

Exposure Draft

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Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS

[AASBs 101, 107 and 1052]

Prepared by the
Australian Accounting Standards Board



Australian Government

**Australian Accounting
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Commenting on this Exposure Draft

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All non-confidential submissions to the AASB will be made available to the public on the AASB website: www.aasb.gov.au.

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STANDARDS TO FACILITATE GAAP/GFS HARMONISATION FOR
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[Draft] Australian Accounting Standard AASB 2009-X *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS* is set out in paragraphs 1-15 and Appendix A. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 2009-X is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Background

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
- (c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

Australian Accounting Standards incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of the Standard in the Australian environment.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Private sector for-profit entities complying with Australian Accounting Standards will simultaneously comply with IFRSs. Many other entities complying with Australian Accounting Standards will also simultaneously comply with IFRSs.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new or amending an existing Australian Accounting Standard. Exposure Drafts are designed to seek public comment

on the AASB's proposals for new Australian Accounting Standards or amendments to existing Australian Accounting Standards.

Reasons for Issuing this Exposure Draft

The issue of this Exposure Draft is part of the AASB's implementation of the Financial Reporting Council's (FRC's) broad strategic direction:

“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” (FRC Bulletin 2002/5 18 December 2002, as modified by FRC Bulletin 2003/1 11 April 2003).

The AASB is implementing the direction in two phases:

- (a) Phase 1 relates to financial reporting by the Australian Government and the State and Territory governments and the sectors therein [GGS, Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector]. The issue of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* in October 2007 (amended to September 2008) completed this Phase. The AASB intends to undertake a post-implementation review of AASB 1049 in due course; and
- (b) Phase 2, the focus of this Exposure Draft, relates to financial reporting by entities within the GGS of the Australian Government and the State and Territory governments, including government departments and statutory bodies.

The AASB decided that it is not necessary to consider GAAP/GFS harmonisation issues for other public sector entities, including entities within the PNFC sector and PFC sector, local governments and entities that GFS classifies as multi-jurisdictional such as universities.

At its 18 December 2006 meeting, the FRC agreed that, with the completion of Phase 1 and Phase 2, the requirements of the public sector strategic direction would be met (FRC Bulletin 2006/9 18 December 2006).

GFS and its Relationship to GAAP Financial Reporting for Entities within the GGS

For GFS purposes, a government is regarded as comprising three sectors: the GGS, the PNFC sector and the PFC sector. Given its non-market nature and its important role as the vehicle by which a government implements its fiscal policy, the GGS is distinguished from the other, more market-oriented, government sectors.

Entities within the GGS comprise all government units and non-profit institutions controlled and mainly financed by government. Government units are legal entities established by political processes that have legislative, judicial, or executive authority over other units and which provide goods and services to the community or to individuals on a non-market basis; and redistribute income and wealth by means of taxes and other compulsory transfers. Non-profit institutions are created for the purpose of producing or distributing goods and services but are not permitted to be a source of income, profit or other financial gain for the government. Lists of entities within the GGS are generally available in each government's budget papers, annual report and on its website. In some instances, given the nature of entities within the GGS under GFS and the GAAP definition of not-for-profit entity (see, for example, paragraph Aus6.1 of AASB 102 *Inventories*), entities within the GGS may be for-profit entities.

GFS provides statistics that focus on providing information for the assessment of the macro-economic impact of a government and each of the government's sectors. The principles and rules upon which GFS is based are contained in the Australian Bureau of Statistics (ABS) publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods* (referred to in this Exposure Draft as the ABS GFS Manual), as updated from time to time, available on the ABS website (www.abs.gov.au).

The ABS GFS Manual applies accrual accounting principles, many of which align with GAAP. However, some of the GFS definition, recognition, measurement, classification, consolidation and presentation principles and rules differ from GAAP.

AASB 1049 specifies the manner in which the differences between GAAP and GFS are to be treated in whole of government and GGS financial statements, thus facilitating GAAP/GFS harmonisation at the whole of government and GGS levels. The proposals in this Exposure Draft are designed to facilitate GAAP/GFS harmonisation for entities within the GGS, to the extent appropriate, having regard to the relevance of the information for users and cost/benefit considerations. Accordingly, the proposals in this Exposure Draft are not as extensive as the requirements in AASB 1049.

