

**Request for Panel member comments on GAAP/GFS convergence issues  
(with particular reference to matters raised in a submission by  
Heads of Treasuries to the AASB)**

## **Background**

The FRC has set the following broad strategic direction for the AASB for 2002-03 in relation to the GAAP/GFS convergence project:

“With regard to public sector reporting, the Board should pursue as an urgent priority the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting. The objective should be to achieve an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements.”

The FRC directive is consistent with an objective of creating a single rather than the current dual financial reporting framework for Australian public sector reporting entities.

The attached papers, submitted to the AASB by Heads of Treasuries (HOTs) as input to the AASB's deliberations on GAAP/GFS convergence, raise a number of issues and include various recommendations for achieving GAAP/GFS convergence.<sup>1</sup>

This Consultation Paper (the first and likely to be the most substantive in a possible series of Project Advisory Panel Consultation Papers<sup>2</sup>) draws out the main issues identified in the HOT's submission upon which the AASB is seeking input from Panel members. Panel members' comments on the issues will be considered by the AASB in making its final decisions for inclusion in an Exposure Draft.

Consistent with the FRC's strategic direction to the AASB, this Consultation Paper relates to all public sector entities. At its 2-3 September 2003 meeting, the AASB decided to progress the project in effectively 3 phases:

- Phase 1 relates to reporting by Commonwealth, State and Territory governments (including whole of government, sector and budget outcome reporting);
- Phase 2 relates to reporting by entities within the General Government Sector [GGS] (including government departments currently within the scope of AAS 29 “Financial Reporting by Government Departments”); and
- Phase 3 relates to reporting by other public sector entities including local governments, universities and government controlled non-GGS entities.

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<sup>1</sup> The papers were prepared by the Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC) GFS/GAAP Convergence Working Group and approved by HOTARAC and HOTs. They are provided as they were submitted by HOTs to the AASB. Although a representative of the Board, another Board member and two AASB staff members participated in the HOTARAC GFS/GAAP Convergence Working Group, the AASB has not reviewed, for example, the papers' descriptions of accounting treatments for their technical accuracy nor completeness.

<sup>2</sup> HOTs have made further, less voluminous, submissions to the AASB on certain issues, including the conceptual issues of the status and content of GGS financial reports, the presentation of GFS analytical balances in harmonised financial statements, and additional technical issues on inventories, constructive obligations and tax effect accounting. It is expected that once it has considered those submissions (and any subsequent submissions), the AASB will consult further with Panel members through subsequent Consultation Papers.

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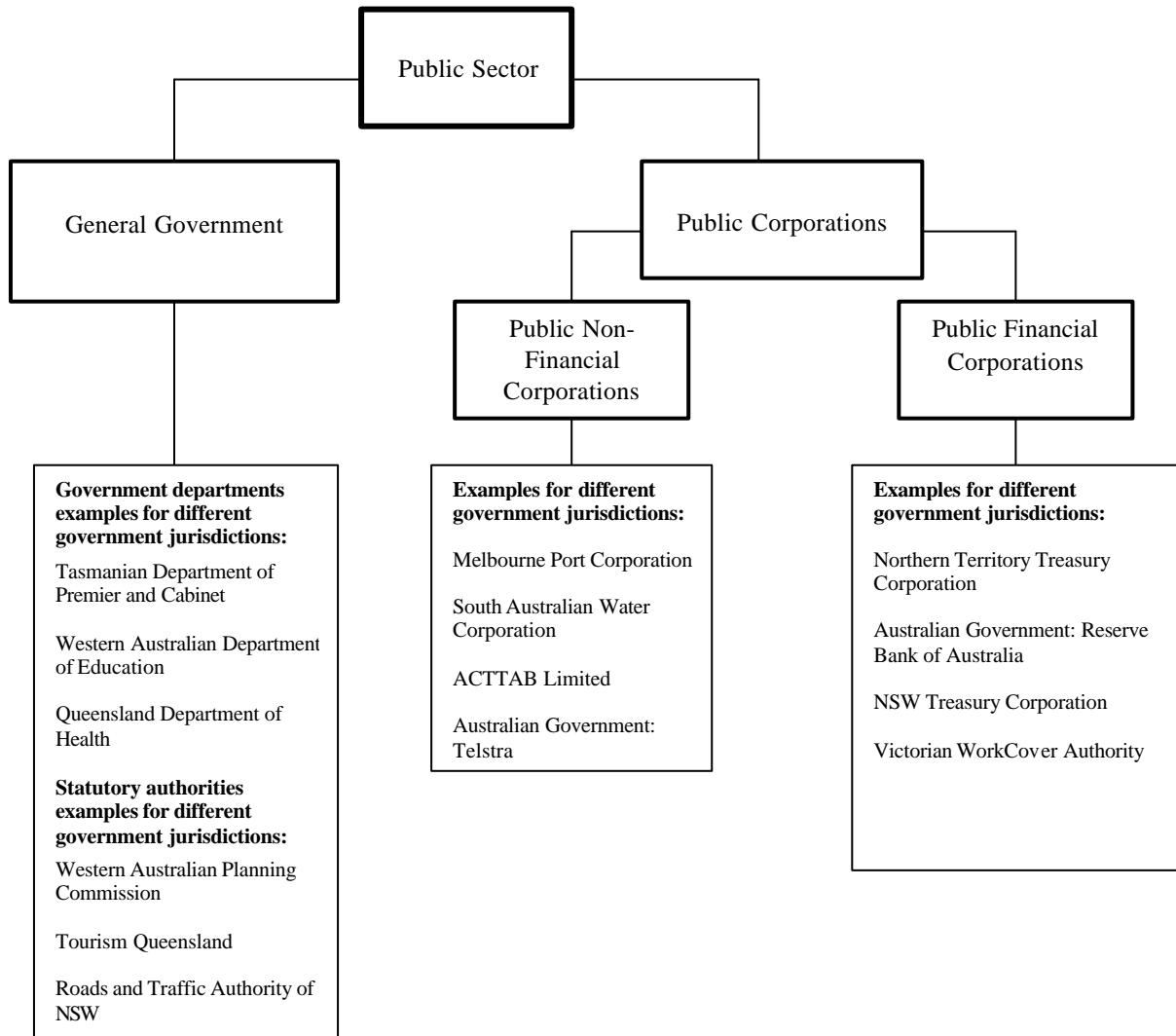
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The AASB decided that, subject to the availability of staff resources, both convergence and non-convergence issues relating to entities within the GGS (Phase 2 entities) should be progressed concurrently with Phase 1 of the GAAP/GFS convergence project with a view to issuing a standard that replaces AAS 29 and incorporates a GAAP/GFS convergence solution as soon as possible after the Phase 1 solution is issued. The review of AAS 29 will address non-GAAP/GFS convergence issues including disclosures about administered items and compliance with appropriations.

In expressing preliminary views on each issue posed as a question in this Consultation Paper, the AASB has considered the implications of converging definition, recognition and measurement requirements separately from converging financial performance reporting (presentation) requirements. As a broad guiding principle, the AASB has adopted the preliminary view that, in the interest of neutrality of standards between the public sector and the private sector, unless there are compelling reasons to do otherwise, GAAP definition, recognition and measurement requirements should be adopted (with disclosures where necessary to satisfy GFS requirements where they differ from GAAP requirements). GAAP/GFS convergence is understood in this Paper to be convergence between GFS (as it is described in Australian Bureau of Statistics (ABS) "Australian System of Government Finance Statistics: Concepts, Sources and Methods" 2003 and as applied by the ABS) and GAAP as it is expected to develop as a result of the adoption in Australia of IASB 2005 Standards, with relevant Australian additions, and relevant amendments in respect of not-for-profit entities. As noted in section 6 of this Paper it is expected that the adoption of IASB 2005 Standards will facilitate the convergence of some aspects of GFS and GAAP. **It is relevant to note that to the extent that the GAAP/GFS convergence solution results in the GAAP applicable to public sector entities being different from IASB Standards post 1 January 2005, it would contribute to the fact that public sector reporting entities, unlike for-profit reporting entities, would not be able to make an unreserved statement that their general purpose financial reports are in accordance with IASB Standards.** In relation to financial performance reporting, the preliminary view is (see question 4) that broad GFS principles (distinguishing between the results of transactions and other economic flows) should be adopted, although "transactions" should be defined in a manner that is consistent with the GAAP notion of transactions.

The focus of the preliminary views in questions 2 to 4 is on the appropriate accounting for the GGS relative to the whole of government. The following chart outlines, from a GFS perspective, the scope of the public sector for a particular government's jurisdiction (equivalent to the whole of government from a GAAP perspective) and its component sectors.

**GFS Sectors of the Public Sector<sup>3</sup>**



Attachment A contains a glossary of key GFS and GAAP terms used in this Consultation Paper.

**Guide to answering questions**

The issues have been expressed as questions (cross-referenced, where appropriate, to the relevant HOT's papers - attached). The AASB is seeking Panel members' views and, importantly, the reasons for those views, to be submitted to the AASB by **31 January 2004**. To provide a context, the text boxes following the questions contain preliminary AASB views.

Some of the questions in this Consultation Paper may be more pertinent to a particular type of public sector entity than other questions. Anticipating that decisions the AASB makes in Phase 1 may flow-through to Phase 2 entities and, ultimately, Phase 3 entities, all Panel members are asked to respond to all questions where possible. Question 1.2 particularly

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<sup>3</sup> Based on figure 2.2., GFS Manual 2001, page 15.

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focuses on the implications of flowing through decisions made in relation to Phase 1 to Phase 2 and Phase 3 entities.

The preliminary views on the specific technical issues (see questions 5 to 7) also identify those issues for which further research is required before preliminary views can be formed. Panel members are invited to inform the AASB, through their responses to the questions, of the practical (or other) aspects of the issues that the AASB has identified as requiring more research, to enable the AASB to make an informed decision on those issues.

The matters dealt with in the questions are:

- Question 1: the objectives of GAAP and GFS and the scope of convergence;
- Question 2: the GGS as a stand-alone general purpose financial reporting entity;
- Question 3: the GGS as a sector of the Whole of Government;
- Question 4: the format and presentation of converged financial statements;
- Question 5: specific technical issues where HOTS recommends adoption of current GAAP (rather than GFS), with disclosure of GFS information where appropriate;
- Question 6: specific technical issues where HOTS recommends adoption of GFS in the short term with the expectation that in the longer term current GAAP would be brought into line (due to "IASB 2005" and the IASB Reporting Comprehensive Income project);
- Question 7: other specific technical issues;
- Question 8: unidentified technical issues;
- Question 9: timetable for completion;
- Question 10: vehicle for convergence;
- Question 11: interpretation of GFS in relation to identified technical issues;
- Question 12: subsequently identified technical issues;
- Question 13: international convergence;
- Question 14: convergence of private sector and public sector accounting standards;
- Question 15: users and uses of public sector financial information; and
- Question 16: other comments.

A flowchart is provided at the start of each of questions 2 to 4 to overview the sub-questions contained within each of those questions.

## **QUESTIONS**

### **QUESTION 1. Objectives of GAAP and GFS and scope of convergence**

(See HOTS's conceptual paper "Objectives of GAAP and GFS"; and HOTS's paper "Practical Issues Relating to Convergence")

- 1.1 Do you agree with the HOTS's conclusion that there is a substantial conceptual overlap between the GAAP and GFS frameworks and therefore that "a converged framework should build on existing strengths and eliminate uncertainties caused by presentation of two similar, but different, sets of financial statements"?

***Preliminary AASB view***

A converged framework is a worthwhile objective. Furthermore, the FRC has issued the AASB with a directive to pursue GAAP/GFS convergence as an urgent priority.

- 1.2 The FRC's GAAP/GFS convergence directive has been interpreted as including in its scope all public sector entities. As noted in the Background section above, the AASB has divided the project into three phases:
- Phase 1 relates to reporting by Commonwealth, State and Territory governments (including whole of government, sector and budget outcome reporting);
  - Phase 2 relates to reporting by entities within the GGS (including government departments currently within the scope of AAS 29 "Financial Reporting by Government Departments"); and
  - Phase 3 relates to reporting by other public sector entities including local governments, universities and government controlled non-GGS entities.
- The AASB will initially focus on reporting by Phase 1 entities/sectors.

To what extent do you believe that it would be appropriate for decisions (whatever they may be – see preliminary views on questions 2 to 16 below) made in relation to reporting by Phase 1 entities/sectors to flow through to:

- (a) Phase 2 entities; and
- (b) Phase 3 entities:
  - (i) local governments;
  - (ii) universities;
  - (iii) government controlled non-GGS entities; and
  - (iv) any other public sector entities?

Please identify the potential implications (costs and benefits) for financial reporting by Phase 2 and Phase 3 entities, if the decisions on Phase 1 entities/sectors are ultimately flowed-through to those other entities.

*[Note to Panel members: it would be appropriate for you to answer this question after you have considered your views on questions 2 to 16. You may wish to express a view on this question as part of your comments on each of questions 2 to 16.]*

***Preliminary AASB view***

The AASB will await the input from Panel members before forming a preliminary view on the appropriateness of extending decisions on Phase 1 entities/sectors to Phase 2 and/or Phase 3 entities.

