one of the issues that the AASB identified in the Post-Implementation Review but that did not lead to proposed changes to AASB 1049.

Carrying amounts of assets attributable to functions

ACAG disagrees with the Board's decision to retain the requirement to disclose the carrying amount of assets attributable to functions. As the Basis for Conclusion notes, this requirement is not part of the ABS GFS Manual. ACAG does not see this information as being useful to users. Nor does ACAG believe that the fact that a disaggregated disclosures project will eventually address this issue is sufficient reason for continuing with the disclosures. ACAG suggests instead that this requirement be deleted from AASB 1049 and reconsidered during the disaggregated disclosures project.



Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001
Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

9 June 2011

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Exposure Draft 211 Proposed Amendments to AASB 1049

Dear Mr Stevenson

Further to our letter dated 6 April 2011 supporting proposals (d) and (e) contained in Exposure Draft (ED) 211 *Proposed Amendments to AASB 1049*, Ernst & Young Australia is pleased to provide our comments on the remaining proposals contained within the ED.

Our responses to the specific questions in the Invitation to Comment are set out in the Appendix to this letter.

Overall, we agree with the proposed amendments. However, we recommend certain editorial amendments be given further consideration.

We would be pleased to discuss our comments further with you. Please contact either Lynda Tomkins (lynda.tomkins@au.ey.com or (02) 9276 9605) or Georgina Dellaportas (georgina.dellaportas@au.ey.com or (03) 9288 8621) if you wish to discuss any or the matters raised in this response.

Yours sincerely

A handwritten signature in blue ink that reads 'Ernst & Young' in a cursive script.

Ernst & Young

Appendix

1. The AASB has requested comments on each of the proposals outlined in the table below:

| AASB Proposal | Ernst & Young Comment | Recommendation |
|---|----------------------------------|----------------|
| (a) unambiguously require both GGS and whole of government financial statements to be prepared | We agree with the AASB proposal. | N/A |
| (b) 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 | We agree with the AASB proposal. | N/A |
| (c) clarify the principle of 'a GAAP option is limited to align with GFS' | We agree with the AASB proposal. | N/A |
| (f) clarify the requirements for the presentation of key fiscal aggregates and any other fiscal aggregates that are disclosed | We agree with the AASB proposal. | N/A |
| (g) clarify the requirements for recasting budgeted financial statements for disclosure purposes | We agree with the AASB proposal. | N/A |

2. Whether, overall, the proposals would result in financial statements that would be useful to users?

Ernst & Young Australia believes that the proposals would result in financial statements that would be useful to users.

**3. Whether the proposals are in the best interests of the Australian economy; and
4. unless already provided in response to specific matters for comment 1 - 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or nonfinancial) or qualitative.**

Ernst & Young Australia believe that the proposals are in the best interests of the Australian economy, and we see no significant cost benefit impact associated with the proposals.

We note that the majority of jurisdictions already present GGS and whole of government financial statement together, hence we do not anticipate a significant increase in costs of preparation of the financial statements.

5. Other editorial recommendations noted by Ernst & Young

| AASB 1049 paragraph edit | Ernst & Young Comment |
|--|--|
| <p>7. A government shall prepare both the whole of government financial statements and the GGS financial statements, <u>whether presented together or separately, and that are in accordance with the requirements of this Standard.</u></p> | <p>We recommend the additional wording should read: <u>"...whether presented together or separately,..."</u></p> <p>The additional words "and that are" should be deleted as they add no value to the edit.</p> |
| <p>18. ... <u>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....</u></p> | <p>We agree with the proposed addition. However, the addition of this sentence adds confusion to the paragraph when read as a whole. The examples provided for additional disclosures are actually key fiscal aggregates, as defined in Appendix A to the standard.</p> |
| <p>64 <u>As the presentation and classification bases adopted in the budget basis to be disclosed is are consistent with the presentation and classification bases in the financial statements...</u></p> | <p>We believe that the text could be further edited to remove redundant wording. We recommend the following wording:</p> <p><u>As the presentation and classification bases adopted in the budget basis to be disclosed is are consistent with the presentation and classification bases in the financial statements....</u></p> |