Main Features of this Exposure Draft

The proposals in this Exposure Draft are applicable to all entities within the GGS (irrespective of their legal structure or objectives, and therefore may include for-profit entities) of the Australian Government and the State and Territory governments. To facilitate GAAP/GFS harmonisation for these entities, this Exposure Draft focuses on the presentation of financial statements. In particular, it proposes amending:

- (a) AASB 101 *Presentation of Financial Statements* to require entities within the GGS to present, consistent with the principles in that Standard and the ABS GFS Manual:
 - (i) a statement of financial position that presents items in a liquidity order within the GFS financial/non-financial classification; and
 - (ii) a statement of comprehensive income that:
 - A classifies income and expenses in a manner consistent with the GFS transactions/other economic flows classification; and
 - B presents the net operating balance;
- (b) AASB 107 *Statement of Cash Flows* to require entities within the GGS to present, consistent with the principles in that Standard and the ABS GFS Manual, a statement of cash flows that classifies cash flows relating to investing in financial assets in a manner consistent with the GFS policy purposes/liquidity management purposes classification; and
- (c) AASB 1052 *Disaggregated Disclosures* to require entities within the GGS of governments, not just government departments, to apply the relevant requirements in that Standard.

To provide constituents with a timely opportunity to comment on the principles proposed for GAAP/GFS harmonisation for entities within the GGS, this Exposure Draft is being issued without an illustrative example. During the early stages of the comment period, an illustrative example will be developed, to be used as a basis for discussions with constituents at roundtables to be conducted in Melbourne and Canberra later during the comment period. Specific details of the roundtables will be advised through the AASB website: www.aasb.gov.au. In the meantime, constituents are referred to Illustrative Example B that accompanies AASB 1049. It indicates a format of financial statements that is consistent with the proposals in this Exposure Draft for entities within the GGS – although the key fiscal

aggregate section at the foot of the illustrative statement of comprehensive income and of the statement of cash flows is not required.

Implications of the Proposals

If the proposals in this Exposure Draft are adopted, those involved with preparing and using financial statements of entities within the GGS will need to familiarise themselves with a limited number of GFS concepts, explained in the ABS GFS Manual, including:

- (a) in relation to the statement of financial position, the financial/non-financial classification of assets (in a liquidity order);
- (b) in relation to the statement of comprehensive income:
 - (i) the distinction between transactions and other economic flows. Transactions are defined in the ABS GFS Manual (Glossary, page 263) as “Interactions between two institutional units by mutual agreement or actions within a unit that it is analytically useful to treat as transactions”. Other economic flows are defined as “Changes in the volume or value of an asset or liability that do not result from transactions (i.e. revaluations and other changes in the volume of assets)”; and
 - (ii) the notion of net operating balance. This is calculated as income from transactions minus expenses from transactions; and
- (c) in relation to the statement of cash flows, the policy purposes/liquidity management purposes classification of cash flows relating to investing in financial assets.

Application Date

It is planned that the proposals in this Exposure Draft be applicable to annual reporting periods beginning on or after 1 July 2010 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 19 May 2009. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical on the major issues. The AASB regards supportive and critical comments as essential to a balanced review of the issues and will consider all

submissions, whether they address all specific matters, additional issues or only one issue.

Specific Matters for Comment

The AASB would particularly value comments on whether:

- (a) the proposals are necessary and/or sufficient to satisfy the objective of GAAP/GFS harmonisation for entities within the GGS. If not, what approach would you suggest? Please provide your assessment of the costs and benefits of your preferred approach, and how you believe it would better meet the needs of users;
- (b) it is appropriate for the proposals to apply to for-profit entities within the GGS (see paragraph BC6);
- (c) entities within the GGS should be subject to the principle in AASB 1049 that, where there is a choice in GAAP that aligns with GFS, that choice is mandated (see paragraph BC11);
- (d) it is appropriate to expand the application of paragraphs 15-21 of AASB 1052 beyond government departments (see paragraph BC13);
- (e) entities within the GGS should be subject to the same kind of budgetary reporting requirements that are specified in paragraphs 59-65 of AASB 1049 (see paragraph BC14). [AASB 1049 requires disclosure of the original budgeted financial statements and explanations of major variances where budgeted financial statements are presented to parliament];
- (f) there is a need for specific transitional requirements to facilitate the adoption of the proposals (see paragraph BC16);
- (g) overall, the proposals would result in financial statements that would be useful to users; and
- (h) the proposals are in the best interest of the Australian economy.

