

EXTRACT FROM MINUTES: AASB 14-15 FEBRUARY 2007 MEETING

GAAP/GFS HARMONISATION FOR WHOLE OF GOVERNMENT AND THE PUBLIC NON-FINANCIAL CORPORATIONS SECTOR (PNFC) AND THE PUBLIC FINANCIAL CORPORATIONS SECTOR (PFC)

Agenda item 3

The Board had before it:

- (a) a memorandum from Robert Keys dated 31 January 2007 (Agenda paper 3.1);
- (b) Issues Paper: GAAP/GFS Harmonisation for Whole of Governments and PNFC/PFC Sectors (Agenda paper 3.2); and
- (c) Extract from e-mail correspondence between AASB staff and the Victorian Department of Treasury and Finance re Budgetary information (Agenda paper 3.3).

The Board noted the FRC's December 2006 decision that clarifies the scope of the GAAP/GFS harmonisation project. In particular, the project now comprises two phases:

- (a) Phase 1, which includes GGSs (the subject of AASB 1049 *Financial Reporting of General Government Sectors by Governments*), PNFC sectors, PFC sectors and whole of governments of the States, Territories and the Commonwealth; and
- (b) Phase 2, which includes entities within the GGSs of the States, Territories and the Commonwealth.

Accordingly, GAAP/GFS harmonisation will not be pursued for entities originally contemplated to be considered in Phase 3 of the project, which includes local governments, government business enterprises, universities and other multi-jurisdiction entities.

The Board gave preliminary consideration to the main issues that need to be resolved in developing a GAAP/GFS harmonisation standard for whole of governments and PNFC sectors and PFC sectors of the States, Territories and the Commonwealth.

The Board decided that the manner in which AASB 1049 applies GAAP and accommodates GFS principles should, where appropriate, be adopted for whole of government reporting. This would mean that whole of governments would be required to, for example:

- (a) consolidate all controlled entities (in accordance with AASB 127 *Consolidated and Separate Financial Statements*);
- (b) adopt other GAAP recognition and measurement principles and, where GAAP provides options, adopt the GAAP option(s) that align with GFS;
- (c) prepare a comprehensive income statement (rather than a separate income statement and statement of changes in equity);

- (d) adopt various GFS concepts for presentation purposes (including the presentation of key fiscal aggregates and the presentation of a distinction between transactions and other economic flows);
- (e) disclose reconciliations of key fiscal aggregates between GAAP and GFS;
- (f) disclose disaggregated information on a functional basis; and
- (g) disclose budgetary information, but only where a whole of government budget is presented to Parliament.

The Board also decided not to develop separate requirements for PNFC sector and PFC sector financial reports and to consider requiring the whole of government financial report to include note disclosures of:

- (a) the financial statements of the GGS, PNFC sector and PFC sector, prepared on a GAAP/GFS harmonised basis;
- (b) a reconciliation of those financial statements to the whole of government financial statements (in the form of an adjustments column); and
- (c) reconciliations of key fiscal aggregates between GAAP and GFS for each sector.

The Board decided that:

- (a) the first draft of the Exposure Draft to be considered by the Board at a future meeting should be in the form of a marked-up AASB 1049, highlighting how AASB 1049 would need to be amended to become a Standard applicable only for whole of government GAAP/GFS harmonised reporting purposes;
- (b) staff should also commence work on a draft Exposure Draft that incorporates whole of government requirements into AASB 1049, thereby contemplating a single standard specifying GAAP/GFS harmonisation requirements for GGSs and whole of governments; and
- (c) at a future meeting it will determine whether the ultimate Exposure Draft should only focus on whole of governments or whether it should cover both GGSs and whole of governments.

After noting the urgency of the project, the Board concluded that its due process should not be compromised and nor should the urgency mean that an Illustrative Example of whole of government financial statements and selected notes is not included in the Exposure Draft. To this end, the Board decided that the Chairman should write to the Chairman of HOTARAC and seek clarification of the desired timing of a Standard and noting the importance of the Board's due process.

Attachment A provides details of the specific decisions the Board made in relation to each issue raised in Agenda paper 3.2.