**QUESTION 2. GGS<sup>4</sup> as a stand-alone general purpose financial reporting entity**

(See in particular the HOT's technical paper "Consolidations" and the HOT's conceptual paper "Budget (ex-ante) reporting framework")

Although question 2 is most relevant in the context of a Government's annual budget, budget outcome reporting and whole of government general purpose financial reporting, all Panel

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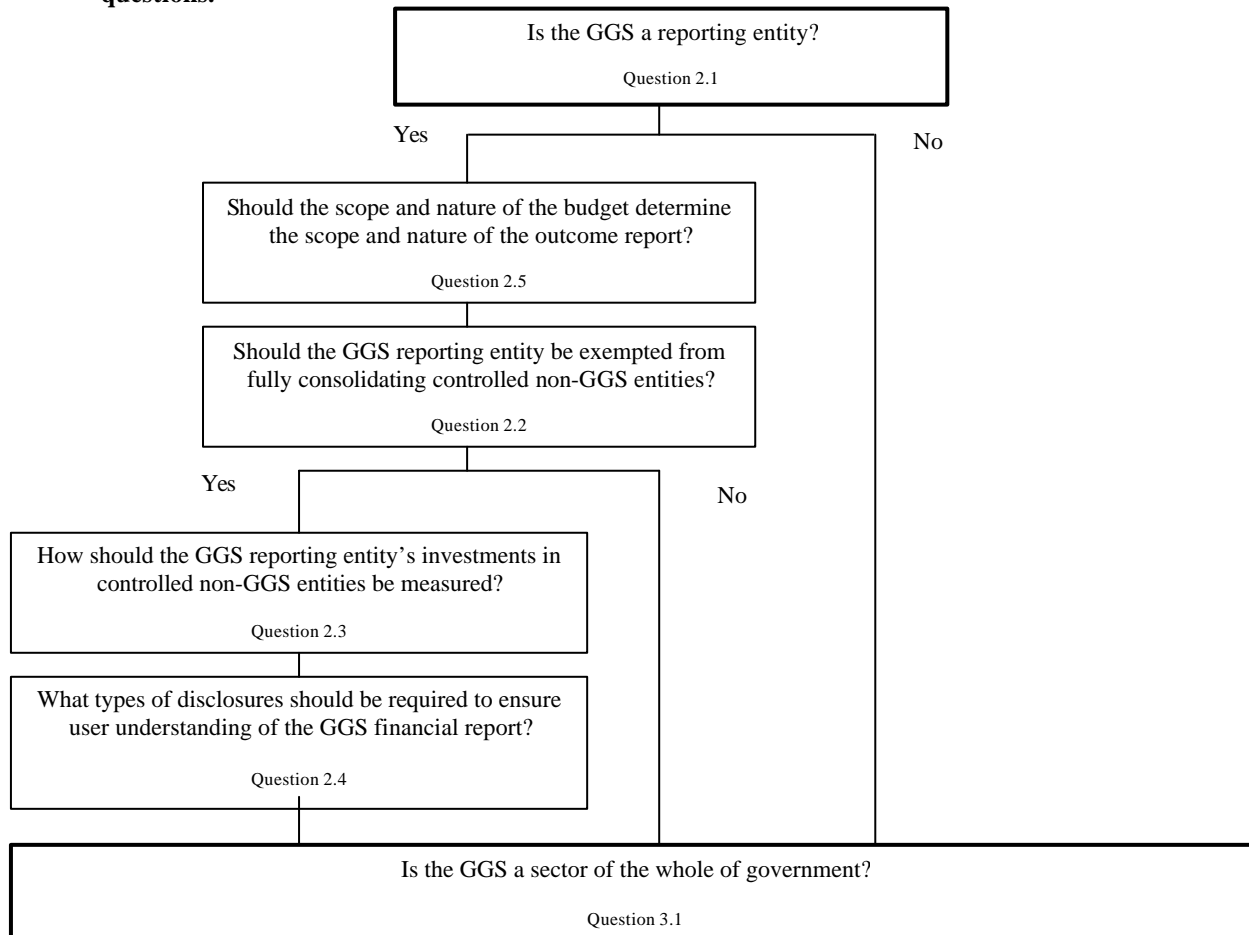
<sup>4</sup> At a practical level, and for ease of interpretation, entities within the GGS are described as those whose funding comes predominantly from a government's budget and appropriation process. A more detailed explanation of the GGS is provided in Attachment A to this Consultation Paper.

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members, including those Panel members who are not directly involved in such reporting, are asked to express a view on this question.

**Note:** The following flow chart provides an overview of the inter-relationships between the questions within question 2. It is not meant to direct the sequence in which questions are answered. All Panel members are requested to answer all questions, irrespective of their response to earlier questions.



**Note:** The questions do not contemplate that GGS is neither a reporting entity nor a sector of whole of government.

2.1 Various options for treating GGS financial reporting are presented in the HOT's submission:

- Define general government as a parent entity within government
- Define general government as a reporting entity
- Define general government as a segment of the government
- Expand current sector financial reporting within whole of government financial reports

Do you agree with the HOT's view that the GGS is a reporting entity?

***Preliminary AASB view***

The GGS meets some of the criteria for a reporting entity. Specifically, there are users who are dependent upon GGS information who are unable to command the preparation of GGS-focused financial reports. However, as defined by GFS, the boundaries of the GGS are inconsistent with the GAAP principle that the scope of a reporting entity is defined by the notion of "control", and therefore comprises a

controlling entity and its controlled entities.

It is acknowledged in relation to government financial reporting that the political and analytical focus is mainly directed to the GGS (rather than the whole of government) and in practice it is not possible for some users of GGS financial information to command the preparation of GGS-focused financial reports. Given the significance of financial information about the GGS for users of general purpose financial reports it is appropriate that GGS financial information is made available to users with an interest in such information, and that accounting standards specify the form and content of that financial information.

- 2.2 If GGS is regarded as a reporting entity that under current GAAP would be required to fully-consolidate all the entities that it controls (rather than recognise certain controlled entities as a "one-line" investment in entities in other sectors), do you believe that there are compelling reasons for the GGS to be exempted from fully consolidating certain controlled entities (being controlled non-GGS entities) in preparing its general purpose financial reports?

***Preliminary AASB view***

The AASB will await the input from Panel members before forming a preliminary view on whether the GGS should be exempted from consolidating all controlled entities in general purpose financial reports.

The view held by some that the GGS does not control the entities in the other sectors, rather all three sectors (GGS, public non-financial corporations sector and public financial corporations sector) are part of an economic entity controlled by Executive Government (which is outside the GGS), is acknowledged. If this view is adopted, the investments in non-GGS entities would be considered to be administered by the GGS and therefore not recognised in the GGS financial statements. Such a consequence has implications for the response to question 2.3. The preliminary view is that the GGS controls the entities in the other sectors because it controls the investments in those entities (and the level of its investments in those entities is sufficient to give it control).

- 2.3 If the GGS is regarded as a reporting entity that is exempted from fully consolidating certain controlled entities (being controlled non-GGS entities), how should investments in those controlled entities be measured:
- (a) at their initially recognised amount (consistent with UIG 38 "Contributions by Owners Made to Wholly-Owned Public Sector Entities");
  - (b) at fair value;
  - (c) at the recognised net assets of the investee (as recommended in the HOT's submission); or
  - (d) some other basis (such as using the equity method of accounting, to the extent it differs from (c))?

***Preliminary AASB view***

Under current accounting standards (AASB 1041 "Revaluation of Non-Current Assets"), "An investment in a subsidiary is carried at cost or revalued amount in the parent entity separate financial report" (paragraph 6.1.13 of AASB 1020 "Income Taxes"). Consistent with parent company reporting under GAAP, and the AASB's guiding principle, unless there is a not-for-profit public sector specific reason for treating investments in controlled

entities differently from the manner in which they are treated by for-profit parent entities, options (a) and (b) (as alternatives) are supported. Consistent with the objective of GAAP/GFS convergence, it is expected that jurisdictions would opt for option (b) because GFS is fundamentally based on current values.

Accordingly, if the GGS were to be treated as a reporting entity that is exempt from consolidating certain controlled entities, it should not be permitted to measure the asset "investments in controlled entities" at the recognised net assets of the investee (nor, to the extent it results in a different amount, adopt the equity method of accounting) – unless it provides the best indication of the fair value in the absence of an active market.<sup>5</sup> However, see the preliminary view relating to question 3.3 below.

- 2.4 If GGS is regarded as a reporting entity that is exempted from consolidating certain controlled entities, what types of disclosures should be required to ensure that users understand the nature of the financial report?

***Preliminary AASB view***

Given the judgements required to determine the boundaries of the GGS (particularly assessments of the extent to which an institutional unit undertakes market or non-market production), the financial report should include an explanation of the entities included within the GGS and those outside the GGS, and any changes thereto from the previous reporting period. It should also clearly articulate the criteria for selecting those entities/activities that are consolidated and those that are not.

Line items presented in the statement of financial position that relate to investments in controlled entities should exclusively relate to such investments, and adopt descriptions that precisely convey their nature, such as "investments in controlled entities", to alert users to the fact that, although controlled, the financial statements of the controlled entities are not consolidated. Furthermore, investments in public non-financial corporations could be distinguished from investments in public financial corporations.

The measurement basis for the GGS's assets that are "investments in controlled entities" should also be disclosed (see question 2.3 above).

The relationship of the GGS financial report to the whole of government general purpose financial report (and the sector information disclosed in the whole-of-government general purpose financial report [if it is disclosed – see the preliminary view relating to question 3 below]) should also be disclosed. This disclosure should include a general description of the sectors.

To the extent that GFS analytical balances (such as net lending/borrowing) are included in the general purpose financial report (as discussed in question 4 below) the report should include disclosures that explain the meaning of those items, in order to facilitate user understanding.

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<sup>5</sup> It is noted that, in the absence of a market value, under GFS the net assets of a controlled entity is treated as an adequate proxy for the market value of the controlled entity on the basis that the underlying assets and liabilities of the controlled entity are measured at current value.

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- 2.5 To what extent do you believe that the scope and nature of an entity's budget (which, from a GAAP perspective, may be determined at the discretion of an entity because it is not prescribed in accounting standards) should determine the scope and nature of that entity's general purpose financial (outcome) report to facilitate comparisons between outcomes and budgets?

***Preliminary AASB view***

The AASB should set standards for ex post reporting (and not set standards for ex ante reporting at this time<sup>6</sup>), and the scope of the ex-post reporting entity should be determined by the AASB's assessment of information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs. It would be reasonable to expect that budget reports would include information that is consistent with ex post reporting requirements, to facilitate budget vs actual comparisons. It would not be appropriate for the scope and nature of an entity's budget to determine the scope and nature of an entity's ex-post general purpose financial report.

**QUESTION 3. GGS as a sector of the whole of government**

(See in particular the HOT's technical paper "Consolidations")

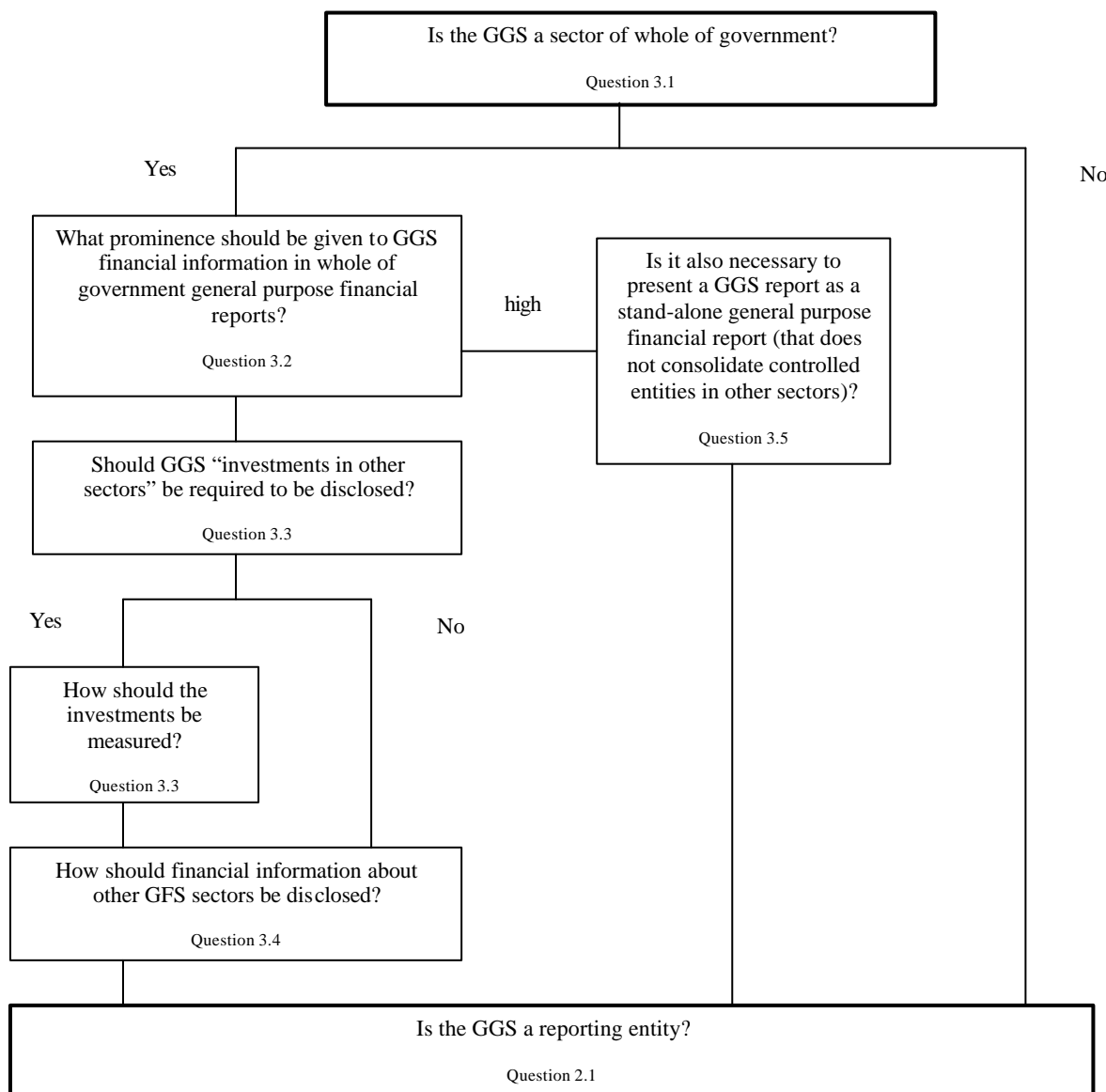
As with question 2, although question 3 is most relevant in the context of general purpose financial reporting by a government, all Panel members, including those Panel members who are not directly involved in such reporting, are asked to express a view on this question.

**Note:** The following flow chart provides an overview of the inter-relationships between the questions within question 3. It is not meant to direct the sequence in which questions are answered. All Panel members are requested to answer all questions, irrespective of their responses to earlier questions.

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<sup>6</sup> It is relevant to note that the International Federation of Accountants Public Sector Committee has commenced a project on budget reporting. Furthermore, in its review of AAS 27 "Financial Reporting by Local Governments" (see Exposure Draft ED 125 "Financial Reporting by Local Governments"), the AASB has tentatively decided that where a local government elects to publish budgets against outcomes reported in general purpose financial reports, the budget must be presented in the same format as the financial statements to which it relates and be presented in a separate column on the face of those financial statements.

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**Note:** The questions do not contemplate the GGS as neither a reporting entity nor a sector of whole of government.