ACCOUNTING STANDARD AASB 2009-X
AMENDMENTS TO AUSTRALIAN ACCOUNTING
STANDARDS TO FACILITATE GAAP/GFS
HARMONISATION FOR ENTITIES
WITHIN THE GGS

Objective

- 1 The objective of this Standard is to amend other Australian Accounting Standards to facilitate GAAP/GFS harmonisation in the financial statements of *entities within the GGS*. This Standard does not change the existing requirement that entities within the GGS comply with all applicable Australian Accounting Standards. Furthermore, the amendments effected through this Standard do not conflict with the other requirements in the amended Standards (AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows* and AASB 1052 *Disaggregated Disclosures*). Compliance with this Standard and other applicable Australian Accounting Standards will result in the format of the financial statements of entities within the GGS broadly aligning with the format of the pertinent sections of whole of government and GGS financial statements prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Application

- 2 **This Standard applies to:**
- (a) **each entity within the GGS that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;**
 - (b) **general purpose financial statements of each other entity within the GGS that is a reporting entity; and**
 - (c) **financial statements of entities within the GGS that are, or are held out to be, general purpose financial statements.**
- 3 **This Standard applies to annual reporting periods beginning on or after 1 July 2010.**
- 4 **This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2010. If an**

entity applies this Standard to an annual reporting period beginning before 1 July 2010, it shall disclose that fact.

- 5 The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Amendments to AASB 101

- 6 Paragraph Aus1.1A is added immediately after paragraph Aus1.1 of AASB 101 as follows:

Aus1.1A In addition to the other requirements in this Standard, paragraphs Aus47.1, Aus60.1, Aus81.1 and Aus83.1-Aus83.3 specifically apply to *entities within the GGS*, to facilitate GAAP/GFS harmonisation in those entities' financial statements.

- 7 The following definitions are added, in alphabetical order, to paragraph Aus7.1 of AASB 101:

The *ABS GFS Manual* is the Australian Bureau of Statistics (ABS) publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods* as updated from time to time.

An *entity within the GGS* is a government unit or non-profit institution controlled and mainly financed by government.

A *General Government Sector (GGS)* is an institutional sector comprising all government units and non-profit institutions controlled and mainly financed by government. Defined in the *ABS GFS Manual* (Glossary, page 256).

A *government* is the Australian Government, the Government of the Australian Capital Territory, New South Wales, the Northern Territory, Queensland, South Australia, Tasmania, Victoria or Western Australia.

***Government units* are unique kinds of legal entities established by political processes which have legislative, judicial or executive authority over other institutional units within a given area and which: (i) provide goods and services to the community and/or individuals free of charge or at prices that are not economically significant; and (ii) redistribute income and wealth by means of taxes and other compulsory**

transfers. Defined in the ABS GFS Manual (Glossary, page 257).

An *institutional unit* is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities. Defined in the ABS GFS Manual (Glossary, page 257).

A *non-profit institution* is a legal or social entity that is created for the purpose of producing or distributing goods and services but is not permitted to be a source of income, profit or other financial gain for the units that establish, control or finance it. Defined in the ABS GFS Manual (Glossary, page 260).

- 8 Paragraph Aus47.1 is added immediately after paragraph 47 of AASB 101 as follows:

Aus47.1 In respect of entities within the GGS, the ABS GFS Manual (which specifies principles and rules for the presentation of financial statements prepared for GFS purposes) shall be applied in the presentation of the statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity, to the extent that it does not conflict with other requirements in this Standard.

- 9 Paragraph Aus60.1 is added immediately after paragraph 60 of AASB 101 as follows:

Aus60.1 An entity within the GGS shall present items in the statement of financial position in a liquidity order in a manner consistent with a GFS financial/non-financial classification.