Action:

Staff

Chairman

ATTACHMENT A

GAAP/GFS HARMONISATION FOR WHOLE OF GOVERNMENT AND THE PUBLIC NON-FINANCIAL CORPORATIONS SECTOR (PNFC) AND THE PUBLIC FINANCIAL CORPORATIONS SECTOR (PFC)

Agenda item 3

In relation to each of the staff views noted in agenda paper 3.2, the Board made the following decisions:

- (a) Staff view 1. Adopting AASB 1049 principles for whole of government reporting: AASB 1049 principles, where appropriate, should be applied to whole of government financial reports;
- (b) Staff view 2. Vehicle for the requirements:
 - (i) The first draft of the ED should be in the form of a marked-up AASB 1049, highlighting how AASB 1049 would need to be amended if it were to be the basis for a standard that is only applicable to whole of governments;
 - (ii) Staff should also commence work on an ED that incorporates whole of government requirements into AASB 1049, thereby contemplating a single standard specifying GAAP/GFS harmonisation requirements for GGSs and whole of governments; and
 - (iii) The Board will decide at a future meeting whether the ultimate ED should only focus on whole of governments or whether it should cover both GGS and whole of governments.
- (c) Staff view 3. The entities to be consolidated into the whole of government:
 - (i) Consistent with the principle in AASB 127 *Consolidated and Separate Financial Statements*, all controlled entities should be consolidated into the whole of government harmonised financial statements; and
 - (ii) Because non-resident controlled entities do not exist or are not material in practice, it is not necessary for the ED or Illustrative Example to acknowledge that it is conceivable that a convergence difference will arise. However, the Basis for Conclusions should acknowledge the potential GAAP/GFS convergence difference;
- (d) Staff view 4. The value of entities to be consolidated: All controlled entities should be consolidated into the whole of government financial statements at their net assets on a line-by-line basis. Net assets should be determined in a manner consistent with the principles in AASB 1049. It is not appropriate for whole of government to recognise internally generated goodwill;
- (e) Staff view 5. Whole of government convergence differences: The possibility of a convergence difference relating to any minority interest in an entity within the whole of government should be acknowledged in the ED. However, given that minority

interests are unlikely to exist in practice, it should not be included as a convergence difference in the Illustrative Example;

- (f) Staff view 6. Presentation of financial statements, including key fiscal aggregates: The format of the whole of government financial statements should be consistent with the format of the GGS financial statements required by AASB 1049. Accordingly, whole of government financial statements should include key fiscal aggregates;
- (g) Staff view 7. Transactions with owners as owners: Transactions with owners as owners should be required to be disclosed in the notes, rather than allowed to be presented on the face, of the whole of government comprehensive operating statement;
- (h) Staff view 8. Certain other whole of government disclosures: Disclosures equivalent to AASB 1049 paragraphs 40(a)-(c) & (f) and 42(a), (b), (f) & (g) should be required to be included in the whole of government financial report. Disclosures required by AASB 1049 paragraphs 40(d) & (e) and 42(c)-(e) are not relevant in a whole of government context and therefore should not be prescribed. In relation to paragraph 42(c) & (d), the Board noted that its proposal in ED 151 *Australian Additions to, and Deletions from, IFRSs* to delete paragraph Aus42.1 of AASB 127, which requires disclosure of a list of significant subsidiaries where separate financial reports for a parent is not required, is relevant to this issues. The Board decided that it is within the ED 151 context that the issue should be resolved, rather than in the context of GAAP/GFS harmonisation for whole of governments;
- (i) Staff view 9. Disclosure of sector information: The first draft ED should propose a requirement for the whole of government financial report to disclose the financial statements of the GGS, PNFC sector and PFC sector. It should also require disclosure of the adjustments necessary to reconcile the sector financial statements to the whole of government financial statements. GAAP/GFS reconciliation notes should also be required to be disclosed. The Board will consider this issue further at a future meeting in light of benefits to users of being provided with information about the PNFC sector and the PFC sector;
- (j) Staff view 10. GGS information – consistency between AASB 1049 and sector information: The sector information disclosed in the whole of government financial report in accordance with Board decision (i) above should be consistent with the whole of government financial statements, even if it is conceivable that the GGS information prepared in accordance with AASB 1049 is different. The Board noted that it is unlikely that the GGS information prepared in accordance with AASB 1049 will differ from the information to be disclosed as sector information in the whole of government financial report;
- (k) Staff view 11. Whole of government segment-like reporting: Whole of government financial reports should include the disclosures equivalent to those that AASB 1049 prescribes in paragraphs 48-51 relating to information disaggregated on a functional basis;
- (l) Staff view 12. Whole of government budgetary information: The first draft of the ED should propose that whole of government financial reports should include the

disclosures equivalent to those that AASB 1049 prescribes in paragraphs 52-58 relating to budgetary information. The Board noted that AASB 1049 only requires disclosure of budgetary information where a budget is presented to Parliament. The Board also noted the debate surrounding the definition of 'budget', the distinction some draw between budgeted amounts and estimates, the view held by some that 'budgets' are only pertinent to GGSs, and the absence in Australia of a Prospective Financial Reporting Standard. The first draft of the ED should also include a specific matter for comment on the issue;

