

EXTRACT FROM MINUTES: AASB 14-15 MARCH 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 11

The Board had before it:

- (a) a memorandum from Robert Keys dated 6 March 2007 (Agenda paper 11.1);
- (b) Issues Paper: AASB 1049 Implementation Issues (Agenda paper 11.2);
- (c) a letter from Don Challen, HoTARAC Chairman, to David Boymal, AASB Chairman, dated 14 February 2007 (Agenda paper 11.3);
- (d) extracts from emails between Queensland Treasury and AASB staff dated 14 February 2007 relating to deferred tax assets and liabilities (Agenda paper 11.4);
- (e) a draft Exposure Draft ED XXX *Financial Reporting by Governments* (Agenda paper 11.5);
- (f) AASB 1049 (provided for reference purposes only) (Agenda paper 11.6);
- (g) a letter from David Boymal, AASB Chairman, to Don Challen, HoTARAC Chairman, dated 8 March 2007 (Agenda paper 11.7 – tabled); and
- (h) a letter from Don Challen, HoTARAC Chairman, to David Boymal, AASB Chairman, dated 7 March 2007 (Agenda paper 11.8 – tabled).

Potential Amendments to AASB 1049 in Response to Implementation Experience

The Board considered a number of potential amendments to AASB 1049, highlighted through the implementation experience to-date of various jurisdictions, that may have an impact on the ED for Whole of Government financial reporting.

Attachment C(i) provides details of the specific decisions the Board made in relation to the issues discussed from Agenda paper 11.2.

The Board decided that none of the decisions regarding issues identified in Attachment C (i) nor the other issues raised in Agenda paper 11.2 warrant an amendment to AASB 1049 at this stage. Nor do they need to be reflected in the draft ED. However, the Board agreed that it is not necessarily appropriate for it to respond to these type of implementation issues with a "work it out for yourself" response. It will consider its approach to responding to technical queries from constituents at its May 2007 planning meeting. One possibility to be considered is for the Board to undertake an Annual Improvements project.

Draft ED XXX

The Board reviewed the first draft of an ED regarding the whole of government financial report, presented as a marked-up version of AASB 1049. Details of the specific decisions are provided in Attachment C(ii).

The Board will consider an amended draft ED (excluding an Illustrative Example), reflecting the decisions noted in Attachment C(ii), at a future meeting, with a view to finalising the ED for issue. The Illustrative Example of the whole of government financial statements and selected notes will be issued subsequently for comment.

Action:

Staff

ATTACHMENT C

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

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ATTACHMENT C(i)

AASB 1049 IMPLEMENTATION ISSUES (Agenda paper 11.2)

Issue 1: Should GGS recognise deferred tax balances to mirror the deferred tax balances of PNFC/PFC sectors?

The Board concluded that, in accordance with AASB 1049 *Financial Reporting of General Government Sectors by Governments*, consistent with the principles in AASB 1004 *Contributions*, the GGS should not recognise deferred tax balances to the extent the tax-equivalent events associated with the PNFC/PFC deferred tax balances have not occurred. From a PNFC/PFC viewpoint, the event is the recognition of the underlying assets/liabilities, but for GGS it is the occurrence of taxable transactions. In relation to the applicability of AASB 112 *Income Taxes* to GGS, because AASB 112 does not apply to the tax collector, the disclosure requirements of AASB 112 also do not apply.

The Board decided that, in the context of principle-based standards, it is not necessary to amend AASB 1049 in response to this issue. However, the issue should be included in a list of possible improvements for consideration at a future meeting. The Board also agreed that the Chairman should respond to the letter from HoTARAC advising the HoTARAC Chairman of what the draft minutes would record.

Issue 2: Treatment of negative net assets of an entity within the PNFC sector or PFC sector

The Board decided that the recognised amount for a GGS investment in an entity within PNFC/PFC sectors should not be permitted to fall below zero. The Board noted that on occasions a liability might arise, depending on whether a GGS guarantee is present. The Board acknowledged that AASB 1049 does not explicitly preclude the possibility of a negative asset being recognised. However, the Board noted that its intention at the time of issuing AASB 1049 was that, in principle, the use of net assets is as a surrogate for fair value (and therefore only by coincidence facilitating GAAP/GFS convergence, rather than providing a concession to convergence). The Board noted that this intention is reflected in the requirements in AASB 1049 for the treatment of changes in the carrying amount of investments in entities within PNFC/PFC sectors measured at net assets.

The Board also noted that this approach is consistent with the principles elsewhere in GAAP (e.g. AASB 128 *Investments in Associates*, which prevents negative investment values when using the equity method), and does not allow the carrying amount of an investment to fall below zero unless the entity has a legal or constructive obligation to make good the deficit.

The Board decided that, in the context of principle-based standards, it is not necessary to amend AASB 1049 in response to this issue. However, the issue should be included in a list of possible improvements for consideration at a future meeting.