- 10 Paragraph Aus81.1 is added immediately after paragraph 81 of AASB 101 as follows:

Aus81.1 An entity within the GGS shall adopt paragraph 81(a).

- 11 Paragraphs Aus83.1-Aus83.3 are added immediately after paragraph 83 of AASB 101 as follows:

Aus83.1 In respect of entities within the GGS, all amounts relating to an item included in the determination of comprehensive result shall be classified as transactions

or other economic flows in a manner that is consistent with the principles in the ABS GFS Manual.

Aus83.2 The following examples illustrate how the approach in paragraph Aus83.1 applies to particular items:

- (a) net profit/(loss) from associates potentially comprises two components under GFS classification – dividends from associates and the remainder. Accordingly, dividends are classified as transactions and the remainder is classified as other economic flows. Such dividends are not included in the line item that includes dividends from entities other than associates;
- (b) changes in the fair value of financial instruments measured at fair value, that do not arise from undistributed interest or dividends, are classified as other economic flows, irrespective of whether the instruments are classified as ‘fair value through profit or loss’ or ‘available-for-sale’;
- (c) actuarial gains and losses relating to defined benefit superannuation plans are classified as other economic flows, irrespective of whether they are included in the calculation of operating result/profit or loss, or the other non-owner changes in equity section of the statement of comprehensive income;
- (d) changes in the fair value of investment property potentially comprise two components under GFS classification – consumption of capital and price changes. Accordingly, the consumption of capital is classified as transactions and the price changes are classified as other economic flows. Although the consumption of capital may be considered to be similar in nature to depreciation, it is not included in the line item that includes depreciation;
- (e) depreciation of defence weapons platforms is classified as a transaction, by analogy with the GFS classification of depreciation of other plant and equipment;
- (f) doubtful debts are classified as other economic flows, by analogy with the GFS classification of revaluation of other assets;

- (g) bad debts are classified as transactions to the extent they are mutually agreed, otherwise they are classified as other economic flows; and
- (h) dividends from Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector entities are classified as transactions to the extent that the ABS GFS Manual accounts for them as dividends and otherwise as other economic flows.

Aus83.3 In respect of entities within the GGS, net operating balance (ie net result from transactions) shall be presented in the statement of comprehensive income, measured in a manner consistent with other amounts recognised in the statement of comprehensive income.

Amendments to AASB 107

- 12 Paragraph Aus1.1A is added immediately after paragraph Aus1.1 of AASB 107 as follows:

Aus1.1A In addition to the other requirements in this Standard, paragraphs Aus10.1 and Aus21.1 specifically apply to entities within the GGS, to facilitate GAAP/GFS harmonisation in those entities' statements of cash flows.

- 13 Paragraph Aus10.1 is added immediately after paragraph 10 of AASB 107 as follows:

Aus10.1 In respect of entities within the GGS, the ABS GFS Manual (which specifies principles and rules for the presentation of cash flow statements prepared for GFS purposes) shall be applied in the presentation of a statement of cash flows to the extent that it does not conflict with other requirements in this Standard.

- 14 Paragraph Aus21.1 is added immediately after paragraph 21 of AASB 107 as follows:

Aus21.1 In respect of entities within the GGS, the statement of cash flows shall present cash flows relating to investing in financial assets for policy purposes separately from cash flows relating to investing in financial assets for liquidity management purposes, determined in a manner consistent with the ABS GFS Manual.

Amendments to AASB 1052

- 15 References to ‘government departments’ in paragraphs 3 and 4 of AASB 1052 are changed to ‘entities within the GGS that are not required to apply AASB 114 *Segment Reporting* or AASB 8 *Operating Segments*’. All other references to ‘government departments’, ‘government department’ or ‘a government department’ in AASB 1052, with the exception of paragraphs 10(b) and 21, are changed to ‘entities within the GGS’, ‘entity within the GGS’ or ‘an entity within the GGS’ respectively.

APPENDIX A

DEFINED TERMS

This appendix is an integral part of AASB 2009-X.

