

EXTRACT FROM MINUTES: AASB 5-6 SEPTEMBER 2007 MEETING

GAAP/GFS HARMONISATION

Agenda item 9

The Board had before it:

- (a) a memorandum from Robert Keys and Natalie Batsakis dated 28 August 2007 (Agenda Paper 9.1);
- (b) Collation of comments on ED155 *Financial Reporting by Whole of Governments* (Agenda Paper 9.2);
- (c) Responses to ED 155 *Financial Reporting by Whole of Governments* (Agenda Papers 9.3.1 – 9.3.5);
- (d) draft integrated Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (Agenda Paper 9.4);
- (e) ED 155 *Financial Reporting by Whole of Governments* (Agenda Paper 9.5);
- (f) Supplement to ED 155 *Financial Reporting by Whole of Governments* (Agenda Paper 9.6);
- (g) AASB 1049 *Financial Reporting of General Government Sectors by Governments* (Agenda Paper 9.7); and
- (h) Issues paper: Implications of Revised AASB 101 *Presentation of Financial Statements* for GAAP/GFS Harmonisation (Agenda Paper 9.8 – tabled).

The Board considered the agenda papers, including a page-by-page review of agenda paper 9.4, and agreed with the staff views expressed or reflected in those agenda papers, except in relation to:

- (a) the accounting for deferred tax amounts by sectors. The Board deferred its decision on this matter and directed staff to prepare an issues paper on the relative merits of the following alternative approaches for consideration at its October meeting:
 - (i) recognition of deferred tax balances by PNFC/PFC sectors (taxpayers) in accordance with AASB 112 *Income Taxes*, but not mirrored by the GGS (tax collector);
 - (ii) recognition of deferred tax balances by PNFC/PFC sectors and mirrored by the GGS; and
 - (iii) no recognition of deferred tax balances by either PNFC/PFC sectors or GGS (that is, PNFC/PFC sectors should be exempt from applying AASB 112).
- (b) transitional requirements. The Board decided that the transitional requirements proposed in ED 155, should be amended to require whole of governments in jurisdictions that made elections under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* that are inconsistent with GFS, such as the designation of certain financial assets, to reutilise the elections available in AASB 1, but only to the extent necessary to avoid a difference between GGS and whole of government reporting. Staff should aim to send a draft of the revised transitional requirements to Board members for out of session comment before they are finalised for consideration at the October 2007 meeting;

- (c) the early adoption of revised AASB 123 *Borrowing Costs*. In contrast with paragraph 44(a)(v) of the draft integrated Standard (Agenda paper 9.4), and consistent with the manner in which the Board decided to deal with the implications of the revised AASB 101 (refer to the last (b) below), the Board decided that the final GAAP/GFS Harmonisation Standard should not impose early adoption of revised AASB 123. The Board noted the view of some that expensing is conceptually preferable to capitalising borrowing costs. However, consistent with transaction neutrality, revised AASB 123 should apply to GGS and whole of government. The Board noted that any reconsideration of this issue should be undertaken in the context of the borrowing costs standard rather than as part of the GAAP/GFS harmonisation project;
- (d) the treatment of transactions with owners as owners. The Board decided that, in light of the imminent changes to AASB 101 *Presentation of Financial Statements*, the proposals in ED 155 should be retained;
- (e) paragraph 14(a), second paragraph, fourth sentence of Agenda Paper 9.4, relating to the measurement basis which should be adopted, for assets such as property, plant and equipment, where fair value cannot be measured reliably. The Board decided that the wording should be drafted in line with the original words in ED 155 because that drafting is more direct than the amendment suggested by staff;
- (f) the title “Presentation and Scope of GGS Financial Statements” preceding paragraph 19 of Agenda Paper 9.4. The Board decided that the title should be reconsidered, to better reflect the content of the section to which it relates;
- (g) paragraphs 29, 36 and 40 of Agenda Paper 9.4 referring to examples of acceptable formats for presenting the various financial statements for whole of government and the GGS. The Board decided that these paragraphs are repetitive and that the three paragraphs should be replaced by one generic paragraph;
- (h) the classification of deferred tax expenses and revenues as either transactions or other economic flows. Although the Board agreed in principle with paragraph 57(b) of Agenda Paper 9.4, it decided that the paragraph should be simplified by stating that the classification of the tax effect between either ‘transactions’ or ‘other economic flows’ is determined in accordance with the classification of the “underlying event”; and
- (i) paragraph BC53, second sentence, of Agenda Paper 9.4. The Board decided that the sentence should be deleted because it is not necessary for the Basis for Conclusions to suggest preparers consider user needs in assessing the prominence with which reconciliations between key fiscal aggregates prepared in accordance with GAAP and GFS should be presented.

