

EXTRACT FROM MINUTES: AASB 4 OCTOBER 2007 MEETING

GAAP/GFS HARMONISATION

Agenda item 2

The Board had before it:

- (a) a memorandum from Robert Keys and Natalie Batsakis dated 24 September 2007 (Agenda paper 2.1);
- (b) draft proposed Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (Agenda paper 2.2);
- (c) Issues paper: Alternative ways of treating deferred tax balances of PNFC/PFC sectors in GAAP/GFS harmonised financial statements (Agenda paper 2.3); and
- (d) amended extracts from Illustrative Example A, pages 77 and 80 (Agenda paper 2.4 – tabled).

Details of Board decisions are shown in Attachment A.

Subject to the Board's decisions being processed and subsequent review by staff and clearance through the Chairman, the Board approved the Standard for issue.

The Board also decided that it should advise the FRC of the progress that has now been made in implementing the FRC's broad strategic direction on GAAP/GFS harmonisation. In the light of that progress, the Board will discuss with the FRC whether it is still intended that GAAP/GFS harmonisation be pursued for entities within the GGS (including government departments).

Action:

Staff
Board

ATTACHMENT A

GAAP/GFS HARMONISATION

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In reviewing the draft Standard (Agenda paper 2.2), the Board decided that:

- (a) the draft amendments to paragraph 9, including that relating to GGS adopting accounting policies consistent with the whole of government, are appropriate;
- (b) paragraph 14(e) on borrowing costs should be deleted as an example of particular optional treatments in Australian Accounting Standards that the GAAP/GFS harmonisation Standard has the effect of limiting, in light of recent amendments to AASB 123 *Borrowing Costs*, albeit that AASB 123 is not yet operative;

- (c) where appropriate (see for example paragraphs 20 and 21), references to net assets throughout the document should be preceded by the phrase “carrying amount of”, to better convey the notion that is being referred to;
- (d) the relative level of the sub-heading above paragraph 19 “Presentation and Scope of GGS Financial Statements” should be reconsidered having regard to the level of the sub-heading above paragraph 25 “Components of a Whole of Government Financial Report and a GGS Financial Report”, also having regard to consistency with AASB 101 *Presentation of Financial Statements* (as made on 15 July 2004 and amended to 8 September 2005) and AASB 1049 *Financial Reporting of General Government Sectors by Governments*. This should include particular consideration of whether it is appropriate to refer to “Presentation” in the sub-heading;
- (e) paragraph 55(a), which provides an example of a convergence difference in the PNFC/PFC sectors relating to ownership interests, should be redrafted to improve clarity;
- (f) paragraph 55(b), which provides an example of a convergence difference in PNFC/PFC sectors relating to deferred tax balances, should be retained. The Board considered amending the paragraph to require deferred tax expense, for example, to be classified as a transaction (rather than classified in a manner consistent with the classification of the underlying item). However, the Board decided that the current draft is appropriate, noting that GFS does not recognise deferred tax expense and therefore it is necessary to extrapolate from the general GFS principles for classification. The Board noted that although the draft Standard might require deferred tax expense to be classified as an other economic flow, when that deferred tax balance reverses, it would give rise to current tax which would be classified as a transaction (consistent with GFS). The Board also decided that (see decision (l) below), because paragraph 55 is not an exhaustive list of examples, it is not necessary for the paragraph to contemplate the classification by a GGS that recognises, for example, the mirror (revenue) of a deferred tax expense;
- (g) paragraph 66, relating to transitional requirements, should be amended by deleting the last sentence, on the basis that it is not necessary to explicitly refer to AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Basis for Conclusions (see paragraph BC65) is a sufficient place to address such an issue, although the phrase “In other circumstances” is inappropriate;
- (h) it is not necessary to include an example on how the transitional requirements in paragraphs 66 and 68(c) apply in particular circumstances. This is because the most common example (see the text box on page 38 of Agenda paper 2.2) would require an interpretation of AASB 139 *Financial Instruments: Recognition and Measurement*, which is beyond the scope of the GAAP/GFS harmonisation Standard;
- (i) the first sentence of paragraph BC19 should be amended to avoid a possible interpretation that the whole of government financial report cannot be issued prior to the GGS financial report being issued;
- (j) the proposed amendments to paragraph BC47 should be adopted, as they acknowledge that amendments to the ABS GFS Manual may give rise to the need for

amendments to AASB 1049 despite that Standard making ambulatory references to the ABS GFS Manual;

- (k) the corrections to pages 77 and 80 of Illustrative Example A, as reflected in Tabled Agenda paper 2.4, should be adopted to ensure consistency between the example and the definition of ‘cash surplus/(deficit)’;
- (l) after considering Agenda paper 2.3 in particular, the square bracketed note at the end of Explanatory Note r(ii) to Illustrative Examples A and B, relating to a convergence difference arising from deferred tax balances should be amended along the following lines:

[Note: Depending on the nature of the tax equivalents regime operating in a particular jurisdiction, a GGS, as the tax collector, may not be able to recognise a related revenue unless it meets the criteria in AASB 1004 Contributions. For the purpose of this example, the GGS, as the tax collector, does not recognise deferred tax balances to the extent the tax-equivalent events associated with the PNFC sector’s deferred tax balances have not occurred, even though from the PNFC sector’s viewpoint, the event is the recognition of the underlying assets and/or liabilities in accordance with AASB 112 *Income Taxes*. This treatment in the GGS accords with GFS and therefore does not give rise to a convergence difference.]

In arriving at this decision, the Board noted that it would depend on facts and circumstances as to whether the GGS would be justified in recognising revenue under AASB 1004 as the mirror to deferred tax expenses that may be recognised by PNFC/PFC sectors;

- (m) the first paragraph below the text box in Illustrative Example C should be amended to refer to “stewardship by the government” rather than “stewardship of the government”, for consistency with the amendment to paragraph 1(a); and
- (n) the term “cash surplus/ (deficit)” in Illustrative Example D should be amended to refer also to distributions, for consistency with the body of the Standard, and Illustrative Example A. Furthermore, the explanation of the term should be expanded to include the GFS notion of cash surplus/(deficit).