

EXTRACT FROM MINUTES; AASB 6-7 SEPTEMBER 2006

GAAP/GFS HARMONISATION

Agenda item 6

The Board had before it:

- (a) a memorandum from Robert Keys and Sabine Schührer dated 30 August 2006 (Agenda paper 6.1);
- (b) Draft Standard AASB 10XX *Financial Reporting of General Government Sectors by Governments* (including Basis for Conclusion and Illustrative Example A), marked-up from a 3 and 9 August 2006 version sent out to Board members for out-of-session comment (Agenda paper 6.2 – including text boxes);
- (c) Draft Standard AASB 1049 *Financial Reporting of General Government Sectors by Governments* (including Basis for Conclusion and Illustrative Example A), marked-up from Agenda paper 6.2 to reflect Board decisions earlier in the meeting (Agenda paper 6.2A – tabled);
- (d) Ms McCahey's hand written comments on agenda paper 6.2 (Agenda paper 6.2.1 – tabled);
- (e) Issues paper: Transitional issues for first-time adopters of the GGS Standard (Agenda paper 6.3);
- (f) an email dated 5 September 2006 from Craig Jeffery, providing HoTARAC's comments on the Board's consultation regarding transitional requirements (Agenda paper 6.3.1 – tabled) ;
- (g) AASB staff analysis of comments on a draft Standard (including Basis for Conclusion and Illustrative Example A) made available on the AASB website for public comment by 28 August 2006 (Agenda paper 6.4 – tabled);

Constituent comments on the draft Standard:

- (i) a letter received via email 16 August 2006 from HoTARAC (Agenda paper 6.4.1);
- (ii) a letter dated 23 August 2006 from NIA (Agenda paper 6.4.2);
- (iii) a letter dated 29 August 2006 from Victorian Department of Treasury and Finance (Agenda paper 6.4.3);
- (iv) a supplementary email dated 28 August 2006 from Peter Batten of the Victorian Department of Treasury and Finance (Agenda paper 6.4.3A);
- (v) a letter dated 28 August 2006 from CPA Australia (Agenda paper 6.4.4);
- (vi) a letter received 28 August 2006 from NSW Treasury (Agenda paper 6.4.5);

- (vii) a letter dated 30 August 2006 from Australian Government Department of Defence (Agenda paper 6.4.6);
- (viii) a letter dated 29 August 2006 from Australian Government Treasury and Finance Departments (Agenda paper 6.4.7);
- (ix) a letter dated 30 August 2006 from Australian Bureau of Statistics (Agenda paper 6.4.8);
- (x) a revised draft Letter dated 28 August 2006 from Australasian Council of Auditors General (Agenda paper 6.4.9 – tabled); and
- (xi) an email dated 30 August 2006 from Allan Barton (Agenda paper 6.4.10).

Early in the meeting the Board considered the draft Standard (Agenda paper 6.2) on a page-by-page basis, written comments from Ms McCahey (Agenda paper 6.2.1), written comments from constituents (Agenda papers 6.4. to 6.4.10) and Agenda papers 6.3 and 6.3.1 addressing transitional requirements.

The Board directed staff to amend Agenda paper 6.2 for consideration later in the meeting. The Board then considered an amended draft Standard (Agenda paper 6.2A) and approved the issue of AASB 1049 *Financial Reporting of General Government Sectors by Governments*, subject to a final editorial review by the staff and Chairman. The amendments made to Agenda paper 6.2 reflected in Agenda paper 6.2A, and subsequent amendments made to Agenda paper 6.2A are noted in Attachment A where they are substantive.

The Board also decided that:

- (a) at a future meeting it should consider an issues paper to be prepared by staff that addresses the implications for other public sector entities, such as whole of government and government departments, of the principles in the Standard. In that regard, the Board agreed that the Chairman should write to the FRC informing it of the finalization of part 1 of Phase 1 of the GAAP/GFS Harmonisation project and ask it to either confirm the AASB's interpretation of the original scope of the FRC's broad strategic direction or, in light of the issue of the GGS Standard, clarify the remaining scope;
- (b) the Chairman should write to the Chair of the Auditing and Assurance Standards Board (AUASB) and the professional bodies (CPA Australia, The Institute of Chartered Accountants in Australia, and the National Institute of Accountants) to advise them of the Board's decisions, including the Board's decision to not specify whether a GGS financial report prepared in accordance with AASB 1049 is a general purpose financial reports or a special purpose financial report, and providing relief from the AASB 101 *Presentation of Financial Statements* requirement for financial reports to disclose whether they are general purpose financial reports or special purpose financial report. The letter should suggest that the AUASB and the professional bodies may wish to review their respective pronouncements in light of the AASB's decisions;