ABS GFS Manual	The Australian Bureau of Statistics (ABS) publication <i>Australian System of Government Finance Statistics: Concepts, Sources and Methods</i> as updated from time to time.
entity within the GGS	A <i>government unit</i> or <i>non-profit institution</i> controlled and mainly financed by government.
General Government Sector (GGS)	Institutional sector comprising all government units and non-profit institutions controlled and mainly financed by government. Defined in the <i>ABS GFS Manual</i> (Glossary, page 256).
government	The Australian Government, the Government of the Australian Capital Territory, New South Wales, the Northern Territory, Queensland, South Australia, Tasmania, Victoria or Western Australia.
government units	Unique kinds of legal entities established by political processes which have legislative, judicial or executive authority over other <i>institutional units</i> within a given area and which: (i) provide goods and services to the community and/or individuals free of charge or at prices that are not economically significant; and (ii) redistribute income and wealth by means of taxes and other compulsory transfers. Defined in the <i>ABS GFS Manual</i> (Glossary, page 257).
institutional unit	An economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities. Defined in the <i>ABS GFS Manual</i> (Glossary, page 257).
non-profit institution	A legal or social entity that is created for the purpose of producing or distributing goods and services but is not permitted to be a source of income, profit or other financial gain for the units that establish, control or finance it. Defined in the <i>ABS GFS Manual</i> (Glossary, page 260).

BASIS FOR CONCLUSIONS

The Basis for Conclusions accompanies, but is not part of, AASB 2009-X.

Background

BC1 The Preface to this Exposure Draft outlines the Australian Accounting Standards Board's approach to the broad strategic direction on GAAP/GFS harmonisation issued by the Financial Reporting Council (FRC). This Basis for Conclusions summarises the Board's considerations in developing the requirements, contained in this [draft] Standard, relating to GAAP/GFS harmonisation for entities within the GGS. It focuses on the issues that the Board considers to be of greatest significance. Individual Board members gave greater weight to some factors than to others.

Significant Issues

Broad approach to GAAP/GFS harmonisation

BC2 In developing the requirements for entities within the GGS, the Board first considered whether to adopt the approach to GAAP/GFS harmonisation reflected in AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The Board noted that the approach in AASB 1049 includes requirements for the disclosure of:

- (a) GFS sector information;
- (b) GFS functional information;
- (c) GAAP measures of key fiscal aggregates;
- (d) GFS measures of key fiscal aggregates; and
- (e) reconciliations of GAAP measures of key fiscal aggregates to GFS measures of the same key fiscal aggregates, and an explanation of the differences between those measures.

The Board considered whether these requirements would provide relevant information to users of financial statements prepared for entities within the GGS. The Board also considered the practical implications, from a cost/benefit perspective, of imposing these requirements on entities within the GGS. The Board decided that the AASB 1049 requirements, except for the requirement to present the

GAAP measure of net operating balance (ie net result from transactions) in the statement of comprehensive income, should not be imposed on entities within the GGS. This is particularly on the grounds of the relevance of information for users. Accordingly, the Board decided that the approach to GAAP/GFS harmonisation in AASB 1049 is not appropriate for entities within the GGS.

- BC3 Instead, the Board decided that GAAP/GFS harmonisation could be achieved in a more relevant and cost-effective way for entities within the GGS by simply specifying that their financial statements adopt the format specified in AASB 1049 for whole of governments and GGSs, excluding the key fiscal aggregates section at the foot of the financial statements. The Board noted that a benefit to users of this approach is that the broad format of the financial statements prepared for entities within the GGS coincides with the format of those prepared for the whole of government and GGS into which entities within the GGS are consolidated. However, the Board noted that the approach would not preclude an entity within the GGS from adopting the net cost of services format for its statement of comprehensive income. A benefit of the approach is that GAAP/GFS harmonisation can be achieved in a manner that is consistent with GAAP, and therefore consistent with the Board's transaction-neutral approach to developing Australian Accounting Standards.
- BC4 The Board noted that, because its approach is consistent with GAAP, it is not absolutely necessary for any amendments to be made to Australian Accounting Standards. That is, the approach could be adopted by (or imposed by jurisdictions on) entities within the GGS in the absence of the amendments. However, the Board decided that, in the interest of advancing comparability of financial statements among entities within the GGS and between such entities and the financial statements of their related whole of government and GGS, amendments to the Standards are appropriate.