3.1 Irrespective of whether the GGS is a reporting entity exempted from full-consolidation, do you believe that the GGS is a sector of the whole of government?

***Preliminary AASB view***  
 Irrespective of whether the GGS is regarded as a reporting entity, the GGS is a sector of whole of government. This preliminary view is consistent with paragraph 15.12.2 of AAS 31 “Financial Reporting by Governments”. Providing information about the sector in the whole of government general purpose financial report has the benefit of enabling users to consider the information within the context of fully-consolidated general purpose financial statements.

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- 3.2 If the GGS is treated as a sector of the whole of government, what prominence should be given to GGS financial information in whole of government (that is, fully consolidated) general purpose financial reports relative to whole of government information:
- (a) as a separate column on the face of the financial statements next to the whole of government financial statements (consistent with the HOT's submission);
  - (b) as a note to the financial statements (consistent with the current requirements in AAS 31 "Financial Reporting by Governments" – see the disaggregated information disclosure requirements in paragraphs 15.12 to 15.12.2); or
  - (c) some other way?

***Preliminary AASB view***

Given the significance of financial information about the GGS for users of general purpose financial reports, GGS financial information, together with information about other sectors (see question 3.4 below), should be able to be presented with a prominence equal to (but not greater than) the whole of government report. Disclosures should be made to ensure users understand the nature of the GGS (along the lines of that described in the preliminary view to question 2.4). Presenting GGS information with appropriate prominence facilitates user consideration of GGS financial information in the context of whole of government financial information.

- 3.3 If the GGS is treated as a sector of the whole of government, should a GGS asset "investment in controlled entities in other sectors" be required to be disclosed and, if so, how should these inter-sector investments be measured:
- (a) measured at their initially recognised amount (consistent with UIG 38);
  - (b) measured at fair value;
  - (c) measured at the net assets of the investee (as recommended in the HOT's submission); or
  - (d) some other basis (such as using the equity method of accounting, to the extent it differs from (c))?

***Preliminary AASB view***

Arguably, if GGS information is regarded as a disaggregated part of the whole of government information, no intersector investments should be disclosed in the sector financial statements. However, consistent with the nature of the GGS (and other sectors) in a GFS framework and the relevance of information about "investments in controlled entities in other sectors" to users, it would be appropriate for the GGS to disclose the investment in entities in other sectors as an asset. On this basis, it would be appropriate to refer to the information as sector information rather than disaggregated information.

It may seem reasonable to measure the investment in a manner that is consistent with the manner in which the investment would be measured if GGS is treated as a reporting entity exempted from fully consolidating certain controlled entities (see question 2.3 above). However, to the extent that that measurement is not consistent with the way the underlying sector net assets are treated in the whole of government general purpose

financial report, it is questionable whether such measurement should be allowed in a sector information disclosure context (in the form of sector financial statements).<sup>7</sup>

It would be appropriate to prescribe measurement to be the GGS's proportional share of the carrying amount of the net assets of the controlled entities, updated each reporting date, to ensure that the measurement basis of GGS investments in controlled entities in other sectors articulates with the measurement basis of net assets in non-GGS sectors. This approach is akin to the equity method of accounting (adapted to apply to controlled entities rather than associates) as it is currently adopted in Australia, particularly where the controlled entity was established by the controlling entity and the cost of acquisition does not differ from the controlling entity's proportional interest in the net assets of the controlled entities at the date of establishment/acquisition.

(It is relevant to note that there is potential for confusion if the same item "investment in other sectors" is measured in different ways, which could occur if stand-alone partially consolidated GGS financial reports are published as general purpose financial reports and are prepared in addition to the sector financial statements disclosure.)

The AASB project on Segment Reporting in the Public Sector, which will, in the first instance, consider the suitability in the Australian environment of IPSAS 18 "Segment Reporting" issued by IFAC-PSC, should have regard to this preliminary view.

- 3.4 If the GGS is treated as a sector of the whole of government, how should financial information about the other GFS sectors (public non-financial corporations sector and public financial corporations sector) be disclosed relative to GGS and whole of government information:
- (a) as a separate column(s) on the face of the financial statements next to the whole of government financial statements;
  - (b) as a note to the financial statements; or
  - (c) some other way?

***Preliminary AASB view***

If GGS information is provided in a separate column on the face of the whole of government financial statements, information about the other sectors should also be presented on the face (together with an elimination/inter-sector items column – so that the rows add across to the whole of government column).

Consistent with the approach taken in relation to segment reporting in a for-profit entity context, despite the relative importance given by users to the GGS compared with the other sectors in the public sector, it would not be appropriate to only display that particular sector, alongside whole of government amounts, on the face of the financial statements (with the other sectors disclosed in the notes). In acknowledging the concern about having an excessive number of columns on the face of the financial statements, an approach could be to disclose financial information relating to the other sectors in a single "other sectors" column on the face, with the associated details of each sector in the notes.

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<sup>7</sup> As noted earlier in this Paper (see question 2.3) in the absence of a market value, under GFS the net assets of a controlled entity is treated as an adequate proxy for the market value of the controlled entity on the basis that the underlying assets and liabilities of the controlled entity are measured at current value.

- 3.5 If the GGS is treated as a sector of the whole of government and if it were given appropriate prominence in whole of government general purpose financial reports, do you think that it would also be necessary, to meet users' needs, for accounting standards to allow for a GGS financial report to be presented as a stand-alone general purpose financial report (that potentially does not consolidate entities in the other sectors) as contemplated in question 2 above?

***Preliminary AASB view***

If it is determined that the GGS is a reporting entity and that an exemption should be granted from full consolidation as an outcome of question 2.2 above, it would be appropriate to publish stand-alone general purpose financial reports for the GGS. However, it is not necessary for accounting standards to allow for a GGS stand-alone general purpose financial report to satisfy the FRC strategic direction nor to satisfy the information needs of users. GGS (and other sectors) information presented in the context of whole of government general purpose financial reports in the manner contemplated in the preliminary views expressed in questions 3.1 to 3.4 satisfies both objectives.

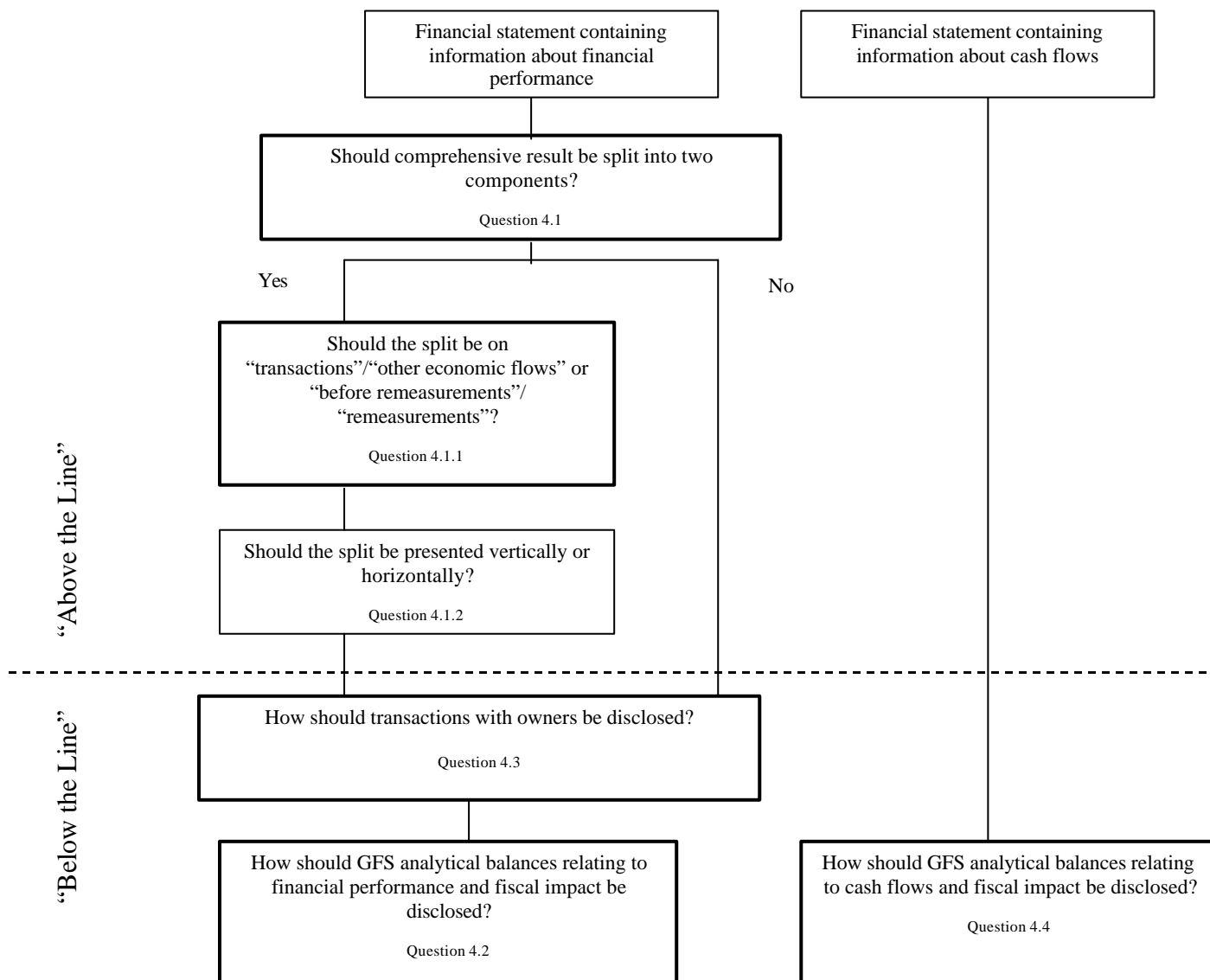
It is acknowledged that the form in which the information about the GGS is provided is important to users. To the extent that users need GGS information that is unaccompanied by whole of government information, this could be provided in the form of an extract from the whole of government general purpose financial report.

**QUESTION 4. The format and presentation of financial statements**

(See in particular the HOT's technical paper "Pro-forma financial statements" and the attachments to the HOT's conceptual paper "Objectives of GAAP and GFS")

Irrespective of views expressed on questions 2 and 3 relating to the status of GGS financial reports, significant issues arise in relation to the format and presentation of public sector general purpose financial statements as a means of facilitating GAAP/GFS convergence. Question 4 focuses on these issues, and the same issues continue to arise in relation to the specific technical issues identified by HOTs, which are the subject of questions 5 to 7.

**Note:** The following flow chart provides an overview of the inter-relationships between the questions within question 4. It is not meant to direct the sequence in which questions are answered. All Panel members are requested to answer all questions, irrespective of their responses to earlier questions.



4.1 To facilitate a high degree of GAAP/GFS convergence between GFS's net operating balance<sup>8</sup> and the GAAP equivalent, should public sector reporting entities/sector(s) be required to separately identify two broad components of the comprehensive result (for example, distinguishing between "results from remeasurements" and "results from other events" or "results from transactions" and "results from other events") on the face of a single comprehensive statement that includes information about financial performance?

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<sup>8</sup> The focus of this question is on converging the GFS and GAAP concepts. Convergence issues also arise in relation to terminology to the extent that GFS uses balance sheet type language, such as "net operating balance" and "net lending/borrowing", in the context of financial performance.

***Preliminary AASB view***

Consistent with the broad GFS approach and the direction of the IASB's Reporting Comprehensive Income Project,<sup>9</sup> public sector reporting entities/sector(s) should be required to separately identify and present two broad components (together with an aggregate) of current period comprehensive result on the face of a single comprehensive statement that includes information about financial performance.

Consistent with the IASB's Reporting Comprehensive Income Project, prior period comparatives for the aggregate should be required to be presented on the face of the statement, with note disclosure of the two broad components.

- 4.1.1 If public sector reporting entities/sector(s) are required to separately identify two broad components of comprehensive result on the face of a single comprehensive statement that includes information about financial performance, do you agree with the view implicit in the HOT's submission that the criteria for drawing the distinction between the two broad components should align with the criteria GFS uses to distinguish between items recognised in the determination of net operating balance in the statement of government operations (being transactions) and items recognised in the statement of other economic flows (being events other than transactions, comprising holding gains and losses and volume changes that do not result from transactions<sup>10</sup>), even if those criteria differ from the IASB's criteria that will result from its Reporting Comprehensive Income Project (which distinguishes between "before remeasurements" and "remeasurements" – see the IASB's Project Summary on <http://www.iasb.org.uk/>)?

***Preliminary AASB view***

Subject to resolution of certain issues relating to the definition of "transactions" identified below (in this text box) and discussed in questions 5 to 7, GAAP requirements relating to financial performance reporting by not-for-profit public sector entities should be amended to be consistent with the principles upon which GFS distinguishes between the two broad components of comprehensive result. That is, transactions should be distinguished from other events (referred to as other economic flows under GFS) rather than distinguishing remeasurements from other events, being the distinction being considered by the IASB (which is developing the criteria with for-profit entities in mind, rather than not-for-profit entities).

This approach would not compromise the AASB's policy of issuing sector neutral standards (see question 14 below) because there are not-for-profit public sector specific reasons for presenting financial performance differently from private sector

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<sup>9</sup> Any comments in this Paper relating to the IASB Reporting Comprehensive Income Project are based on the AASB's understanding of the current position of the IASB Project. That position may change as the IASB progresses the project. Currently, the IASB Reporting Comprehensive Income Project does not contemplate the disclosure of "below-the-line" GFS analytical balances such as net lending/borrowing. The treatment of such balances is dealt with in question 4.2 below.

<sup>10</sup> Broadly, the IASB notion of "remeasurements" aligns with the GFS notion of "holding gains and losses". Therefore, although IASB may classify what GFS describes as "volume changes that do not arise from transactions" within "results before remeasurements", GFS would classify them as "other economic flows".

for-profit entities. Specifying financial performance reporting requirements specific to not-for-profit public sector entities/sector(s) would be consistent with the IASB contemplating specifying different financial performance reporting formats for different kinds of for-profit entities (financial institutions compared with non-financial institutions) on the basis that it acknowledges that “one size fits all” is not necessarily appropriate.