- (c) to accept the ABS invitation, extended in Agenda paper 6.4.8, to seek departures from the IMF GFS on particular convergence differences including defence weapons, doubtful debts, constructive obligations, research and development, measurement of investments in associates and notional cash flows. The Chairman will write to the ABS accordingly; and
- (d) in relation to transitional requirements the Board that Agenda paper 6.3 should form the basis of a staff article, amended to address implementation issues revised by HoTARAC in Agenda paper 6.3.1, including:
 - (i) confirmation that the opening Balance sheet is to be prepared at the start of the first GGS comparative period but based upon the earlier transition date;
 - (ii) an explanation of the term 'previous GAAP' as defined in AASB 1 in the context of preparing initial GGS statements; and
 - (iii) confirmation that an option can be elected even though technically the date of the transition has passed and the option may no longer be current.

The Board expressed its appreciation for the assistance from the ABS throughout the project to write to the Commonwealth Statistician, reporting the contribution of ABS staff, in particular, that of Mr Tulsi Ram.

Action:

Staff
Chairman

ATTACHMENT A

GAAP/GFS HARMONISATION

Agenda item 6

Unless otherwise reflected in Agenda paper 6.2A or noted in the following, the Board agreed with the mark-ups in Agenda paper 6.2. Paragraph references in the following are to Agenda paper 6.2 unless otherwise indicated.

Preface

The Board decided that:

- (a) paragraph (b) should be amended to use the phrase ‘investments in other sector entities’ rather than ‘investment in controlled entities’. This change should be reflected throughout the document. In acknowledging that the new phrase is less transparent and more ambiguous, the ‘key technical terms used in the financial report’ section of Illustrative Example A should include an explanation of the term ‘other sector entities’;
- (b) footnote 1 to paragraph (h) should be deleted, on the basis that the information is likely to change in due course and therefore cause the Preface to date; and
- (c) regarding the section relating to the GFS and its relationship to GAAP GGS Financial Reports, the last sentence before paragraph (a) should be amended to provide a better context for the inclusion of paragraphs (a) to (d).

Body of the Standard

The Board decided that:

- (a) The mandating operative date in paragraph 3 of 1 July 2008 provides sufficient opportunity for affected entities to prepare for the full adoption of the Standard including the requirement to not make the GGS financial report available prior to the whole of government financial report is made available. The Board arrived at this decision after considering arguments for extending the mandatory operative date by one year;
- (b) Paragraph 8 should be amended to state more clearly that the whole of government financial report can be made ‘available’ before the GGS financial report, but not the other way around. The Board agreed that the word ‘available’ is preferable to the phrase ‘publicly available’ or ‘available to the public’ due to the latter’s connotations for tabling in parliament or for audit. Consistent with this amendment, paragraph (a) in the Preface and paragraph BC8 should be amended;
- (c) The last sentence of paragraph 11 should be treated as a separate paragraph to give prominence to the exemption given to GGS financial reports from the requirement in Aus13.4 of AASB 101 to disclose whether a financial report is a general purpose financial report or a special purpose financial report;

- (d) Paragraph 12, which notes that convergence differences may emerge in the future and how the AASB may address them, should be relocated to the Preface;
- (e) In relation to paragraph 22, the terminology of 'net basis' should be retained. This decision reflects the possibility that the net assets of an individual Public Non-Financial Corporation or Public Financial Corporation entity might be a negative amount;
- (f) In relation to paragraph 38, finance leases and similar arrangements should not be deducted in the determination of 'cash surplus/(deficit)'. The terminology of 'cash surplus/(deficit)' should continue to be used, despite the ABS GFS Manual defining 'cash surplus/(deficit)' as including notional cash flows relating to finance leases and similar arrangements. The Board noted that although its decision results in a convergence difference remaining that arises from differences in definitions, that difference should be treated like other convergence differences included in the reconciliation notes;
- (g) In relation to paragraph 42(a) and (b), the words 'significantly and substantially' should be removed. The Board decided that the 'materiality override' reflected in paragraph 5 is adequate for identifying when a reconciliation between GAAP and GFS measures of key fiscal aggregates are required to be disclosed;
- (h) Paragraph 44(c), which provides an example of a GAAP/GFS classification difference that arises from a bad debt written off as a loss on write-off of financial assets at 'fair value through profit or loss', should be deleted to avoid giving an impression that the 'fair value through profit or loss' option in AASB 139 is commonly available to receivables. Consistent with this, explanatory note d in Illustrative Example A should be amended to explicitly convey the message that the treatment illustrated assumes for the purpose of the example that the criteria in AASB 139 are satisfied;
- (i) Footnotes 2 and 3, referring to the AASB's future work on segment reporting, in the heading before paragraph 48 and in paragraph 51 respectively should be deleted to avoid the Standard becoming dated too quickly. Furthermore, footnote 4, referring to the AASB's future work on budgetary reporting, in the heading before paragraph 52 should be deleted to also avoid the Standard becoming dated too quickly;
- (j) The last sentence of paragraph 52(a) should be deleted, as it is permissive rather than mandatory and therefore inappropriately located. To give due prominence to the fact that the Standard allows revised budgets to be disclosed, the last sentence of paragraph 54 should be treated as a separate paragraph, amended so that it is not limited to latest revised budgets;
- (k) Paragraph 57, which contemplates columns on separate pages meeting the 'on the face' description, should be deleted, on the basis that the single-column approach to illustrating the financial statements makes the concern that originally gave rise to the paragraph redundant;
- (l) A new paragraph should be inserted in the 'budgetary information' section to clarify the requirement to disclose explanations of major variances by noting the high-level nature of such explanations. The Board noted that the requirement for disclosure of