Location of requirements

- BC5 There are substantive differences between the requirements in this Standard and the requirements in AASB 1049, as noted in paragraph BC2 above and paragraphs BC11 and BC13-BC16 below. As a result, the Board decided that AASB 1049 would not be an appropriate vehicle to contain GAAP/GFS harmonisation requirements for entities within the GGS. Instead, the current Australian Accounting Standards dealing with:
- (a) the format of financial statements, being AASB 101 *Presentation of Financial Statements* and AASB 107 *Statement of Cash Flows*; and

- (b) the disclosure of disaggregated information, being AASB 1052 *Disaggregated Disclosures*, provide a more logical location for the requirements.

Affected entities

- BC6 The Board considered whether the amendments to AASB 101 and AASB 107 should be imposed on each entity within the GGS, irrespective of the legal structure or objective of the entity. The Board noted that, because the amendments are consistent with the current requirements in AASB 101 and AASB 107, they would not prevent a for-profit entity within the GGS from continuing to make an unreserved statement of compliance with International Financial Reporting Standards (IFRSs). Furthermore, the amendments would not prevent an incorporated entity within the GGS from continuing to comply with *Corporations Law* requirements. Accordingly, in the interest of increasing the comparability of financial statements among entities within the GGS, the Board decided that the amendments should apply to entities within the GGS, irrespective of their legal structure or objectives. The Board noted that this approach would also contribute to simplifying the consolidation process in preparing whole of government and GGS financial statements.
- BC7 The Board also considered the question of whether all entities within the GGS are reporting entities, and therefore whether they should be subject to the requirements of this Standard. It noted the view that, given their relationship to their controlling government, certain entities within the GGS such as government departments:
- (a) are not separate reporting entities; and
 - (b) information about them could be best presented with information that is in the form of segment information related to the whole of government and GGS.

The Board noted that this is a fundamental issue that can be more efficiently and effectively addressed as part of the Board's Conceptual Framework project. Accordingly, the current approach of treating most, if not all, government departments as reporting entities (see the definition of 'reporting entity' in AASB 101, as amended by AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*) has been retained.

Differential reporting

BC8 Given the differences among entities within the GGS (eg differences in their size or the nature of their operations), the Board considered whether differential reporting issues should be addressed as part of the GAAP/GFS Harmonisation for Entities within the GGS project. It decided that these issues would be more efficiently and effectively addressed as part of the Board's separate Differential Reporting project. In the meantime, consistent with the existing framework for applying Standards, the Board decided that the same reporting requirements should be imposed on all reporting entities within the GGS.

Group and parent entity reporting

BC9 The Board decided that, consistent with AASB 127 *Consolidated and Separate Financial Statements*, entities within the GGS should consolidate, on a line-by-line basis, all controlled entities, including those in the Public Non-Financial Corporations (PNFC) sector and the Public Financial Corporations (PFC) sector. As noted in paragraph BC2, the Board also decided that GFS sector information should not be required to be disclosed by entities within the GGS. The Board acknowledged the view of some that this is inconsistent with the principles in the ABS GFS Manual, but noted that the Manual focuses on the whole of government and GGS levels rather than at the level of entities within the GGS.

BC10 The Board also decided that it is not necessary for this Standard to separately address parent entity reporting in the context of entities within the GGS, because AASB 127 deals with the pertinent issues. For example, the Board noted that GFS does not address the preparation of parent entity financial statements and therefore AASB 127 requirements should apply to the measurement of investments in subsidiaries in those financial statements.

Choices within Australian Accounting Standards

BC11 The Board considered whether, like the approach in AASB 1049, it is necessary to limit all the choices currently available to entities within the GGS through Australian Accounting Standards to facilitate harmonisation with GFS. The Board decided that it is not necessary for this Standard to impose such limits, except in relation to the format of the financial statements, because the relevant authority in each jurisdiction can impose the limits.