Issue 4: Derivation of “Expenses, excluding losses, included in operating result” and the need for it to be reconciled to an amount on the face of the operating statement

The Board noted that, in Note Z of Illustrative Example A of AASB 1049, the item “Expenses, excluding losses, included in operating result” of \$214,281 is derived as follows: “Expenses from transactions” of \$214,586m less “Loss on write-off of financial assets at fair value through operating result” of \$380m plus “Amortisation of non-produced assets” of \$75m. The example treats “Doubtful debts” and “Share of net profit/(loss) from associates, excluding dividends” as losses.

The Board noted that AASB 1049 does not prevent the inclusion of a reconciliation of “Expenses, excluding losses, included in operating result” to “Expenses from transactions”, which is presented on the face of the operating statement.

The Board decided that, in the context of principle-based standards, it is not necessary to amend AASB 1049 in response to this issue. However, the issue should be included in a list of possible improvements for consideration at a future meeting.

Issue 11: Clarification of AASB 1049.42(e) and its requirement to disclose the aggregate surplus/deficit of the PNFC/PFC sectors

The Board:

- (a) agreed that disclosure of the aggregate surplus/deficit should be on a GAAP basis, consistent with the principle in AASB 1049.10;
- (b) considered whether, based on the principles in AASB 1049, aggregate surplus/deficit refers to ‘net result from transactions’, ‘operating result’ or ‘comprehensive result’ and decided that it should be ‘comprehensive result’; and
- (c) decided that, consistent with the principles in AASB 1049.20(b), which refers to amounts “that are consolidated into the government’s whole of government financial report before elimination of intersector balances”, the surplus/deficit should be determined as the amount consolidated into the whole of government financial report before elimination of intersector balances.

The Board decided that, in the context of principle-based standards, it is not necessary to amend AASB 1049 in response to this issue. However, the issue should be included in a list of possible improvements for consideration at a future meeting.

Issue 12: Distributions

The Board confirmed that ‘distributions’ in the context of AASB 1049.42(e) refers to amounts that are in the nature of distributions to owners as owners other than dividends. In particular, it does not regard payroll tax, gaming tax, interest and fees in the ordinary course of business as distributions. A return of capital would be a distribution.

The Board decided that, in the context of principle-based standards, it is not necessary to amend AASB 1049 in response to this issue. However, the issue should be included in a list of possible improvements for consideration at a future meeting.

ATTACHMENT C(ii)
DRAFT ED XXX (Agenda paper 11.5)

In relation to draft ED XXX, the Board decided that:

- (a) the ED should be presented as a clean document. However, a marked-up version, highlighting changes from AASB 1049, should also be made available on the AASB website, for the information of constituents;
- (b) the Preface should note that the two phases now being adopted for the GAAP/GFS Harmonisation project was agreed to by the FRC at its 18 December 2006 meeting;
- (c) the Preface should refer to the proposed application date, which should align with the application date of AASB 1049;
- (d) specific matters for comment to be included in the Preface should be developed once the Board has made all substantive decisions relating to its proposals;
- (e) the draft Comparison with International Pronouncements relating to IPSASs should state that “It differs from AASB XXX in some significant respects” rather than “... many significant respects”. Given the fundamental differences between IPSAS 22 and AASB XXX, it is not necessary to itemise all the differences;
- (f) the ED should explicitly note that it proposes requirements for general purpose financial reports of governments;
- (g) the ED should focus only on whole of government requirements (rather than propose amendments to AASB 1049 that would integrate whole of government requirements with the requirements for GGS separate financial reports). However, the ED should note the Board’s intention to create an integrated Standard following its review of comments on the ED, and include a specific matter for comment on that intention;
- (h) the ED should propose a requirement to disclose sector information, on the basis that such disclosure is an adequate substitute for the preparation of separate financial reports of the PNFC sector and PFC sector. Given the potentially onerous nature of this requirement, the Board decided to include a specific matter for comment on whether the proposals for disclosure of sector information are the most effective way of meeting users’ needs;
- (i) the ED should propose that budgetary information would only be required to be disclosed where whole of government budgeted financial statements are presented to parliament;
- (j) the disclosure requirements in draft paragraph 40(b)&(c) can be deleted. Either the information is provided by governments as a matter of course or the name of the government is sufficient to meet the needs of users in relation to the matters dealt with in paragraph 40(b)&(c);

- (k) it is not necessary for the ED or the resulting Standard to include an Illustrative Example equivalent to Illustrative Example B 'Illustration of an Extract from the Note Containing the Summary of Significant Accounting Policies' in AASB 1049;
 - (l) the draft 'Consequential Amendments to AASB 1049' are appropriate for inclusion in the ED; and
 - (m) the Basis for Conclusions should be expanded to include an explanation for the Board's decision to adopt GAAP/GFS harmonisation for whole of governments.
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