explanations of budget variances is consistent with satisfying accountability and stewardship objectives; and

- (m) Regarding paragraph 58(b), in relation to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the GGS should adopt the same date of transition as the whole of government date of transition.

Basis for Conclusion

The Board decided that:

- (a) The word ‘management’ in paragraph BC5, last sentence, should be changed to ‘reporting’, to put the focus on external financial reporting rather than internal management;
- (b) In relation to paragraph BC7, the acknowledgement of the alternative view relating to general purpose financial reporting and special purpose financial reporting is adequate;
- (c) Paragraph BC15, which gives examples where some constituents expressed a view that GFS was superior to GAAP, should be deleted, on the basis that the information could be construed as being critical of those constituents who held that view, and is too detailed and specific for the purposes of a basis for conclusions;
- (d) Paragraphs BC37 to BC41 relating to budgetary information provide an adequate explanation of the Board’s basis for conclusions;
- (e) The word ‘is’ should be changed to ‘may be’ in the first line of the second paragraph in paragraph 14(c) of Agenda paper 6.2A;
- (f) The words ‘high-level’ in paragraph 40(d) of Agenda paper 6.2A should be deleted, as the added words at the end of the paragraph adequately convey the ‘high-level’ nature of the requirement;
- (g) The words ‘The latest’ in paragraph 55 of Agenda paper 6.2A should be changed to ‘Any’; and
- (h) The words ‘In addition’ in the second last sentence of paragraph BC16 in Agenda paper 6.2A should be deleted.

Illustrative Example A

The Board decided that:

- (a) Consistent with the Board’s decision at its 12-13 July 2006 meeting (Draft Minutes item 4, Attachment A, B), that dividends from associates should be shown separately and presented as a transaction, it is appropriate to present such dividends as a separate line item in ‘Revenue from Transactions – Other revenue – Dividends from Associates (part of share of net profit/(loss) from associates)’. It should not be presented as a ‘gain’ or a ‘negative expense’;

- (b) Noting the alternative arguments for treating swap interest on a gross or net basis, swap interest revenue and expense should be shown net for the purpose of the illustration, which is consistent with practice currently adopted by major banks and the Australian government and would remove an otherwise convergence difference. Consequently, the reconciliation difference in Note S3 should be amended;
- (c) The amount recognised in the balance sheet of \$28,094m for provisions is reasonable, and besides, the amount recognised is fictitious; and
- (d) In relation to disaggregated information described in Note Z, 'Public debt transactions' should be incorporated into 'Other purposes', and subsequently, explanatory footnotes b and c should be replaced by a new explanatory footnote b to explain that for the purpose of the illustration financial assets that are not allocated to other functions are included in the 'Other purposes' function. The Board noted that this approach is consistent with the illustration illustrating the minimum requirements of the Standard.

Illustrative Example B

The Board agreed that Illustrative Example B should only refer to the GGS financial report not fully applying AASBs 127, 139 and 101. The Board noted that it could also refer to AASB 101, given the potential for ongoing differences to exist between a full and the modified application of AASB 1 that arise from the draft requirement for the GGS to adopt the same transition date as the whole of government. However, the Board decided that it is not necessary to refer to that potential difference for the purpose of the illustration on the grounds that the difference is not material for the hypothetical GGS.