Examples of particular issues relating to the definition of “transactions” include:

- swap interest (see question 5.1 item (a) below);
- allowances for bad and doubtful debts (see question 5.1 item (c) below);
- amortisation of non-produced assets (see question 5.1 item (d) below);
- income from investments in associates accounted for using the equity method of accounting (see question 5.1 item (i) below);
- change in current value of self-generating and regenerating assets (see question 6.2 item (e) below);
- initial recognition of assets seized without equivalent compensation (see question 6.2 item (f) below);
- holding gains and losses on financial instruments held by financial institutions (see question 6.2 item (g) below); and
- excess over the cost of a business combination of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities (referred to in the HOT’s paper as negative goodwill) (see question 7.1 item (n) below).

4.1.2 If the statement that includes information about financial performance is required to distinguish between two broad components of comprehensive result (whether along GFS lines or IASB lines), should the distinction be presented:

- (a) vertically (as illustrated in the HOT’s submission); or
- (b) horizontally/in columns (as anticipated by the IASB Reporting Comprehensive Income Project)?

***Preliminary AASB view***

Given the circumstances facing governments (and in the interest of facilitating a user-friendly columnar format for disclosing budget information and outcome information on the face of the financial statements – which could otherwise result in more than 7 columns on the face of the financial statements [1 comparatives, 3 current period actuals, and, potentially, 3 current period and more than 1 future period budgets<sup>11</sup>]), although preferring a horizontal/columnar presentation, a vertical presentation should be allowed.

A columnar format is preferred so that users are able to “read” across the rows to avoid having to combine the information from different rows into one number.

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<sup>11</sup> This paper does not address the application of financial performance reporting to budgetary reporting. It is arguable that for budgeting purposes only the “transactions”/“before remeasurements” column would warrant prominence on the face of the financial statements.

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- 4.2 This question seeks Panel member views on the disclosure of GFS analytical balances (such as GFS net lending/borrowing and GFS net operating balance – noting that GFS net operating balance may differ from the net operating result/balance arrived at in the converged financial statement).

Which of the following options to presenting GFS analytical balances would best achieve the objectives of both GAAP and GFS frameworks, taking into account, for example, the need to avoid misunderstanding of the “bottom lines” disclosed<sup>12</sup>:

- (a) on the face of the statement of financial performance (as illustrated in the HOT's submission);
- (b) in a separate statement described as, for example, the statement of fiscal impact;
- (c) in the notes; or
- (d) on the face of a multi-purpose statement described as, for example, the statement of financial performance and fiscal impact?

***Preliminary AASB view***

Option (d) provides a suitable vehicle for presenting information in a way that satisfies multiple user needs for “traditional” GAAP sub-totals and GFS sub-totals (which are used to assess the impact of government on a jurisdiction's economy). Under that option the GAAP statement of financial performance would be effectively replaced with a statement (which may be viewed by some as two statements in one) with a broader objective or multiple objectives, and a title such as the “statement of financial performance and fiscal impact”. In such a statement, prepared for the GGS<sup>13</sup>, the converged net operating result/balance could be presented as a subtotal with appropriate prominence, with the “bottom line” being GFS net lending/borrowing. The statement would provide a reconciliation (with details in notes if necessary) between the converged net operating result/balance and GFS net operating balance (consistent with the preliminary view in question 5.3) and the derivation of net lending/borrowing from the GFS net operating balance<sup>14</sup>. An illustrative example of such a statement is at Attachment B.

In relation to Option (a), the GFS net lending/borrowing analytical balance, while derived from the net operating balance, uses information external to the calculation of the net

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<sup>12</sup> This question focuses on issues relating to “below the line” subtotals (that is, below the comprehensive result line referred to in question 4.1). Issues relating to “above the line” subtotals are not explicitly addressed as they may depend on the outcome of other issues and should be resolved as part of the more general financial performance reporting issues.

<sup>13</sup> Panel member views are also sought on whether a statement that provides a reconciliation from the converged net operating result/balance to GFS net operating balance and/or the derivation of GFS net lending/borrowing would be appropriate for non-GGS sectors and whole of government. Views are also sought on whether the statement would be appropriate for entities covered by Phase 2 and Phase 3 – see question 1.2 above.

<sup>14</sup> As indicated in footnote 2, HOTs have made a further submission that includes a discussion of the presentation of GFS analytical balances in harmonised financial statements. In particular it identifies two possible approaches to presentation of GFS analytical balances (aggregates): “(1) Harmonised GFS aggregates calculated from the (harmonised) numbers within the statements, with note disclosure deriving the ABS GFS (“pure” GFS) aggregates; or (2) On an ABS GFS basis, with reconciling items appearing on the face of the statements and note disclosure explaining the measurement differences between the Harmonised GFS and ABS GFS aggregates”. It is expected that once the AASB has considered the additional HOTs submission it will consult further with Panel members through a subsequent Consultation Paper.

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operating balance. That is, net lending/borrowing is determined by adjusting the net operating balance (which is a result of transactions) for the total net acquisition of non-financial assets (being purchases of non-financial assets less depreciation less change in inventories plus other movements in non-financial assets). Therefore, it would not be appropriate to present net lending/borrowing as an "above the line" subtotal on the statement of financial performance. In addition, given the focus of the GAAP statement of financial performance on the net result (being essentially the change in non-owners movement in equity over a period) it would not be appropriate for net lending/borrowing to be presented as a "below the line" subtotal on the face of a statement that is called the statement of financial performance.

In relation to Option (b), this potentially disconnects the GFS analytical balances (for example GFS net operating balance) from the components (for example, revenues and expenses) that make up those balances. This could be overcome by preparing a comprehensive GFS operating statement as an additional statement. However, this would arguably not be achieving convergence of the GAAP/GFS frameworks.

In relation to Option (c), it would not provide sufficiently prominent disclosure of the GFS analytical balances.

- 4.3 How do you believe that transactions with owners should be disclosed:
- (a) on the face of the statement of financial performance (as illustrated in the HOT's submission);
  - (b) on the face of another financial statement; or
  - (c) in the notes?

***Preliminary AASB view***

It is not expected that transactions with owners would occur in relation to the GGS (although they may occur in relation to individual entities within the GGS).

Issues relating to transactions with owners are addressed in question 5.1, item (h) on ownership interests, item (j) on minority interests and item (f) on distributions to owners. Consistent with the HOT's view, the AASB preliminary view on these issues is that GAAP treatment should be adopted, with disclosures providing GFS information (as per the preliminary view in question 5.3).

Unless there is a not-for-profit public sector specific reason for presenting owner movements in equity differently from for-profit entities, the presentations should align.<sup>15</sup>

It is relevant to note that the statement of financial performance and fiscal impact contemplated in the preliminary view to question 4.2, if prepared in relation to non-GGS sectors and/or the whole of government, would include the reporting of distributions to owners as part of the reconciliation from the converged net operating result/balance to GFS net operating balance. In relation to contributions by owners, they would not appear in the statement of financial performance and fiscal impact. At a sector level, distributions to owners only become a convergence issue when the transactions cross

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<sup>15</sup> The IASB has not yet resolved how owner movements in equity should be presented/disclosed in the context of its Reporting Comprehensive Income Project. It is expected that the IASB will adopt a separate statement (statement of movements in equity) or require note disclosure of owner movements in equity. It is not expected that presentation on the face of the statement of financial performance would be permitted.

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sectoral boundaries. Ownership distributions/receipts within a sector are eliminated on consolidation.

- 4.4 How do you believe that GFS analytical balances relating to the statement of cash flows, “below” the “net increase (decrease) in cash held”, such as “cash surplus/(deficit)” (which focuses on certain components of cash flows and is affected by finance leases and similar arrangements), should be disclosed:
- (a) on the face of the statement of cash flows (as illustrated in the HOT’s submission);
  - (b) in a separate statement;
  - (c) in the notes; or
  - (d) on the face of a statement described as, for example, the statement of cash flows and fiscal impact?

***Preliminary AASB view***

Consistent with the preliminary view to question 4.2, Option (d) provides an appropriate GAAP/GFS convergence solution.

The GFS cash surplus/deficit analytical balance, used to assess the impact of government on a jurisdiction’s economy, while derived from certain cash flows (being the net cash from operating activities and investments in non-financial assets), as it is applied in Australia also uses information external to the statement of cash flows – by taking account of notional cash flows relating to finance leases and similar arrangements. Therefore, it would not be appropriate to present GFS cash surplus/deficit as it is determined in Australia as an “above the line” subtotal on the statement of cash flows, and it would not be appropriate to allow GFS cash surplus/deficit (which includes non-cash flows) to be presented on the face of the statement of cash flows. Disclosure in the notes would not provide adequate prominence to the GFS analytical balances.

**QUESTION 5. Specific technical issues where HOTS recommends adoption of current GAAP (rather than GFS), with disclosure of GFS information where appropriate.**

Question 4 focused on the format and presentation of financial statements, with particular emphasis on financial performance reporting issues. Questions 5 to 7 identify these issues in relation to the particular technical issues identified by HOTS. Questions 5 to 7 also identify definition, recognition and measurement issues relevant to each of the technical issues, and identify issues that may require further investigation.

The specific technical issues where HOTS recommends adoption of current GAAP (rather than GFS), with disclosure of GFS information where appropriate, include:

- (a) Swap interest (see HOT’s technical issues overview paper “Issue 3.1”)
- (b) Defence weapons platforms (see HOT’s technical paper “Issue 4.1”)
- (c) Allowances for bad and doubtful debts (see HOT’s technical paper “Issue 4.2”)
- (d) Amortisation of intangible assets (see HOT’s technical issues overview paper “Issue 4.4”)
- (e) Capitalisation of research and development and other intangibles (see HOT’s technical paper “Issue 4.5”)
- (f) Distributions payable to owners (see HOT’s technical paper “Issue 5.1”)

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- (g) Distributions receivable from controlled entities (see HOT's technical paper "Issue 7.2")
  - (h) Reduced net worth for commercial government operations (see HOT's technical paper "Issue 5.2")
  - (i) Investments in associates using the equity method of accounting (see HOT's technical paper "Issue 5.3")
  - (j) Minority interests (see HOT's technical issues overview paper "Issue 5.4")
- 5.1 Do you agree with the HOT's recommendation for each (that is, do you believe that there are any items that should be removed from the above list)?

***Preliminary AASB view***

*Definition, Recognition and Measurement Issues*

Consistent with the HOT's recommendation, the principle of sector-neutral standards and the AASB's guiding principle that, unless there are compelling reasons to do otherwise, GAAP definitions, recognition and measurement requirements should be adopted for each item, there are no items that should be removed from the above list. Additional disclosures that should accompany GAAP recognition and measurement to satisfy GFS requirements are identified in question 5.3 below.

*Financial Performance Reporting Issues*

Consistent with the view expressed in question 4.1.1, in relation to financial performance reporting, GFS broad principles (that is, the "transactions/other economic flows" dichotomy) should be adopted, although "transactions" should be defined in a manner consistent with the manner in which that notion is understood in a GAAP context. Therefore, the notion of "transactions" implicit in the principles being developed in the IASB Reporting Comprehensive Income Project (by virtue of particular items being included in the definition of "remeasurements")<sup>16</sup> should be adopted. In most cases, this coincides with the definition of "transactions" adopted by GFS. However, there are certain exceptions (mutually agreed write off of bad debts (see (c) below), which should be presented as "other events", because they are in the nature of remeasurements rather than "transactions".

Furthermore, consistent with the IASB Reporting Comprehensive Income Project, amortisation of non-produced intangible assets (see (d) below) should be presented as a "transaction".

*Comments on Each Identified Issue:*

- (a) Swap interest (issue 3.1): consistent with the objective of general purpose financial reporting and the HOT's recommendation, GAAP treatment should be adopted, with note disclosure to satisfy GFS requirements. Accordingly, in relation to financial performance reporting, consistent with the HOTs recommendation and the preliminary view expressed in question 4.1.1, swap interest should be

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<sup>16</sup> The preliminary view adopted is that an implication of the IASB Reporting Comprehensive Income Project classifying an item as "remeasurements" is that the item is not a "transaction".

classified/presented (in contrast to GFS) as “transactions”, with disclosure to satisfy GFS requirements.

- (b) Defence weapons platforms (issue 4.1): consistent with the objective of general purpose financial reporting and the HOT's recommendation, GAAP treatment should be adopted, with disclosure to satisfy GFS requirements.
- (c) Allowances for bad and doubtful debts (issue 4.2): it is not yet clear from the ongoing discussions on this issue as part of the System of National Accounts (SNA) review as to whether the current differences between GAAP and GFS will cease to exist. Irrespective of the outcome of that review, consistent with the objective of general purpose financial reporting and the HOT's recommendation, GAAP treatment should be adopted, with disclosure to satisfy GFS requirements.

In relation to financial performance reporting, the IASB's project would treat mutually agreed bad debts (relating to prior period provisions) written off and debt forgiven as “remeasurements” (and therefore, implicitly, not transactions) in contrast to GFS which (currently) would treat them as “transactions”. An issue to be resolved is, in the context of question 4.1.1, whether treating certain bad debts as “transactions” would be appropriate in a GAAP context. On the basis that it would be more onerous to adopt the GFS approach, which requires bad debts to be classed as either unilateral write offs or write offs by mutual agreement, and unless there is a public sector specific reason to differ from the emerging outcome of the IASB Reporting Comprehensive Income Project, all bad debt write offs and debt forgiven should be presented as “other events” (which includes remeasurements) rather than as “transactions”.

- (d) Amortisation of intangible assets (issue 4.4): consistent with the objective of general purpose financial reporting and the HOT's recommendation, GAAP treatment (including the classification of amortisation as “transactions” for financial performance reporting purposes [even of non-produced intangible assets, consistent with the classification of depreciation of tangible assets – see question 7 item (k)]) should be adopted, with disclosure to satisfy GFS requirements.
- (e) Capitalisation of research and development and other intangibles (issue 4.5): consistent with the objective of general purpose financial reporting and the HOT's recommendation, GAAP treatment should be adopted, with disclosure to satisfy GFS requirements.
- (f) Distributions payable to owners (issue 5.1): under GFS dividends are treated as expenses and recognised as transactions that affect the operating result whilst under GAAP they are appropriations that do not affect the operating result. Consistent with the objective of general purpose financial reporting and the HOT's recommendation, GAAP treatment should be adopted with disclosure to satisfy GFS requirements.

The HOT's long term recommendation (adopt GFS principles for determining whether an amount is a dividend or a return of capital) may not be appropriate as a return of post-acquisition increments in equity (from, for example, realised capital gains on fixed assets) would not be a return of contributed capital as such. In any

case, for a distributor, the distinction between dividend and return of capital is not significant from a GAAP perspective because distributions to owners do not affect the operating result.

