

## **EXTRACT FROM MINUTES: AASB 7-8 JUNE 2006 MEETING**

### **GAAP/GFS CONVERGENCE**

#### Agenda item 4

The Board had before it:

- (a) a memorandum from Robert Keys, Anne Vuong and Sabine Schührer dated 24 May 2006 (Agenda paper 4.1);
- (b) Draft Standard AASB 10XX *Financial Reporting of General Government Sectors by Governments*, marked-up from ED 142 to reflect Board decisions to-date (Agenda paper 4.2);
- (c) Issues paper: When should the GGS Standard become operative? (Agenda paper 4.3);
- (d) a letter from David Boymal, AASB Chairman to Don Challen, Chairman of the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) dated 11 April 2006 regarding transitional arrangements (Agenda paper 4.4) and a response from HoTARAC to the AASB, dated 24 May 2006 (Agenda paper 4.4.1);
- (e) a letter from Don Challen, Chairman, HoTARAC to David Boymal, AASB Chairman, dated 2 June 2006 commenting on draft Standard AASB 10XX (Agenda paper 4.4.2 – tabled);
- (f) Issues paper: The Suitability of the Transitional Requirements Proposed in ED 142 (Agenda paper 4.5),
- (g) Issues paper: Issues Raised in Submissions on ED 142 that were not the subject of a specific matter for comment that may impact on the draft Standard (Agenda paper 4.6);
- (h) a letter from Denis Farrell, Acting Deputy Australian Statistician, the Australian Bureau of Statistics (ABS) to David Boymal, AASB Chairman, dated 12 May 2006 (including correspondence between ABS and HoTARAC) regarding the use of GFS terminology in GAAP financial reports (Agenda paper 4.7);
- (i) Issues paper: Analysis of HoTs view that GFS is superior to GAAP in relation to two particular convergence differences (dividends and “subscriptions”) (Agenda paper 4.8);
- (j) Issues paper: Other Issues Raised in Submissions on ED 142 that were not the subject of a specific matter for comment that relate to the initial and ongoing support for the GGS Standard (Agenda paper 4.9); and
- (k) extracts from approved minutes: February, March and April 2006 (Agenda paper 4.10).

The Board considered pages 19 to 43 of the draft Standard AASB 10XX (Agenda paper 4.2) and (Agenda papers 4.3, 4.4, 4.4.1, 4.4.2, 4.5, 4.7, 4.8 and 4.10.)

The Board:

- (a) decided that it is not necessary for it to have addressed GAAP/GFS harmonisation issues for other public sector entities prior to the GGS Standard becoming mandatory. Consistent with that decision, the Board decided that it should aim to finalise the Standard in September 2006. If this can be achieved, a mandatory operative date of the year beginning 1 July 2008, allowing early adoption, should be specified. Based on this operative date, the Board decided that it is not necessary to allow a transitional period for adoption of the requirement to make whole of

government (WoG) financial reports available at the same time as the GGS financial reports. In making this decision the Board noted the response from HoTARAC in Agenda paper 4.4.1 that the Australian Government has indicated that it would be unable to comply with the requirement to make GGS and WoG financial reports available at the same time. The Board noted that the legislation referred to in Agenda paper 4.4.1 is not an impediment to complying with the requirement, and a number of options are available to the Government, including publishing unaudited WoG financial reports at the same time as unaudited GGS financial reports or changing legislated times for which audited financial reports are to be available. The Board noted that if an extended period were provided for compliance with the requirement for WoG financial reports to be made available at the same time as GGS financial reports, there would be a risk that in one year an unqualified audit report would be issued and the next year a qualified audit report would be issued only because the transitional period had lapsed. The Board regards this to be an inappropriate outcome;

- (b) confirmed its previous decision reflected in paragraph 10 that GAAP principles, rather than GFS principles, should be applied in determining amounts to be recognised on the face of the financial statements. The Board made this decision after considering the two items that some constituents believe are better treated under GFS – dividends from public corporations and subscriptions to the International Development Association and Asian Development Fund:
  - (i) in relation to dividends, the Board noted that adoption of the transactions/other economic flows split in the operating statement facilitates the presentation of dividends in a way that is broadly consistent with the GFS treatment of dividends. It decided to consider the use of the transactions/other economic flows split in this way further at a future meeting (see (d) below); and
  - (ii) in relation to ‘subscriptions’, the Board concluded that in concept there is no difference between GAAP and GFS. The Board noted that the manner in which a ‘subscription’ is treated will depend on circumstances. If it is refundable (that is, possesses future economic benefits), subject to impairment considerations, it would be recognised as an asset, otherwise it would be recognised as an expense;
- (c) noted the concerns expressed in Agenda paper 4.7 by the ABS about using GFS nomenclature in a non-GFS way. The Board confirmed its previous decision that it is appropriate to use GFS terminology in the GGS financial report even in circumstances where the items to which the terminology relates are measured differently from their measurement under the ABS GFS Manual;
- (d) decided that the draft Standard should make it unambiguous that references to ‘GFS’ are references to GFS information prepared in accordance with the ABS GFS Manual and that GAAP-measured GFS aggregates are GAAP. Accordingly, phrases such as ‘GFS-related information’ and ‘information pertinent to GFS’ should be replaced with unambiguous references to GFS;
- (e) confirmed its previous decision reflected in paragraph 31 that the GGS operating statement should classify items between transactions and other economic flows. The Board will consider at a future meeting whether there are any circumstances where such a classification would be inconsistent with other Standards and therefore whether the requirement should be restricted to circumstances that are not inconsistent with other Standards. The particular issue that will be the focus of the discussion relates to investment property measured at fair value and whether it is appropriate to present a depreciation (transaction) amount;

- (f) confirmed its previous decision reflected in paragraph 46 that functional information should be required to be disclosed for revenue, expenses, assets, liabilities, net gains/(losses) and net acquisitions of non-financial assets where it can be reliably attributed to functions;
- (g) in relation to disclosure of budgetary information reflected in paragraphs 54 to 59, confirmed its previous decision that the original budget should be required (and the revised budget permitted) to be disclosed, together with explanations of major variances between the original budget and actual amounts, on the basis that the information is useful to users. The Board also noted that the requirements are consistent with the requirements in New Zealand; and
- (h) in relation to transitional provisions (paragraphs 60-66), agreed to consider at a future meeting the implications of a WoG adopting Australian equivalents to IFRS before a GGS, given the interrelationship between WoG and GGS.

The Board noted that the Chairman will respond to the letters from HoTARAC contained in Agenda papers 4.4.1 and 4.4.2. The Board also noted that its sub-committee is continuing to develop an illustration of single-column financial statements for inclusion in the draft Standard and work has commenced on drafting a Basis for Conclusions. It is intended that an amended draft Standard (pages 19 to 43 of Agenda paper 4.2 amended to reflect the Board's decisions at this meeting, together with the Preface and Illustrative Example B marked-up from ED 142), the single-column illustration and Basis for Conclusions will be available for consideration by the Board at its July 2006 meeting. Once all other decisions have been made, the Board will decide in a future meeting about the extent of any further due process for developing a Standard, including whether to re-expose the Draft Standard.

Board decisions relating to particular paragraphs in draft Standard AASB 10XX not noted above are noted in Attachment A.

Action:

Staff  
Chairman  
Mr Appleyard  
Mr Kaufmann  
Mr O'Grady  
Mr Pearson

## ATTACHMENT A

### GAAP/GFS CONVERGENCE

#### Agenda item 4

In relation to particular paragraphs in pages 19 to 43 of draft Standard AASB 10XX the Board made the following decisions:

- (a) subject to the Standard being finalised in September 2006, paragraphs 3, 4 and 61 should be amended to note a mandatory operative date of 1 July 2008;
- (b) paragraph 8, which specifies a requirement to make WoG financial reports and GGS financial reports available at the same time, should be retained. However, consistent with decision (a) in the body of the Minutes, the last sentence of paragraph 9 should be deleted. Paragraphs 65 and 66 should also be deleted;
- (c) paragraph 12 should be amended by deleting the phrase "...for items or issues...", to avoid the term 'issues' which may be unfamiliar to some given Standards specify requirements for transactions and other events rather than issues;
- (d) paragraph 13(c) should be redrafted to clarify that, just because certain financial instruments are required to be measured at fair value by virtue of paragraph 12 of the draft Standard, that does not necessarily dictate the classification of the change in fair value in the operating statement. The treatment in the operating statement will depend on whether the financial instrument is classified as 'fair value through profit or loss' or 'available for sale' for AASB 139 purposes;
- (e) paragraph 15 (and throughout) should be amended to replace the term 'key fiscal indicators' with 'key fiscal aggregates', to avoid the potential for confusion with the reference to 'key performance indicators' elsewhere in the draft Standard;
- (f) paragraph 19 should be retained unamended. Accordingly, where a GGS investment in PNFC/PFC is measured at net assets, it should be treated as a financial instrument consistent with AASB 139 rather than as an investment in associate and treated according to the equity method of accounting;
- (g) consistent with Minute item (e) in the body of the Minutes, paragraph 31 should be amended to read "All amounts relating to an item included in the determination of comprehensive result shall be classified as either transactions or other economic flows in a manner that is not inconsistent with other Australian Accounting Standards". The Board noted that it may not be necessary to include the phrase "that is not inconsistent with other Australian Accounting Standards" if there are no circumstances where adopting the transactions/other economic flows split would be inconsistent with other Standards. The Board will consider this further, particularly in relation to investment property measured at fair value and whether it is appropriate to present a depreciation (transaction) amount, after the sub-committee has considered the issues;
- (h) paragraph 37 should be amended to require cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes to be presented on the face of the cash flows statement;
- (i) paragraph 42 should not require disclosure of the change in financial and non-financial assets and liabilities distinguishing between transactions and other economic flows. The Board noted

that, although ED 142 proposed that such information be disclosed on the face of the operating statement, the information is not identified as analytical balances in the ABS GFS Manual;

- (j) subparagraph 42(f) should be amended to incorporate the disclosure requirements from paragraphs 40, Aus40.1 and 42 of AASB 127, directly into the draft Standard, rather than cross-reference to them; and
- (k) paragraph 43(c), which describes the ABS GFS Manual treatment of investments in jointly controlled entities and associates, should be retained unamended.

Unless otherwise indicated above or in the body of the Minutes, the Board agreed with all marked-up amendments to all paragraphs.

Agenda papers 4.8 and 4.9 have not been considered and will be included as agenda papers for the next meeting.