Administered items

BC12 The Board considered whether AASB 1050 *Administered Items*, which only applies to government departments, would need to be amended in light of this Standard. The Board noted that AASB 1050 will be fundamentally reviewed as part of a separate longer-term project. Accordingly, the Board decided that it is not necessary to accelerate the Administered Items project, as AASB 1050 can be applied within the context of this Standard. The Board will have regard to GAAP/GFS harmonisation issues as it progresses its Administered Items project.

Disaggregated information

BC13 The Board decided to amend AASB 1052 through this Standard, and have it apply to entities within the GGS unless they are subject to AASB 114 *Segment Reporting* or AASB 8 *Operating Segments*. This facilitates consistency of reporting among entities within the GGS, within the context of the Board's transaction-neutral approach to developing Australian Accounting Standards. As a consequence, the Board decided that it is not also necessary to impose on entities within the GGS the requirements in AASB 1049 to disclose information about recognised expenses, excluding losses, included in operating result and assets that are reliably attributable to broad GFS functions. The Board also noted that the requirements in AASB 1052 are the subject of review as part of a separate future project, which will have regard to GAAP/GFS harmonisation issues as it progresses.

Budgetary reporting

BC14 The Board considered whether the same kind of budgetary reporting requirements in AASB 1049 should be imposed on entities within the GGS. The Board decided not to impose budgetary reporting requirements through this Standard, enabling this Standard to be issued within a reasonable timeframe. Furthermore, the Board noted that budgetary reporting requirements, at least for not-for-profit public sector entities, will be the subject of a separate future project.

BC15 The Board noted that AASB 1004 *Contributions* contains requirements relating to the disclosure of information about compliance with parliamentary appropriations and other externally-imposed requirements, applicable to government departments. The Board decided that these requirements should remain, unamended, until such time as they are reviewed as part of a separate project.

Transitional requirements

BC16 The Board noted that, when entities within the GGS applied AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, they might have made certain choices that are not consistent with GFS, even though alternative allowed treatments might have aligned with GFS. The Board considered whether those entities should be allowed or required to revisit those choices to facilitate harmonisation with GFS, in the same way that AASB 1049 provided transitional requirements. The Board decided that it would not be appropriate to provide such transitional relief as the same kind of relief would not be provided to other entities, including other entities controlled by governments, being PNFC sector and PFC sector entities. Consistent with this approach, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* specifies the manner of accounting by an entity within the GGS where it elects to change an accounting policy, consistent with other Australian Accounting Standards, to align with GFS.

Operative date

BC17 The Board considered the date from which the amendments should become mandatory. To allow time for implementing this Standard, the Board decided that a mandatory operative date of 1 July 2010 would be appropriate. This allows sufficient time for the principles reflected in this Standard to be adopted for any budget that might be prepared for the corresponding period.

BC18 The Board noted that some jurisdictions might wish to minimise the effect of changes in Australian Accounting Standards on entities within the GGS by adopting changes to Accounting Standards that are mandatorily applicable from 1 January 2009 at the same time as this Standard is adopted. For example, entities or jurisdictions may wish to adopt the version of AASB 101 that was amended in September 2007 at the same time that they adopt this Standard, given that both Standards particularly affect the format of the statement of comprehensive income. Also, entities or jurisdictions may wish to minimise the time over which format differences between the whole of government/GGS financial statements and entities within the GGS financial statements exist. Accordingly, the Board decided to allow early adoption of this Standard.

Illustrative example

The following paragraph outlines the Board's considerations in relation to an illustrative example for the purpose of this Exposure Draft. Depending on

the outcome of the Exposure Draft process, the Board may decide to include an illustrative example in the Standard.

BC19 The Board considered whether there is a need for it to develop an illustrative example of the format of financial statements consistent with the requirements of this Standard. The Board decided that, to provide constituents with a timely opportunity to comment on the proposals, the Exposure Draft forming the basis of this Standard should be issued without an illustrative example. An illustrative example will be developed and form the basis of roundtable discussions to be conducted in Melbourne and Canberra later in the Exposure Draft comment period. In the meantime, the Preface to the Exposure Draft provides a cross-reference to particular parts of Illustrative Example B that accompanies AASB 1049. It indicates a format for financial statements that is consistent with this Standard – although the key fiscal aggregates section at the foot of the statement of comprehensive income and of the statement of cash flows is not required.