- (g) Distributions receivable from controlled entities (issue 7.2): this issue is particularly relevant if the GGS were to be treated as a stand-alone general purpose financial reporting entity (see question 2 above) and/or for sector financial reporting where the GGS is a sector of the whole of government (see question 3 above) and the GGS receives distributions from entities within other sectors. It is conceivable that distributions treated as dividend revenue under GAAP would be treated as a return of capital (a reduction of the asset "investment in controlled entities") under GFS. Consistent with the objective of general purpose financial reporting and the HOT's recommendation, GAAP treatment should be adopted with disclosure to satisfy GFS requirements.

The HOT's long term recommendation (additional GAAP guidance on whether an amount is a dividend or a return of capital) is reasonable due to the fact that there is a lack of GAAP principles on dividends. However, from a GAAP perspective, to the extent that equity investments are measured at current value or using an adapted equity method of accounting (see questions 2.3 and 3.3), the importance of distinguishing between dividends and return of capital by the recipient of the distribution is not significant (except perhaps from a financial performance reporting perspective, as evident in the following paragraph).

A question arises as to how the effect of dividends on the recipient should be presented for financial performance reporting purposes where investments in controlled entities are measured at current value (see question 2.3) or at the net assets of the controlled entities (see question 3.3). Where equity investments are measured at current value, the IASB's Reporting Comprehensive Income Project treats dividend revenue as a "remeasurement" (which effectively acknowledges the interrelatedness of dividends and the value of equity instruments) in contrast to GFS which classifies/presents it as a "transaction". An issue to be resolved is, in the context of question 4.1.1, whether classifying/presenting dividend revenue as a "transaction" would be appropriate in a GAAP context. Consistent with the view expressed in question 4.1.1, distributions receivable from controlled entities should be classified/presented as a "transaction" (which is consistent with GFS).

A question also arises as to how the effect of dividends on the recipient should be presented for financial performance reporting purposes where investments in controlled entities are measured at cost (see question 2.3 above)<sup>17</sup>. As noted above, the IASB's Reporting Comprehensive Income Project treats dividend revenue as a "remeasurement" in contrast to GFS which classifies/presents it as a "transaction". Depending on the content of the next draft IASB Reporting Comprehensive Income Exposure Draft, the AASB intends to write to the IASB expressing the view that dividends receivable from controlled entities where the investment is measured at cost should be classified/presented as "before remeasurements". Therefore, consistent with the preliminary view expressed in question 4.1.1, dividends from

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<sup>17</sup> As noted in the preliminary view to question 2.3, it would not be expected that investments in subsidiaries would be measured at cost.

controlled entities measured at cost should be classified/presented as “transactions” (which is consistent with GFS).

- (h) Reduced net worth for commercial government operations (issue 5.2): consistent with the objective of general purpose financial reporting and the HOT’s recommendation, GAAP treatment should be adopted, with disclosure to satisfy GFS requirements.
- (i) Investments in associates using the equity method of accounting (issue 5.3): consistent with the objective of general purpose financial reporting and the HOT’s recommendation, GAAP recognition and measurement requirements (including the equity method of accounting) should be adopted, with disclosure to satisfy GFS requirements.

In relation to financial performance reporting, the IASB’s Reporting Comprehensive Income Project would classify/present income from associates (including the effect of dividends) as “before remeasurements”. GFS would classify/present the change in value of the investment as a holding gain or loss (and dividends from associates as a transaction). An issue to be resolved is, in the context of question 4.1.1, whether classifying/presenting income from associates determined under the equity method of accounting as a price change (other economic flow) would be appropriate in a GAAP context. Consistent with the preliminary view expressed in question 4.1.1, income from associates (including the embedded effect of dividends) measured using the equity method of accounting should be classified/presented as an “other economic flow”. Dividends should not be separately classified/presented as “transactions”.

- (j) Minority interests (issue 5.4): consistent with the objective of general purpose financial reporting and the HOT’s recommendation, GAAP treatment should be adopted, with disclosure to satisfy GFS requirements.

5.2 Do you believe that there are any items that should be added to the above list?

***Preliminary AASB view***

At a minimum “changes in estimates” should be added to the list – see question 7.1 (a) below. See also the specific issues noted in response to question 6.2 below. The HOTARAC GFS/GAAP Convergence Working Group may identify other issues.

5.3 In respect of those items that you believe should be included in the list (that is, retained on the list or added to the list), what do you believe the nature of the disclosures should be for each item?

***Preliminary AASB view***

For the limited number of items on the list the disclosures should be combined, depending on the resolution of question 4.2, into a single note or included in a statement of financial performance and fiscal impact providing a reconciliation from GAAP converged net operating result/balance to GFS net operating balance.<sup>18</sup> For example,

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<sup>18</sup> To the extent differences relate to the cash flow statement or statement of financial position, disclosures about those differences should also be made.

research and development expenditures should be presented as reconciling differences to the extent that GAAP treatment differs from GFS treatment (see issue 4.5). A narrative explanation for the different treatments should also be provided.

It may also be appropriate for the notes appended to individual line items to have GFS information in them. If multiple issues are covered in one note (for example working from the converged net operating result/balance to GFS net operating balance) the major differences could carry cross-references to the individual line item notes.

**QUESTION 6. Specific technical issues where HOTS recommends adoption of GFS in the short term with the expectation that in the longer term current GAAP would be brought into line (due to "IASB 2005" and the IASB's Reporting Comprehensive Income Project)**

The issues identified by HOTS include:

- (a) Revisions relating to prior periods (correction of errors and changes in accounting policies) (see HOTS technical paper "Issue 1.1")
- (b) Borrowing costs on qualifying assets (see HOTS technical paper "Issue 1.2")
- (c) Actuarial adjustments for government defined benefit superannuation schemes (see HOTS technical paper "Issue 2.1")
- (d) Non-current, non-financial assets: revaluations and profit/(loss) on disposal (see HOTS technical paper "Issue 2.3")
- (e) Self-generating and regenerating assets (see HOTS technical paper "Issue 2.4")
- (f) Initial recognition of assets (see HOTS technical paper "Issue 2.6")
- (g) Financial instruments (including swaps and other derivatives, valuation of debt securities, and premiums and discounts on repurchased debt) (see HOTS technical paper "Issue 3")
- (h) Foreign exchange gains and losses (see HOTS technical paper "Issue 3.3")

6.1 Do you believe that there are any items that should be added to this list?

***Preliminary AASB view***

Not aware of any items that should be added to the list. The HOTALAC GFS/GAAP Convergence Working Group may identify other issues.

6.2 Do you agree with the HOTS submission that the AASB should early adopt "IASB 2005" and the IASB Reporting Comprehensive Income Project on each of the issues listed above to the extent that they align with GFS treatments?

*Preliminary AASB view*

*Definition, Recognition and Measurement Issues*

The benefits of early adopting "IASB 2005" definition, recognition and measurement requirements before they are finalised by the IASB/AASB as a means of achieving GAAP/GFS convergence on a timely basis are acknowledged. Unfortunately, such an approach would involve the AASB in a substantial amount of work and the uncertainties surrounding the outcome of the "IASB 2005" project mean that it would not be appropriate to pre-empt the outcome of that project.

However, once "IASB 2005" pronouncements are available for early adoption, consideration could be given to prescribing their early adoption for public sector entities in the interest of facilitating timely GAAP/GFS convergence.<sup>19</sup> The discussion below (within this text box) indicates those issues for which it is expected that GAAP will align with GFS once "IASB 2005" pronouncements are in place.

Where current GAAP definitions, recognition and measurement requirements differ from anticipated "IASB 2005" requirements (that are the same as GFS requirements), current GAAP requirements should be adopted for general purpose financial reporting until "IASB 2005" pronouncements are available for adoption. Disclosures should be made to satisfy GFS requirements (as described in response to question 5.3 above). Given the expectation that all "IASB 2005" standards will be issued by February/March 2004 and therefore could be available for early adoption for the financial year ending 30 June 2004, the implications of waiting for standards to be available for early adoption rather than pre-empting the requirements in those standards would not be expected to have a practical effect (except possibly for 2004/05 budgets).

To the extent that "IASB 2005" definition, recognition and measurement requirements are not expected to facilitate convergence, unless there is a public sector specific reason for GAAP to differ from those requirements, an IASB requirement (subject to the AASB's due process on IASB 2005 issues) should be adopted in lieu of GFS requirements for general purpose financial reporting. Disclosures should be made to satisfy GFS requirements (as described in response to question 5.3 above). The discussion below (within this text box) indicates those issues for which this approach, depending on circumstances, may be appropriate. This includes the circumstances noted in item (a) in relation to a change in accounting policy made on the adoption of a standard that has specific transitional provisions; and the exceptional circumstances anticipated in item (c) in relation to backcasting of actuarial adjustments for government-sponsored defined benefit superannuation plans.

*Financial Performance Reporting Issues*

In relation to financial performance reporting, consistent with the view expressed in

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<sup>19</sup> At its 15 and 16 October 2003 meeting, the AASB decided that early adoption of "IASB 2005" pronouncements should not be allowed. The issue of early adoption is raised in this Consultation Paper in the context of GFS/GAAP convergence to seek Panel member comments on the appropriateness of providing a limited exception to the Board's prohibition on early adoption, to the extent early adoption would facilitate convergence (for example, in relation to correction of errors, voluntary changes in accounting policies and borrowing costs).

question 4.1.1, the AASB should develop financial performance reporting requirements that satisfy the needs of users in relation to government financial reporting, without awaiting the outcome of the IASB Reporting Comprehensive Income Project. Because GFS broad principles for financial performance reporting, combined into a single comprehensive statement, would generally satisfy the needs of users, those principles (with limited exceptions noted in the preliminary view for question 4.1.1 above) should be adopted into GAAP. However, as also indicated in the preliminary view to question 4.1.1, rather than cross reference to GFS, the standard should express the principles directly.

*Additional Research Required*

As noted in the following, further work is needed on certain items before a preliminary view can be drawn as to whether GFS requirements should be adopted by GAAP. These items include:

- item (a) in relation to “found” assets;
- item (c) in relation to any “other” differences relating to the treatment of amounts relating to sponsorship of defined benefit superannuation plans;
- item (e) in relation to bearer and consumable biological assets that are not cultivated (and possibly cultivated bearer and consumable biological assets that are not held for profit); and
- item (g) in relation to certain aspects relating to financial instruments.

However, as a general principle, the preliminary view is that, unless there are compelling reasons to do otherwise, definition, recognition and measurement requirements should remain consistent with GAAP (with disclosures to satisfy GFS requirements) and financial performance reporting requirements should follow broad GFS principles (with “transactions” defined in a manner consistent with GAAP).

*Comments on Each Identified Issue:*

- (a) Revisions relating to prior periods (correction of errors and changes in accounting policies) (issue 1.1): it is expected that adoption of improved IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” will facilitate broad alignment with the GFS treatment of correction of errors and voluntary changes in accounting policies. Until the improved IAS 8 is available for adoption (it is expected to be finalised in the first quarter of 2004), the current GAAP treatment should be retained and disclosures should be required to satisfy GFS requirements.

In relation to involuntary changes in accounting policies (that is, a change in an accounting policy that is made on the adoption of a standard), GAAP requires the effect of the change to be accounted for in accordance with the specific transitional provisions, if any, in the standard. Where the specific transitional provisions differ from the GFS treatment, GAAP treatment should be adopted and disclosures should be required to satisfy GFS requirements.

In relation to correction of errors and in particular the measurement of previously contributed or acquired assets that have not been previously identified and recognised as assets, consistent with the likely outcome of “IASB 2005”, AASB Exposure Draft ED 125 “Financial Reporting by Local Governments” proposes that such assets be initially measured at fair value as at the date of initial recognition

with the corresponding adjustment made directly against accumulated surplus (deficiency). This requirement would only apply where it is impracticable to identify the fair value of contributed assets or the acquisition cost of acquired assets (or, in certain cases of assets transferred as a result of a restructure of local governments, the transferor's carrying amount immediately prior to the transfer) as at the time of the initial contribution or acquisition of the assets. To the extent that this proposal is incorporated into a Standard for local governments, it is expected that it would also be included in standards applicable to all not-for-profit public sector entities. The extent to which this approach is consistent with GFS requires further investigation.

- (b) Borrowing costs on qualifying assets (issue 1.2): the conceptual difference between the two frameworks (GFS expense vs Australian GAAP capitalisation) may be resolved by jurisdictions opting for the expensing option under IAS 23 "Borrowing Costs", which would be possible to the extent that the proposals in AASB ED 111 "Request for Comment on IAS 23 Borrowing Costs" are adopted.
- (c) Actuarial adjustments for government-sponsored defined benefit superannuation plans (issue 2.1): it is expected that adoption of IAS 19 "Employee Benefits" per AASB ED 115 "Request for Comment on IAS 19 Employee Benefits" in combination with the financial performance reporting approach outlined in question 4.1.1 (and the IASB Reporting Comprehensive Income Project) will facilitate alignment with the GFS treatment, except to the extent that GFS treats actuarial adjustments as prior period adjustments and amends comparative amounts (the HOT's submission notes that such "backcasting" would occur only in "exceptional circumstances"). In these exceptional circumstances the current GAAP treatment of changes in estimates should be retained (see question 7.1 item (a)) and disclosures should be required to satisfy GFS requirements.

The first paragraph of the conclusion section of the HOT's technical paper for issue 2.1 notes that "the *main* difference between the GAAP and GFS treatments of defined benefit superannuation schemes relates to the movements in the actuarial valuation of any unfunded liability" (*emphasis added*). To the extent that this implies that other differences exist, or emerge under a revised IAS 19, further work needs to be done to identify those differences and identify a strategy for addressing the differences.

- (d) Non-current, non-financial assets: revaluations and profit/(loss) on disposal (issue 2.3): the GFS/GAAP differences relate only to financial performance reporting issues (that is, definition, recognition and measurement principles are broadly harmonised). The current financial performance reporting difference between GFS and Australian GAAP would be resolved by adoption of the approach to financial performance reporting proposed in the preliminary view to question 4.1.1 (or the IASB Reporting Comprehensive Income Project), except possibly in relation to the offsetting of increments and decrements by class. If GAAP requires offsetting by class and GFS does not, the aggregate amounts recognised under GFS for each asset within a class is different from the amount recognised for that class under GAAP. In these circumstances, GAAP treatment should be adopted, with disclosure to satisfy GFS requirements.

(e) Self-generating and regenerating assets (issue 2.4):

*Cultivated bearer and consumable biological assets held primarily for profit:* it is expected that the requirements in IAS 41 "Agriculture" will be adopted in Australia for private sector entities (per AASB ED 114 "Request for Comment on IAS 41 Agriculture"). Subject to the proposals in AASB ED 124 "Request for Comment on: The Definition of Reporting Entity; IASB *Framework for the Preparation and Presentation of Financial Statement*; IAS 18 *Revenue*; and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*" relating to government grants, the same definition, recognition, measurement and disclosure requirements should apply to public sector entities (unless there is a public sector specific reason to be different). In relation to presentation requirements (for financial performance reporting purposes), consistent with the IASB Reporting Comprehensive Income Project and the preliminary view in question 4.1.1 above, value change attributable to physical change should be presented as a "transaction" and value change attributable to price change should be presented as an "other economic flow". Where the split between price and volume changes cannot be determined without undue cost or effort, the requirements being developed under the IASB Reporting Comprehensive Income Project should be followed (that is, if separation between physical change and price change is not done, the total fair value change would be recognised in one column of the statement of financial performance based on whether physical or price changes have contributed the most to the total change in fair value).

*Cultivated bearer and consumable biological assets not held primarily for profit:* there are currently no explicit Australian accounting standards applicable to such biological assets. To the extent that IAS 41 requirements are not adopted, it will be necessary to consider whether it would be appropriate to incorporate GFS treatments into accounting standards.

*Bearer and consumable biological assets that are not cultivated:* there are currently no explicit Australian accounting standards applicable to such biological assets (and IAS 41 also does not apply to them). It would be necessary to consider whether it would be appropriate to incorporate GFS treatments into accounting standards.

(f) Initial recognition of assets (issue 2.6): the HOT's submission identifies particular kinds of assets to which this issue is intended to relate. The issue is most pertinent to financial performance reporting issues.

The first kind of assets referred to in the HOT's submission relates to items that were previously known to exist but acquire economic value for the first time as a result of a change in relative prices, technology or some other factor. To the extent that their "initial recognition" effectively occurs through the process of revaluation, consistent with the view expressed in question 4.1.1, the revaluation should be classified/presented as an "other economic flow" rather than as a "transaction" for financial performance reporting purposes. Therefore, it is expected that GFS and GAAP (after adoption of financial performance reporting principles) will align in relation to this issue.

To the extent that initial recognition of assets does not effectively occur through the

process of revaluation, the preliminary view on GAAP/GFS convergence varies depending on the nature of the assets. The HOT's submission identifies three different kinds of assets to which non-revaluation initial recognition may arise:

- assets seized without equivalent compensation: the IASB Reporting Comprehensive Income Project is expected to classify/present them as "before remeasurements" items. Consistent with the preliminary view expressed in question 4.1.1, in contrast with GFS, they should be presented as "transactions" (that is, they should not be presented as "other economic flows") because they are in the nature of transactions;
- newly discovered subsoil assets: see question 7 item (c) relating to extractive industries below; and
- assets created by the exertion of ownership rights over a naturally occurring asset (such as the electromagnetic spectrum or fishstocks in exclusive economic zones): the IASB Reporting Comprehensive Income Project is expected to classify/present them as "before remeasurements" items. Consistent with the preliminary view expressed in question 4.1.1 and consistent with GFS, they should be presented as "other economic flows" (in particular, other volume changes that do not arise from "transactions") because they are not in the nature of transactions.

(g) Financial instruments (issue 3): adoption of proposed revised IAS 39 "Financial Instruments: Recognition and Measurements" (because of its option to designate all financial instruments as held for trading, resulting in all financial instruments being measured at current value with changes in value recognised in the financial performance report) together with a single statement that contains information about comprehensive financial performance and its two components will generally help facilitate convergence. Further research is required to determine whether the following issues would continue to give rise to GAAP/GFS convergence issues:

- financial performance reporting by financial institutions (and whether changes in current value should be treated as holding gains and losses);
- the validity of the assertion that transaction costs are immaterial (see question 7 item (i) below);
- derecognition requirements in proposed revised IAS 39 (which is expected to continue to apply the concepts of, firstly, substantially all the risks of ownership and, secondly, control); and
- to the extent that a derivative is designated as a hedging instrument rather than as a held for trading instrument, the treatment for financial performance reporting purposes of the effective portion of the gain or loss on a cash flow hedge at the time (and after, if relevant) the hedged item is recognised. (Under the IASB Reporting Comprehensive Income Project, the cumulative gain/loss is "visibly" removed from the cash flow hedging category and reported alongside the hedged item within the "remeasurements" column. This treatment has no net effect on current period profit but shows the effect of the hedge on the hedged item).

(h) Foreign exchange gains and losses (issue 3.3): the GFS/GAAP differences relate to financial performance reporting issues. The current financial performance reporting difference between GFS and Australian GAAP would be resolved by adoption of the approach to financial performance reporting proposed in the preliminary view to question 4.1.1 (or the IASB Reporting Comprehensive Income Project).

**QUESTION 7. Other specific technical issues include**

These issues include:

- (a) Revisions relating to prior periods (changes in estimates) (see HOT's technical paper "Issue 1.1")
- (b) Government superannuation schemes – nominal interest (see HOT's technical issues overview paper "Issue 2.2")
- (c) Extractive industries (see HOT's technical issues overview paper "Issue 2.5")
- (d) International Development Association (IDA)/Asian Development Fund (ADF) subscriptions (see HOT's technical issues overview paper "Issue 4.3")
- (e) Constructive obligation (see HOT's technical issues overview paper "Issue 4.6")
- (f) Share based payments (see HOT's technical issues overview paper "Issue 4.7")
- (g) Investment properties (see HOT's technical paper "Issue 6.1")
- (h) Valuation of inventory (including Defence inventory) (see HOT's technical issues overview paper "Issue 6.2")
- (i) Treatment of transaction costs (see HOT's technical issues overview paper "Issue 6.3")
- (j) IMF Special Drawing Rights (see HOT's technical issues overview paper "Issue 7.1")
- (k) Depreciation/Consumption of fixed capital (see HOT's technical paper "Issue 7.3")
- (l) The probable recognition criterion: recognition of expenses versus assets (see HOT's technical issues overview paper – last page)
- (m) Land under roads (see HOT's technical issues overview paper – last page)
- (n) Negative goodwill (see HOT's technical issues overview paper – last page)

7.1 Do you agree with HOT's assessment of each of these issues and how any differences between GFS and GAAP should be dealt with (both in the short term and the long term)? If not, how do you believe the issues should be addressed in the context of GAAP/GFS convergence?

***Preliminary AASB view***

*Definition, Recognition and Measurement Issues*

In relation to definition, recognition and measurement, consistent with the AASB's guiding principle and preliminary views in questions 5 and 6, unless there are public sector specific reasons to differ, current GAAP requirements should be retained (and subsequently amended to reflect the effect of "IASB 2005" requirements, once they are finalised and available for adoption – see footnote 19 above) for each of the items identified above. Where this differs from GFS, disclosures should be made to satisfy GFS requirements.

*Financial Performance Reporting Issues*

Consistent with the view in response to question 4.1.1, the GFS "transactions/other economic flows" dichotomy should be adopted (with "transactions" defined in a manner consistent with GAAP). This is particularly relevant to item (g) which relates to depreciation of investment property, and potentially item (k) which relates to depreciation (including depreciation of fixed capital regularly measured at fair value).

*Additional Research Required*

Further work is needed on certain items before a conclusion can be drawn as to whether a GAAP/GFS convergence issue exists or whether GFS requirements should be adopted by GAAP (for example, see items (c), (d), (f), (h), (i), (j) and (n) below). As a general principle, unless there are compelling reasons to do otherwise, to the extent GFS differs from GAAP in relation to definition, recognition and measurement requirements, GAAP should be adopted with disclosures to satisfy GFS requirements. To the extent that differences arise due to financial performance reporting, broadly the GFS dichotomy (with "transactions" defined in a manner consistent with GAAP) should be adopted.

*Comments on Each Identified Issue*

- (a) Revisions relating to prior periods (changes in estimates) (issue 1.1): the HOT's submission acknowledges that a GAAP/GFS convergence issue may exist – conceivably an amount that is treated as a change in estimate by GAAP could be treated as a correction of an error by GFS. To the extent this difference arises, GAAP should be adopted for general purpose financial reporting purposes and disclosures should be made to satisfy GFS requirements.
- (b) Government superannuation schemes – nominal interest (issue 2.2): no convergence issue arises in relation to the unfunded portion of an employer's liability to a superannuation plan to the extent that GFS adopts GAAP requirements for recognition and measurement. Consistent with the preliminary view expressed in question 4.1.1, the interest expense (that arises from the unwinding of the discount) should be classified/presented as a "transaction", and therefore there is no convergence issue in relation to financial performance reporting. Further work needs to be done to determine whether convergence issues arise in relation to the funded portion.
- (c) Extractive industries (issue 2.5): if this issue is immaterial for the public sector, it is reasonable not to regard it as a convergence issue. However, consideration should be given to whether the issue may be material for individual public sector entities (albeit not at a whole of government or GGS level). To the extent that the issue is material, further work needs to be done to determine whether the following give rise to differences:
- definition/identification of inventory (for example, use of cut-off grade approach);
  - absorption of exploration and evaluation costs into the cost of inventory;
  - treatment of sale of inventory;
  - depreciation/amortisation; and
  - impairment.

In relation to the recognition of subsoil assets (see question 6.2 item (f)), the GAAP approach (non-recognition) should be adopted, with disclosure to satisfy any GFS requirements.

- (d) International Development Association (IDA)/Asian Development Fund (ADF) subscriptions (issue 4.3): before concluding on this issue, it is necessary to clarify whether the issue is merely one of interpretation. To the extent that GFS (and the

Commonwealth interpretation) treats the item in a manner consistent with GAAP, no conceptual or practical differences between the two frameworks will exist. From the HOT's paper, it is not clear how the issue will be interpreted.

- (e) Constructive obligation (issue 4.6): there is a conceptual difference between the two frameworks (GFS is dependent on the existence of a counterparty that would recognise a corresponding asset before a constructive obligation [that could be recognised as a liability under GAAP] would give rise to the recognition of a [GFS] liability; and conceivably GFS could recognise a liability that GAAP discloses as a contingent liability). To the extent that GFS accepts the GAAP recognition of a liability, there is no practical difference between the two frameworks. To the extent that differences arise (due to the "case-by-case examination" referred to in the HOT's paper) GAAP treatment should be adopted, with disclosure to satisfy GFS requirements.
- (f) Share-based payments (issue 4.7): to the extent that GAAP requirements (to arise out of the IASB's Share-based Payments Project) differ from GFS requirements, GAAP requirements should be adopted, with disclosure of information necessary to satisfy GFS requirements.
- (g) Investment properties (issue 6.1): adoption of the IPSAS 16 "Investment Property" exclusion of "social service property" from the definition of investment property would minimise the effect of GAAP/GFS convergence issues at a whole of government and GGS level. However, as noted in the HOT's paper, there may still be issues for individual government departments and possibly for other public sector entities such as universities who might have other forms of property that meet the definition of investment property. To the extent that jurisdictions apply the fair value model allowed under IAS 40/IPSAS 16 (expected to be adopted in Australia as part of the "IASB 2005" project), GAAP/GFS convergence issues relating to definition, recognition and measurement would be resolved, except in relation to depreciation. Under IAS 40/IPSAS 16, the building component of an investment property is not depreciated. Under GFS, the building component of an investment property is depreciated and the depreciation is classified/presented as a "transaction". Consistent with the view in (k) below, non-monetary assets that are regularly measured at fair value should be depreciated, to facilitate a focus on the results of transactions separately from results of other economic flows.

Another potential issue relates to transfers from inventory to investment property. To the extent that the measurement basis for inventory under GAAP differs from the measurement basis under GFS, this potential convergence issue is addressed in item (h) below. However, to the extent that a value change is recognised because of the change in classification of the property, no convergence issue arises because GFS treats the change in value as a volume change (that is as an "other economic flow" – see GFSM 2001 paragraph 10.57), which is consistent with the manner in which it would be treated under the approach to financial performance reporting under question 4.1.1.

- (h) Valuation of inventory (including defence inventory) (issue 6.2): if the proposals in AASB ED 116 "Request for Comment on IAS 2 and IPSAS 12 Inventories" (which include the proposal that inventories held by not-for-profit entities for distribution

should be measured at the lower of cost or current replacement cost) are adopted, because GFS measures inventory at current replacement cost, there will be a difference with GAAP if inventories, under GAAP, are carried at cost. Although the issue may be immaterial at the whole of government level, further work is required to determine whether it may be material at an individual public sector reporting entity level. To remove the differences, consistent with the option to measure other assets at cost or current value (for example, property, plant and equipment, and financial instruments) consideration should be given to requiring public sector entities to measure all inventory at current replacement cost.

- (i) Treatment of transaction costs (issue 6.3): to the extent that this issue is material, further work needs to be done to determine the extent to which GFS's notion of "service charges" aligns with GAAP's references to "transaction costs", and whether the following give rise to differences between GFS and GAAP in relation to recognition, measurement and financial performance reporting:

- the treatment of transaction costs on the issue or intended issue of equity instruments (see UIG Abstract 23 "Transaction Costs Arising on the Issue or Intended Issue of Equity Instruments");
- the treatment of transaction costs on the acquisition of assets\*;
- the treatment of transaction costs in relation to the regular revaluation of assets to current values;
- the treatment of transaction costs on the disposal of non-financial assets; and
- the treatment of transaction costs on the disposal of financial assets.

Unless there is a public sector specific reason to treat transaction costs differently from the manner in which they are required to be treated by private sector entities, GAAP treatment should be adopted with disclosures to satisfy GFS requirements.

(\*It is relevant to note that, at its July 2003 meeting, the IASB tentatively agreed that transaction costs should be included in the initial measurement of items other than those measured at fair value with changes in fair value recognised in profit/loss.)

- (j) IMF Special Drawing Rights (issue 7.1): further work needs to be done to determine the extent to which the treatment of undrawn rights and drawn rights (both recognition and measurement) and associated items such as interest differs between GAAP and GFS.
- (k) Depreciation/consumption of fixed capital (issue 7.3): broadly, there is no conceptual difference between the two frameworks (although see item (g) relating to investment property above). To the extent that GFS uses the GAAP determination of depreciation, practical differences do not arise (assuming assets are measured at current values). In the longer term, the implications of any changes to the GAAP treatment of the depreciation of fair valued assets for financial performance reporting purposes needs to be considered (for example, if non-depreciation is adopted, as is the case with investment property measured at fair value [see item (g) above]). Depending on the content of the next draft IASB Reporting Comprehensive Income Exposure Draft, the AASB intends to write to the IASB to express the view that assets that are regularly measured at fair value should not also be subject to depreciation (because the effect of depreciation is embedded in the fair value) and therefore that depreciation of such assets should effectively be classified as "remeasurements". However, consistent with the preliminary view expressed in

question 4.1.1, in the interest of providing a useful dichotomy of comprehensive income, assets that are regularly measured at fair value should be subject to depreciation so that the movement in fair value from one period to the next is split between that caused by depreciation factors (such as usage) and that caused by price movements, in order to facilitate a focus on the results of transactions separately from the results of other economic flows.

- (l) The probable recognition criterion: recognition of expenses versus assets (unnumbered issue): there is a conceptual difference between the two frameworks (control vs ownership; and dependence on probability vs no such dependence). To the extent that GFS uses the practical application of the GAAP definition of assets and the recognition criteria, there is no practical difference between the two frameworks.
- (m) Land under roads (unnumbered issue): there is no conceptual difference between the two frameworks.
- (n) Negative goodwill (unnumbered issue): it is acknowledged that this issue is unlikely to be significant in a not-for-profit public sector context. It is relevant to note that, depending on the outcome of the IASB Business Combinations Project, Australian GAAP treatment of negative goodwill may change. To the extent this occurs, further work is required to consider the GAAP/GFS convergence implications – there may be financial performance reporting issues (for example, under revised GAAP negative goodwill would be recognised immediately as a “before remeasurement” and under GFS it would effectively be recognised as an “other economic flow”). Consistent with the preliminary view expressed in question 4.1.1, the amount should be classified/presented as a “transaction”.

## **QUESTION 8. Unidentified technical issues**

- 8.1 Are you aware of any other technical differences between GAAP and GFS that have not been identified in the HOT's submission?

***Preliminary AASB view***

The HOTARAC GFS/GAAP Working Group has made a subsequent submission to the AASB on inventories, constructive obligations and tax-effect accounting and may make further submissions on other issues such as seigniorage. Once these submissions have been reviewed by the AASB it is expected that a further Consultation Paper will be prepared for comment by the PAP.

- 8.1.1 If so, what is your view on how each should be addressed in the context of GAAP/GFS convergence?

***Preliminary AASB view***

Further research is required to determine the extent to which GAAP/GFS convergence issues arise.

The remaining questions (Questions 9 to 16) seek comments on a range of other issues pertinent to GAAP/GFS convergence.

**QUESTION 9. Timetable for completion**

- 9.1 When do you believe that the AASB should make a converged framework (for Phase 1 and Phase 2 entities) mandatory?

***Preliminary AASB view***

In the interest of achieving GAAP/GFS convergence on a timely basis for Phase 1 and Phase 2 entities, a standard facilitating convergence should be made mandatory as soon as practicable. Due to the extensive due process and the involvement of interested/affected parties in that process, it may be possible to shorten usual exposure periods and the lag time between issuing a standard and making it mandatory. There are, however, many issues to be resolved and further research is required on some issues before a convergence solution can be achieved.

- 9.2 Do you believe that the converged framework should be made available for early adoption ahead of the mandatory date?

***Preliminary AASB view***

In the interest of achieving GAAP/GFS convergence as soon as possible, early adoption should be allowed (on an all or nothing basis). If the convergence requirements are contained within a single standard (see question 10), potential concerns about “cherry-picking” particular standards should not be an issue. It is acknowledged that “cherry-picking” should not be a concern as it would be contrary to the advantages gained by adopting the converged framework.

**QUESTION 10. Vehicle for convergence**

- 10.1 What is the most appropriate vehicle for giving effect to GAAP/GFS convergence ?

***Preliminary AASB view***

In the interest of achieving GAAP/GFS convergence on a timely basis for Phase 1 entities, amendments to AAS 31 “Financial Reporting by Governments” should contain requirements necessary to achieve convergence. As stated above, the standard should explicitly mandate financial performance reporting requirements rather than cross-reference to GFS. This approach is consistent with the AASB’s policy of providing self-contained standards and the AASB’s responsibility for standard-setting (that is, it would not be appropriate for the AASB to delegate its authority). A similar approach should be adopted for Phase 2 entities. Consideration of the appropriate vehicle for Phase 3 entities should be deferred until Phases 1 and 2 are finalised.

**QUESTION 11. Interpretation of GFS in relation to identified technical issues**

- 11.1 For those issues for which GFS is proposed to be adopted (see question 6 above), and even those issues for which GFS forms the basis for disclosure rather than recognition (see question 5 above), questions of interpretation of GFS may arise. Assuming the financial information is to be audited, differences in interpretation by Auditors-General, Treasuries and the ABS may arise. What would you expect the role of the AASB/UIG to be in those circumstances?

***Preliminary AASB view***

Consistent with the preliminary view that accounting standards specifying requirements for general purpose financial reporting should not cross-reference to GFS, rather they should explicitly incorporate certain GFS principles into GAAP, significant interpretation issues should be resolved by the AASB/UIG. The ABS, Auditors-General and Treasuries should be consulted in the process.

**QUESTION 12. Subsequently identified technical issues**

(See in particular page 7 of the HOT's conceptual paper "Objectives of GAAP and GFS")

- 12.1 What would you expect the respective roles of the ABS and the AASB/UIG to be in relation to issues that might emerge in the future whereby GAAP would treat the item differently from GFS for general purpose financial reporting purposes? (This question is closely related to question 11).

***Preliminary AASB view***

Consistent with the preliminary view relating to question 11, the AASB/UIG should make decisions on future issues affecting general purpose financial reports, after extensive consultation with the ABS (and other constituents).

**QUESTION 13. International convergence**

- 13.1 Australia is participating in international efforts being undertaken by IFAC-PSC, IMF and OECD to converge GAAP and GFS at an international level. To what extent do you believe the AASB should consider the outcome (yet to be determined) of those efforts in its own GAAP/GFS convergence project:
- (a) in the short term; and
  - (b) in the long term?

***Preliminary AASB view***

In the short term, although having regard to international views that may be expressed, perhaps as tentative views, given the urgent priority of GAAP/GFS convergence in Australia, the AASB should pursue convergence rather than await the outcome of international deliberations. This approach provides an opportunity for Australia to demonstrate leadership. Given where the rest of the world is at with public sector financial reporting, the AASB will be in a position to add a significant amount of value in the post 2005 environment.

In the longer term, the AASB should review the results of its short term convergence solution, monitor its implementation, provide input based on its experience to international forums, and ultimately consider (after appropriate due process) aligning with international convergence solutions to the extent that they are in the best interests of Australia.

**QUESTION 14. Convergence of private sector and public sector accounting standards**

- 14.1 The AASB has a policy of issuing sector neutral standards (that is, private sector and public sector standards should be the same to the extent that transactions and other events affecting those sectors are the same). To what extent do you believe that this policy should affect the decisions the AASB makes in relation to GAAP/GFS convergence?

***Preliminary AASB view***

The sector-neutral principle is strongly supported – particularly in relation to definition, recognition and measurement issues.

**QUESTION 15. Users and uses of public sector financial information**

(See HOT's conceptual paper "Identification of the users and their uses of public sector financial statements")

- 15.1 Do you agree with the list of users and uses identified in the HOT's submission? Are you aware of any other users (who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs) in addition to those identified in the HOT's submission? If so, who are they and do you believe that the HOT's recommendations would satisfy those users' needs?

***Preliminary AASB view***

Not aware of any other users. In relation to uses, while the HOT's submission identifies the use users make of GGS information, as noted in the preliminary view to question 3, that information could be presented in the context of whole of government information. To the extent users prefer a stand-alone GGS financial report, it could be presented as an extract from the general purpose financial report (that contains the financial information on the whole of government and the GGS).

- 15.2 Do you believe that the HOT's recommendations would satisfy the identified needs of identified users?

***Preliminary AASB view***

Preliminary views throughout the above indicate the extent to which the HOT's recommendations would satisfy the identified needs of identified users.

**QUESTION 16. Other comments**

- 16.1 Do you have any other comments to make on any issues relating to the AASB's GAAP/GFS Convergence Project?

**Terminology used in the PAP Consultation Paper<sup>20</sup>:**

**GFS Terminology**

No.	GFS Term	Explanation
1.	GFS, Government Finance Statistics	GFS is a framework designed to facilitate macroeconomic analysis of the economic impact of government activity and the sustainability of the government's fiscal policy. <sup>21</sup> Data obtained from GFS is used in the compilation of national accounts. <sup>22</sup>
2.	GGG, General Government Sector	<p>GGG comprises all government units of the Commonwealth government, each State and Territory government, and each local government authority; and all resident non-market non-profit institutions that are controlled and mainly financed by those governments.<sup>23</sup></p> <p>Some enterprises, for example government-controlled unincorporated enterprises, do not have their own separate accounts (as their operations are closely integrated with the operations of other government units) and are included in the GGG even though they engage in market production.<sup>24</sup></p> <p>Australia's public universities are treated as non-profit institutions that are controlled and mainly financed by government and, therefore, included in the GGG of the whole of economy.<sup>25</sup> They are classified by the ABS as multijurisdictional<sup>26</sup> and are therefore not assigned to a GGG of a particular government jurisdiction.<sup>27</sup></p>
3	Government Unit	Government units, "are defined as 'unique kinds of legal entities established by political processes which have legislative, judicial or executive authority over other institutional units within a given area' (SNA93, paragraph 4.104). Government units provide goods and services to individuals and the community at large; they redistribute income and wealth; and they engage in non-market production, which is production made available free or at prices that do not have a significant influence on the amounts that the producers are willing to supply or purchasers wish to buy." <sup>28</sup>
4.	PNFCs, Public Non-Financial Corporations	<p>PNFCs comprise all government controlled corporations and quasi-corporations (unincorporated entities that operate as if they are corporations<sup>29</sup>) mainly engaged in the production of market goods and/or non-financial services.<sup>30</sup></p> <p>"Market goods and services are those that are sold at 'economically significant prices', which are prices 'that have a significant influence on the amounts that producers are willing to supply or on the amounts that</p>

<sup>20</sup> In relation to GFS terminology reference is made to the IMF "Government Finance Statistics Manual", 2001 (GFSM 2001) and the ABS "Australian System of Government Finance Statistics: Concepts, Sources and Methods", 2003 (ABS 2003).

<sup>21</sup> GFSM 2001, paragraph 4.3.

<sup>22</sup> ABS 2003, paragraph 1.5.

<sup>23</sup> ABS 2003, paragraph 2.33.

<sup>24</sup> ABS 2003, paragraph 2.34.

<sup>25</sup> ABS 2003, paragraph 2.35.

<sup>26</sup> ABS 2003, paragraph 2.38.

<sup>27</sup> ABS 2003, paragraph 2.54.

<sup>28</sup> ABS 2003, paragraph 2.29.

<sup>29</sup> ABS 2003, paragraph 2.29.

<sup>30</sup> ABS 2003, paragraph 2.39.

<sup>31</sup> ABS 2003, paragraph 2.39.

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		purchasers wish to buy' ... Non-financial services are any services that do not qualify as financial intermediation or auxiliary financial services." <sup>31</sup>
5.	PFCs, Public Financial Corporations	<p>PFCs comprise all government controlled corporations and quasi-corporations mainly engaged in financial intermediation and the provision of auxiliary financial services.<sup>32</sup></p> <p>“Financial intermediation is defined as ‘a productive activity in which an institutional unit incurs liabilities on its own account for the purpose of acquiring financial assets by engaging in financial transactions on the market’”.<sup>33</sup></p> <p>“Auxiliary financial activities are services that are closely related to, and designed to facilitate, financial intermediation. The activities may be performed as secondary activities, by financial intermediaries, or performed on an agency basis by specialists. Examples include securities brokers, flotation companies, ... and institutions that arrange hedging instruments.”<sup>34</sup></p> <p>PFCs include institutions that undertake the role of a central bank, government controlled banks, insurance companies, pension funds and economic development corporations.<sup>35</sup> Also included are various housing finance schemes established by State governments to assist first home buyers.<sup>36</sup></p>
6.	Net Operating Balance	<p>Net Operating Balance measures the change in net worth from transactions and is calculated as revenues minus expenses.<sup>37</sup> It is a summary measure of the on-going sustainability of government operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets.<sup>38</sup></p> <p>A positive net operating balance indicates that surplus funds have been generated from current operations and are available to finance capital acquisitions. A negative net operating balance indicates that a shortfall has been incurred on current operations and that it was necessary to liquidate assets, incur liabilities or increase equity in order to finance the operations.<sup>39</sup></p>
7.	Net Lending/Borrowing	<p>Net lending/borrowing measures the net change in financial assets, liabilities and equity arising from “transactions” (i.e. net operating balance less net acquisition of non-financial Assets).<sup>40</sup> It is a summary measure that indicates the extent to which government is either putting financial resources at the disposal of other sectors in the economy or utilising the financial resources generated by other sectors. It may be viewed as an indicator of the financial impact of government activity on the rest of the economy.<sup>41</sup></p> <p>“When net lending(+)/borrowing(-) is positive it indicates that, on a net basis, the subject unit or sector had to purchase financial assets and/or repay liabilities in order to defray surplus funds. When net lending(+)/borrowing(-) is negative it indicates that, on a net basis, the</p>

<sup>32</sup> ABS 2003, paragraph 2.41.

<sup>33</sup> ABS 2003, paragraph 2.41.

<sup>34</sup> ABS 2003, paragraph 2.41.

<sup>35</sup> ABS 2003, paragraph 2.42.

<sup>36</sup> ABS 2003, paragraph 2.44.

<sup>37</sup> ABS 2003, paragraph 2.104.

<sup>38</sup> GFSM 2001, paragraph 4.16.

<sup>39</sup> ABS 2003, paragraph 2.111.

<sup>40</sup> ABS 2003, paragraph 2.105.

<sup>41</sup> GFSM 2001, paragraph 4.17.

<sup>42</sup> ABS 2003, paragraph 2.112.

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		subject unit or sector had to liquidate financial assets, incur liabilities and/or increase equity in order to finance current operations and capital acquisition.” <sup>42</sup>
8.	Transactions	<p>A transaction is an interaction between two units by mutual agreement or an action within a unit that is analytically useful to treat as a transaction. In some cases a single unit acts in two different capacities and it is analytically useful to treat this as an (internal) transaction. Examples of such items are consumption of fixed capital (recording depreciation recognises the fact that the unit concerned is both the owner of the fixed asset and the consumer of its services) and the transfer of materials and supplies from inventories to production.<sup>43</sup></p> <p>Mutual agreement means that there was prior knowledge and consent by the units, but it does not necessarily mean that both units entered into the transaction voluntarily. Transactions may be imposed by force of law.<sup>44</sup> Taxes are also transactions as there is deemed to be mutual agreement between the government and the taxpayer.<sup>45</sup></p>
9.	Other Economic Flows	Other economic flows are changes in the volume or value of an asset or liability that do not result from a transaction. They include price changes and other changes in the volume of assets. <sup>46</sup> The government does not directly control performance relating to other economic flows. <sup>47</sup>
10.	Analytical Balances	“Analytical balances are economic constructs that are obtained by differencing aggregates and are of particular utility in fiscal analysis. For example, the GFS net operating balance is an analytical balance obtained by subtracting the expenses aggregate from the revenues aggregate.” <sup>48</sup>
11.	Net Increase (Decrease) in Cash Held	Net increase (decrease) in cash held is derived from the aggregation of cash flows from operating activities, investments in non-financial assets, investments in financial assets for policy purposes, investments in financial assets for liquidity management purposes and financing activities. <sup>49</sup>
12.	Cash Surplus (Deficit)	<p>Cash surplus (deficit) is derived as net cash flows from operating activities + net cash flows from acquisition and disposal of non-financial assets – distributions paid – value of assets acquired under finance leases and similar arrangements. (Distributions paid are dividends and other returns to owners and shareholders made by public corporations).<sup>50</sup></p> <p>“The cash surplus/deficit is a measure of a sector's cash flow requirements and if positive (ie a surplus), it reflects cash available to governments to either increase financial assets or decrease liabilities. When this measure is negative (ie a deficit), it identifies the extent to which a government's needs to run down its financial assets in order to finance the cash shortfall”.<sup>51</sup></p>

<sup>43</sup> GFSM 2001, paragraph 3.6.  
<sup>44</sup> GFSM 2001, paragraph 3.5.  
<sup>45</sup> ABS 2003, paragraph 2.61.  
<sup>46</sup> GFSM 2001, paragraph 3.25.  
<sup>47</sup> GFSM 2001, paragraph 4.16.  
<sup>48</sup> ABS 2003, paragraph 2.93.  
<sup>49</sup> ABS 2003, paragraph 2.118.  
<sup>50</sup> ABS 2003, paragraph 2.120.  
<sup>51</sup> ABS 2003, paragraph 2.120.

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**GAAP Terminology**

No.	GAAP Term	Explanation
1.	GAAP, Generally Accepted Accounting Principles	<p>In Australia paragraph 4.1.2 of AASB 1001 "Accounting Policies" notes that:</p> <p>"The accounting policies to be applied to many transactions or other events are specified in Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and/or the Public Sector Accounting Standards Board (PSASB), or Urgent Issues Group (UIG) Consensus Views. In the absence of a specific Accounting Standard, other authoritative pronouncement of the AASB and/or the PSASB or UIG Consensus View, judgement is used in selecting an accounting policy that provides the most useful information to users of the entity's financial report. In making this judgement, other pronouncements that are considered, in order of preference, are:</p> <ul style="list-style-type: none"> <li>(a) the requirements and guidance in other Accounting Standards or other authoritative pronouncements of the AASB and/or the PSASB dealing with similar or related issues</li> <li>(b) the requirements and guidance in UIG Consensus Views dealing with similar or related issues</li> <li>(c) the definitions and recognition criteria for assets, liabilities, equity, revenues and expenses set out in Statement of Accounting Concepts SAC 4 "Definition and Recognition of the Elements of Financial Statements"</li> <li>(d) International Accounting Standards and Interpretations of the Standing Interpretations Committee of the International Accounting Standards Committee (only to the extent that these are consistent with (a), (b) and (c) of this paragraph)</li> <li>(e) the pronouncements of other national accounting standard setting bodies and accepted industry practices (only to the extent that these are consistent with (a), (b) and (c) of this paragraph)."<sup>52</sup></li> </ul>
2.	Reporting Entity	<p>Reporting entities are all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources.<sup>53</sup></p> <p>Economic entity means "a group of entities comprising a controlling entity and one or more controlled entities operating together to achieve objectives consistent with those of the controlling entity".<sup>54</sup></p>

<sup>52</sup> Note that this hierarchy of pronouncements may be impacted by the IASB's review (as part of its Improvements Project) of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

<sup>53</sup> SAC 1 paragraph 40.

<sup>54</sup> SAC 1 Definition of the Reporting Entity, paragraph 6.

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3.	Sector	<p>AAS 31 paragraph 15.12 requires certain disclosures in the general purpose financial reports of governments in respect of each broad sector of activity of the government. The Standard discusses the sector concept as follows:</p> <p>“Judgement will need to be applied in identifying the broad sectors of a government's activities. Consideration should be given to the likely users of the general purpose financial report of the government, the extent of the dissimilarity in the activities undertaken by the government and the qualitative characteristics that financial information must possess. One basis for identifying the broad sectors about which disaggregated information should be disclosed is the Government Finance Statistics (GFS) Standard adopted by the Australian Bureau of Statistics. ... It results in the disclosure of information about "general government", "public trading enterprises" and "government-controlled financial institutions”.”<sup>55</sup></p>
4.	Segment <sup>56</sup>	<p>AASB 1005, which is not applicable to not-for-profit entities defines business segment and geographical segment.<sup>57</sup></p> <p>IPSAS 18, which applies to public sector entities other than government business enterprises, defines a segment as “a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity’s past performance in achieving its objectives and for making decisions about the future allocation of resources”.<sup>58</sup></p>
5.	Net Operating Result	<p>In the case of an entity that is not an economic entity, this term denotes the result after income tax expense (income tax revenue) from ordinary activities and extraordinary items; and in the case of an entity that is an economic entity, the result after income tax expense (income tax revenue) from ordinary activities and extraordinary items, before adjustment for that portion that can be attributed to outside equity interest.<sup>59</sup> In the illustrative example in Attachment B to this paper the corresponding line is “net operating balance”.</p>
6.	Total Changes in Equity other than those Resulting from Transactions with Owners as Owners	<p>“Total changes in equity other than those resulting from transactions with owners as owners”<sup>60</sup> is the performance measure that corresponds with comprehensive income under the IASB Reporting Comprehensive Income Project. In the illustrative example in Attachment B to this Paper the corresponding lines are “comprehensive result” and “GFS comprehensive result”. The IASB Reporting Comprehensive Income Project also proposes that comprehensive income be disaggregated into “business profit” (comprising “operating profit”, “other business profit” and “financial income”), financing expense, tax, discontinued operations and cash flow hedges.<sup>61</sup></p>
7.	Before Remeasurements	<p>Items that are not defined as remeasurements (see below).</p>

<sup>55</sup> AAS 31 “Financial Reporting by Governments” paragraph 15.12.2.

<sup>56</sup> The definition of “segment” is provided for completeness and to highlight that it is not necessarily the same as the definition of “sector”.

<sup>57</sup> AASB 1005 “Segment Reporting” paragraph 8.1.

<sup>58</sup> IPSAS 18 “Segment Reporting” paragraph 9.

<sup>59</sup> AASB 1018 Statement of *Financial Performance*, paragraph 8.1.

<sup>60</sup> AASB 1018 Statement of *Financial Performance*, paragraph 4.1(d)(ii) and Appendix 1.

<sup>61</sup> For more details of these elements see IASB Reporting Comprehensive Income Project Summary (9 September 2003).

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8.	Remeasurements	Remeasurements are defined as revisions of prices or estimates that change the carrying value of assets and liabilities. They include items such as: fixed asset revaluations, impairments and disposal gains and losses; pension actuarial gains and losses; fair value changes in financial instruments; and impairments of goodwill. <sup>62</sup>
8.	Net Increase (Decrease) in Cash Held	The net result obtained from the aggregation of cash flows from operating, investing and financing activities. <sup>63</sup>

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<sup>62</sup> IASB Reporting Comprehensive Income Project Summary (9 September 2003), page 4. This definition of remeasurements is not substantively different from an earlier definition, namely: "... revisions of prices or estimates that change the carrying amounts of assets or liabilities. Remeasurements result from revised expectations of future economic benefits or obligations. They do not include income/expenses that give rise to the initial recognition of assets or liabilities, expenses arising from consumption of assets during the period, and interest income and expense" (IASB Reporting Comprehensive Income Project Summary, 18 December 2002, page 2, footnote 2). The HoTs submission and this Consultation Paper are based on the December 2002 definition of remeasurements.

<sup>63</sup> Consistent with AAS 28 "Statement of Cash Flows" Appendix 1.

**Government XYZ**  
**Statement of Financial Performance and Fiscal Impact**  
**for the year ended 200X**

	Notes	GGS			Other Sectors			Elimination			Whole of Government		
		Transactions \$m	Other Economic Flow \$m	Total \$m	Transactions \$m	Other Economic Flow \$m	Total \$m	Transactions \$m	Other Economic Flow \$m	Total \$m	Transactions \$m	Other Economic Flow \$m	Total \$m
<i>Operating Revenues</i>													
Taxation		x	-	x	-	-	-	(x)	-	(x)	x	-	x
...													
<i>Less Operating Expenses</i>													
Write-down of Accounts Receivable		-	x	x	-	x	x	-	-	-	-	x	x
...													
<b>Operating Surplus (Deficit)</b>		-	-	<b>X</b>	-	-	<b>X</b>	-	-	<b>(X)</b>	-	-	<b>X</b>
Disposal Gain (Loss)		-	x	x	-	(x)	(x)	-	-	-	-	x	x
PPE Revaluation		-	x	x	-	(x)	(x)	-	-	-	-	x	x
FX Gain (Loss)		-	x	x	-	(x)	(x)	-	-	-	-	(x)	(x)
<b>Other Entity Surplus (Deficit)</b>		-	-	<b>X</b>	-	-	<b>X</b>	-	-	-	-	-	<b>X</b>
Income from Associates	5(l)	-	x	x	-	x	x	-	-	-	-	x	x
Income from Investments in Public Corporations	5(g)	-	x	x	-	-	-	-	(x)	(x)	-	-	-
...													
<b>Financial Revenue (Expense)</b>		-	-	<b>X</b>	-	-	<b>X</b>	-	-	<b>(X)</b>	-	-	<b>X</b>
<b>Entity Surplus (Deficit)</b>		-	-	<b>X</b>	-	-	<b>X</b>	-	-	<b>(X)</b>	-	-	<b>X</b>
Interest on Liabilities		x	-	x	x	-	x	(x)	-	(x)	x	-	x
...													
<b>Financing Expense</b>		-	-	<b>X</b>	-	-	<b>X</b>	-	-	<b>(X)</b>	-	-	<b>X</b>
<b>Tax Expense</b>		-	-	-	-	-	<b>X</b>	-	-	<b>(X)</b>	-	-	-
<b>Net Operating Balance</b>		<b>X</b>	-	-	<b>X</b>	-	-	<b>(X)</b>	-	-	<b>X</b>	-	-
<b>Other Economic Flows</b>		-	<b>X</b>	-	-	<b>X</b>	-	-	<b>(X)</b>	-	-	<b>X</b>	-
<b>COMPREHENSIVE RESULT</b>		-	-	<b>X</b>	-	-	<b>X</b>	-	-	<b>(X)</b>	-	-	<b>X</b>
<b>Reconciling Items</b>													
Dividends Paid to GGS	5(f)	-	-	-	(x)	-	(x)	x	-	x	-	-	-
Mutually Agreed Bad Debt Write Offs	5(c)	(x)	x	-	-	-	-	-	-	-	(x)	x	-
Provision for Doubtful Debts	5(c)	-	x	x	-	x	x	-	-	-	-	x	x
...													
<b>GFS Net Operating Balance</b>		<b>X</b>	-	-	<b>X</b>	-	-	<b>X</b>	-	-	<b>X</b>	-	-
<b>GFS Other Economic Flow</b>		-	<b>X</b>	-	-	<b>X</b>	-	-	<b>X</b>	-	-	<b>X</b>	-
<b>GFS Comprehensive result</b>		-	-	<b>X</b>	-	-	<b>X</b>	-	-	<b>X</b>	-	-	<b>X</b>
<b>Derivation of Net Lending/Borrowing</b>													
<i>Net Acquisition of Nonfinancial Assets:</i>													
Purchase of Non-Financial Assets		x											
Sales of Non-Financial Assets		(x)											
Increase (Decrease) in Inventories		x											
Depreciation		(x)											
Other Movements in Non-Financial Assets		x											
<b>Total of Acquisition of Nonfinancial Assets</b>		<b>X</b>											
<b>GFS Net Lending/Borrowing</b>		<b>X</b>											

**Notes:**

\*Some jurisdictions currently calculate net lending/borrowing for all sectors and total public sector.

\*Where the option to fair value exists under GAAP, it is assumed that the option is adopted. Hence, the IASB Performance Reporting category of "Cash Flow Hedges" is omitted.

\*For simplicity, the IASB Reporting Comprehensive Income Project's category of "Discontinuing Operations" is omitted.

\*Elimination entries corresponding to the "Taxation" line item account for tax equivalents whilst the entries corresponding to the "Interest on Liabilities" line item are due to inter-sector loans.

\*Other Economic Flow is defined in Attachment A and discussed in question 4.1.1.

\*The number of reconciling items between COMPREHENSIVE RESULT and GFS comprehensive result (and their components) may vary from jurisdiction to jurisdiction. However, as indicated in questions 5, 6 and 7 in the Consultation Paper a substantial reduction in the number of reconciling items is anticipated, mainly as a result of "IASB 2005" and comprehensive financial performance reporting