- (m) Staff view 13. Whole of government transitional requirements: Given that jurisdictions have already adopted Australian equivalents to IFRSs for whole of government reports, the first draft of the ED should not anticipate the need for specific transitional provisions. In due course, staff should develop a separate issues paper for consideration by the Board at a future meeting;

- (n) Staff view 14. Information about PNFC sector and PFC sector – notes in whole of government financial report or separate financial reports:
 - (i) Separate PNFC sector and PFC sector financial reports should not be prescribed; and
 - (ii) the first draft of the ED should only contemplate PNFC sector and PFC sector information being disclosed in the notes of the whole of government financial report (see also Board decision (i) above);
- (o) Staff view 15. PNFC sector and PFC sector convergence differences: The first draft of the ED should acknowledge the convergence differences that may arise in relation to the PNFC sector and PFC sector, including negative GFS net worth, minority interest, dividends and deferred tax balances. However, the Illustrative Example should only illustrate the more common examples of dividends and deferred tax balances;
- (p) Staff view 16. PNFC sector and PFC sector budgetary information: The first draft of the ED should not contemplate a requirement to disclose budgetary information for the PNFC sector and PFC sector in the whole of government financial report. This is on the basis that such a requirement would be onerous, of limited benefit to users and PNFC sector and PFC sector are not separate entities;
- (q) Staff view 17. PNFC sector and PFC sector transitional requirements: See Board decision (m) above;
- (r) Staff view 18. Alignment of whole of government with GGS on transition: See Board decision (m) above;
- (s) Staff view 19. Illustrative Example: An Illustrative Example of whole of government financial statements and selected notes should be included in the ED. The Board noted that the process of working through an illustrative example provides the Board with greater assurance that issues have been covered. The Board also noted the resource implications of developing the Illustrative Example and directed staff to consider whether external resources could be harnessed to assist in the development;
- (t) Staff view 20. Level of consultation:
 - (i) Due process should not be compromised to achieve a Standard by October 2007. Accordingly, the Board decided that the Chairman should write to the Chairman of HOTARAC noting the interrelationship between the timing of a Standard and the Board's due process. The letter should also seek clarification of the timing imperative, in light of the budget cycle adopted by jurisdictions. Furthermore, the letter should seek HOTARAC's views on whether confidence in the direction of the Board's decisions would be an adequate interim substitute for a final Standard; and
 - (ii) The Board noted that some avenues for ensuring constituent input and therefore enhancing the due process include: engaging constituents through

out-of-session forums, writing to respondents to ED 142 *Financial Reporting of General Government Sectors by Governments* (being those who have shown the greatest interest in the GAAP/GFS harmonisation project) and advising them of the Board's preliminary views, and making Board papers and results of Board deliberations available to all constituents on the AASB web site;

- (u) Staff view 21. Implications for other public sector entities:
 - (i) GAAP/GFS harmonisation for entities within the GGS should be progressed as a separate phase (Phase 2) of the project, to be commenced on completion of Phase 1; and
 - (ii) Consistent with the FRC December 2006 decision, it is not necessary for the Board to pursue GAAP/GFS harmonisation for other entities (including local governments, government business enterprises, universities and other multi-jurisdiction entities);
- (v) Staff view 22. Entities within the PNFC sector and PFC sector – transitional requirements relating to first time adoption of Australian equivalents to IFRSs: Consistent with the FRC December 2006 decision that entities within the PNFC sector and PFC sector are outside the scope of the GAAP/GFS Harmonisation Project (see Board decision (u) above), there is no need to contemplate additional transitional requirements for these entities. The Board noted that the separate financial reports of these entities may differ from the PNFC sector and PFC sector information included in the whole of government financial report (see Board decision (n)(ii) above), but noted that this may arise from a range of issues, only one of which relates to the transition to Australian equivalent to IFRSs; and
- (w) Staff view 23. Consequential amendments to AASB 1049:
 - (i) A consequential amendment relating to aligning the format of the whole of government financial statements with the format of GGS financial statements should be made to AASB 1049 at the same time that the whole of government standard is made; and
 - (ii) The Board noted that AASB 1049 implementation experience has highlighted some possible areas where AASB 1049 could be improved. These possible improvements should be considered at a future meeting. The Board noted that there would be benefit in considering these possible improvements, particularly where the improvements relate to issues that the Board will consider imposing on whole of governments.