

AASB Exposure Draft

ED 211
March 2011

Proposed Amendments to AASB 1049

Comments to AASB by:

- (a) 6 April 2011 on the proposals relating to the definition of the ABS GFS Manual, relief from adopting the latest version of the ABS GFS Manual, and related disclosures; and
- (b) 6 June 2011 on the other proposals.



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by:

- (a) 6 April 2011 on the proposals relating to the definition of the ABS GFS Manual, relief from adopting the latest version of the ABS GFS Manual, and related disclosures; and
- (b) 6 June 2011 on the other proposals.

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All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to those submissions being treated as confidential. The latter will only occur if the public interest warrants such treatment.

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ED 211

2

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CONTENTS

PREFACE

[DRAFT] ACCOUNTING STANDARD AASB 10XX PROPOSED AMENDMENTS TO AASB 1049

	<i>Paragraphs</i>
Objective	1
Application	2 – 6
Amendments to AASB 1049	7 – 20

[DRAFT] BASIS FOR CONCLUSIONS ON AASB 10XX	<i>Page 17</i>
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[Draft] Australian Accounting Standard AASB 10XX *Proposed Amendments to AASB 1049* is set out in paragraphs 1 – 20. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 10XX is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation 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.

When appropriate, 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 each 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.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Private sector for-profit entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Many other entities complying with Tier 1 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

This Exposure Draft arises from the AASB's post-implementation review of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, and has regard to the experiences, at an operational level, of each jurisdiction in applying AASB 1049 to its 2008-09 or earlier financial year. In developing the proposals in this Exposure Draft, the Board noted that the post-implementation review work to date has not identified any major flaws in the Standard. However, the Board identified a number of aspects of AASB 1049 where improvements could be made, including clarification of some of the requirements.

Main Features of this Exposure Draft

Application Date

It is proposed that this Standard be applicable to annual reporting periods beginning on or after 1 July 2012 with early adoption permitted for annual reporting periods beginning on or after 1 January 2009 but before 1 July 2012.

Main Requirements

This Exposure Draft proposes to:	ED paragraph reference	ED Basis for Conclusions paragraph reference	AASB 1049 (October 2007, as proposed to be amended by this ED) paragraph reference
(a) unambiguously require both GGS and whole of government financial statements to be prepared	7	BC5	7
(b) require, at all times, GGS and whole of government financial statements to be available at the same time and with a cross reference to each other	8, 14	BC6	8, 39(a), 39(b)
(c) clarify the principle of 'a GAAP option is limited to align with GFS'	10	BC7	13, 13A
(d) provide relief from the current requirement to adopt the latest version of the ABS GFS Manual	10	BC9-BC13	13B
(e) amend the definition of the ABS GFS Manual and require additional disclosures in relation to the version of the Manual	14, 18	BC8	39(a)(ii), 39A, Appendix A
(f) clarify the requirements for the presentation of key fiscal aggregates and any other fiscal aggregates that are disclosed	11	BC14	18
(g) clarify the requirements for recasting budgeted financial statements for disclosure purposes	16	BC18-BC19	59, 63, 64

Consistent with AASB 1053, none of the proposed amendments to disclosure requirements have implications for Tier 2 reporting requirements on the basis that whole of governments and GGSs of the Australian Government and state and territory governments are subject to Tier 1 reporting requirements through AASB 1049.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. 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.

This Exposure Draft has two comment periods because of the Board's aim to provide relief as early as possible from the current requirement to adopt the latest version of the ABS GFS Manual, so that it is particularly available for reporting periods ending on 30 June 2011. Accordingly, comments on the proposals related to the definition of the ABS GFS Manual, relief from adoption of the latest version of the Manual, and related disclosures are sought by 6 April 2011. Comments on the other proposals are sought by 6 June 2011.

Specific Matters for Comment by 6 April 2011

The AASB would particularly value comments on the proposals outlined in paragraphs (d) and (e) of the Main Requirements section of this Preface.

Specific Matters for Comment by 6 June 2011

The AASB would particularly value comments on:

1. each of the proposals outlined in paragraphs (a) to (c), (f) and (g) of the Main Requirements section of this Preface;
2. whether, overall, the proposals would result in financial statements that would be useful to users;
3. whether the proposals are in the best interests of the Australian economy; and
4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

ACCOUNTING STANDARD AASB 10XX
PROPOSED AMENDMENTS TO AASB 1049

Objective

- 1 The objective of this Standard is to amend AASB 1049 *Whole of Government and General Government Sector Financial Reporting* to improve that Standard at an operational level.

Application

- 2 This Standard applies to each government's whole of government general purpose financial statements and General Government Sector (GGS) financial statements.
- 3 This Standard applies to annual reporting periods beginning on or after 1 July 2012.
- 4 This Standard may be applied to annual reporting periods beginning on or after 1 January 2009 but before 1 July 2012.
- 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*.
- 6 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to AASB 1049, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.

Amendments to AASB 1049

- 7 Paragraph 7 is amended as follows (new text is underlined and deleted text is struck through):
 - 7 A government shall prepare both the whole of government financial statements and the GGS financial statements, whether presented together or separately, and that are in accordance with the requirements of this Standard.

8 Paragraph 8 is amended as follows (new text is underlined and deleted text is struck through):

8 A government shall, at all times, ~~not~~ make its GGS financial statements available ~~prior to at the same time that its whole of government financial statements being~~ are made available.

9 The heading above paragraph 9 is amended to read as follows (new text is underlined):

Compliance with Australian Accounting Standards and the ABS GFS Manual

10 Paragraph 13 is amended as follows (new text is underlined) and paragraphs 13A and 13B are added:

13 In satisfying paragraph 9 of this Standard, subject to paragraph 13A, where compliance with the ABS GFS Manual would not conflict with Australian Accounting Standards, the principles and rules in the ABS GFS Manual shall be applied. In particular, certain Australian Accounting Standards allow optional treatments within their scope. