

EXTRACT FROM MINUTES: AASB 8-10 FEBRUARY 2006 MEETING

GAAP/GFS CONVERGENCE

Agenda item 6

The Board had before it:

- (a) a memorandum from Robert Keys, Anne Vuong and Sabine Schühler dated 1 February 2006 (Agenda paper 6.1);
- (b) a copy of the Collation and Analysis of Submissions 1-17 on ED 142 (Agenda paper 6.2);
- (c) Submissions 1-17 on ED 142 (Agenda papers 6.3);
- (d) a copy of ED 142 *Financial Reporting of General Government Sectors by Governments* (Agenda paper 6.4); and
- (e) a copy of Submission 18 (Victorian Public Accounts and Estimates Committee) on ED 142 (Agenda paper 6.5 - tabled).

The Board commenced its consideration of the submissions on ED 142. The Board noted that the submissions contain a wide range of conflicting views.

The Board decided:

- (a) to continue developing a Standard for the General Government Sector (GGS) of a federal, state or territory government based on the proposals in ED 142 amended, where appropriate, to take account of respondents' comments. The Board's decisions on particular issues are noted in Attachment A;
- (b) the mandatory application date for the GGS Standard should be determined at a future meeting. In deciding on the date, the Board will have regard to the implications of the GGS requirements for other public sector entities;
- (c) it will not necessarily apply the accounting treatments that will be included in the GGS Standard to other public sector entities that are the subject of the other parts of Phase 1 or the other Phases of the GAAP/GFS Convergence Project; and
- (d) in due course it will develop an issues paper considering the extent to which the Board's decisions for GGSs should be applied to other public sector entities.

The Board will continue reviewing the responses to ED 142 at future meetings.

The Board also decided that the Chairman should update the FRC on the status of the project and convey the main messages reflected in the submissions, including the different views on what is meant by the word 'harmonisation' in the FRC's directive and the view of some that the so-called reconciliation-approach is not true harmonisation.

The Board also noted its meeting with the Heads of Treasuries (HoTs) scheduled for 8 March 2006 at which issues arising from the ED will be discussed. If possible, the revised illustration of a set of GGS financial statements (see Attachment A, item (d)(i)) should be provided to the meeting to facilitate discussions. The Board noted, however, that given the complexities in developing such an illustration it may not be possible to develop the illustration in time. In that case, the Board noted that it would be sufficient to provide a verbal description of the illustration to HoTs as a basis for facilitating the discussions.

Action:	Staff
	Chairman (see above and Attachment A, item (h))
	Mr Appleyard (see Attachment A, item (a))
	Mr Kaufmann (see Attachment A, item (d))
	Mr O'Grady (see Attachment A, item (d))
	Ms Peach (see Attachment A, item (a))
	Ms Perry (see Attachment A, item (a))

ATTACHMENT A

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The Board considered constituents' submissions on a number of aspects of the Specific Matters for Comment included in the Preface of ED 142 and decided that in respect of:

- (a) Issues (a) and (b), concerning whether the GGS of a government is a reporting entity and whether a partial consolidation basis is to be adopted in a general purpose financial report (GPFR): the GGS should be required to prepare a GPFR that does not consolidate on a line-by-line basis, the controlled entities that are part of other sectors. Given the controversial nature of this decision, the Board decided to articulate its rationale in a Basis for Conclusions that will

accompany the Standard. Mr Appleyard, Ms Peach and Ms Perry agreed to assist staff in drafting the Basis for Conclusions;

- (b) Issue (c), concerning the alignment of GAAP optional treatments with GFS and the priority of GAAP numbers on the face of the financial statements: GAAP information included in the GPFR of a GGS should be recognised and measured in accordance with the proposals in ED 142, and the current GAAP options should be limited to those that are in accordance with GFS principles and rules;
- (c) Issue (e), concerning the treatment of GGS investments in PNFC and PFC sectors: the investment of a GGS in non-consolidated controlled entities should be recognised and measured in accordance with the proposals in ED 142 (that is fair value or, if fair value is not available, net assets);
- (d) Issues (d), (f), (g), (h), (o) and, to some extent, (r), concerning the presentation of GAAP and GFS information in the GPFR of a GGS: the principles as proposed in ED 142 should be adopted. However, the Board decided that:
 - (i) the format of the illustrative financial statements included in Appendix B of ED 142 should be replaced with an illustration of a single-column format, with GAAP presented on the face of the financial statements, GFS aggregates presented in a box at the bottom of the statements, reconciliation of any remaining convergence differences presented in the notes to the statements, and other GFS information presented either on the face or in the notes as appropriate. The illustration should accommodate the GFS notion of distinguishing transactions from other economic flows; and
 - (ii) to undertake further consultation with constituents, including users, to develop the illustration.

A sub-committee including Mr O’Grady, Mr Kaufmann and Mr Keys, a representative from HoTs and CPA Australia, is to be formed to assist with the reformatting of the illustrative financial statements;

- (e) Issue (i), concerning the implications of GGS reports being published before the WoG reports: consistent with the proposals in ED 142, the Standard should require the GPFR of a GGS to include a cross-reference to the related WoG GPFR but that the Standard should not imply that it is necessary for the WoG GPFR to exist or to be publicly available at the time the GPFR of a GGS is finalised. The other proposed disclosure requirements in paragraph 44 of ED 142 and the illustration in Appendix C should be retained unamended;
- (f) Issue (l), concerning performance indicators: the proposals in ED 142 should be adopted, but amended to clarify that disclosure of performance indicators in the GPFR of a GGS is not mandatory;
- (g) Issue (m), concerning the disclosure of budget information: the Standard should:
 - (i) require budget information (being the original budget that relates only to the financial statements themselves that was presented to parliament) to be presented in the GPFR of a GGS on a comparable basis to the GGS financial statements;
 - (ii) require explanations of major variances between the actual amounts and the budgeted amounts to be disclosed in the GPFR of a GGS; and

- (iii) explicitly allow the disclosure of a revised budget in the GPFR of a GGS in addition to the original budget; and
- (h) Issue (p), concerning the requirement to cross-reference to IMF's GFSM 2001: GFS information included in the GPFR of a GGS should be determined in accordance with the publication of the Australian Bureau of Statistics known as *Government Finance Statistics, Australia: Concepts, Sources and Methods* (ABS GFS), as updated from time to time. Governments should not be permitted to disclose amounts determined using alternative GFS interpretations in lieu of, or in addition to, ABS GFS in the GPFR of a GGS. The Board also decided that the Chairman should write to the ABS asking it to clearly identify in its Manual those aspects of the ABS that differ from the IMF.