In addition to the above issues, the Board also considered:

- (a) paragraph 43(b)(i) of Agenda Paper 9.4. The Board noted that a constituent had raised the question of whether it would be useful for jurisdictions to disclose the changes in major activities undertaken by the GGS, in addition to disclosure of the changes in entities within the GGS. The Board confirmed, however, that the purpose of paragraph 43(b)(i) is to assist users in understanding the entities that have been included in the consolidated financial report. It is not intended to be a description of the activities or the changes in those activities undertaken during the year;

- (b) paragraph 55 of Agenda Paper 9.4, in light of the possibility that information in the separate GGS financial report would be different from the information presented for the GGS as part of the whole of government financial report, where the GGS holds an investment in a PNFC/PFC sector entity that is measured at fair value because it has traded shares, instead of at proportional share of net assets. The Board concluded that this is a conceptual difference and would not be an issue in the current environment. The Board also noted that no respondents to ED 155 specifically commented on the issue and even if the Board were of a mind to amend the requirements to ensure no difference, it would need to undertake further due process which would delay the timely completion of the project;
- (c) the need for additional guidance on the meaning of ‘presented to parliament’ and ‘budgeted financial statements’ in paragraph 65 of Agenda Paper 9.4. Consistent with a principles based approach, the Board decided that no additional guidance is necessary; and
- (d) the view expressed by HoTARAC in its submission on ED 155 that the reconciliations for key fiscal aggregates prepared in accordance with GAAP and ABS GFS Manual should not be a requirement, particularly in relation to the PNFC and PFC sectors. The Board concluded that the reconciliations provide useful information for sophisticated users that are interested in the differences between GAAP and GFS, particularly in light of the fact the ABS reports key fiscal aggregates for all the sectors and whole of government, and therefore the ED 155 proposals should be adopted.

During the discussion, the Board also noted that:

- (a) whole of government GAAP/GFS harmonisation is related to the short-term review of AAS 31 *Financial Reporting by Governments*, as reflected in ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*. The Board noted that although it is likely that decisions on ED 156 will not be finalised until after the GAAP/GFS harmonisation Standard is issued, the delay is not expected to be very long and the decisions made in relation to ED 156 would become operative at the same time as the GAAP/GFS harmonisation requirements; and
- (b) the imminent revised AASB 101 will have implications for the GAAP/GFS harmonised Standard. The consequential effects of revised AASB 101 will be considered as a separate exercise, to be reflected in an amending Standard to be released as soon as practicable.

The Board noted, more generally that there will be challenges in the future in keeping the GAAP/GFS Standard up to date with the changes to IFRS and the ABS GFS Manual or its interpretations. The Board noted that changes to the ABS GFS Manual and ABS guidelines thereto may result in convergence differences that do not currently exist.

The Board expects to finalise the GAAP/GFS harmonisation Standard at its October 2007 meeting, subject to processing final changes identified during that meeting, final staff review and subsequent clearance through the Chairman.

The Board decided that the Action Alert relating to this meeting should advise constituents that the draft Standard (Agenda Paper 9.4) provides a strong indication of the requirements that will ultimately be incorporated into a final Standard.

Action:

Staff:
Members

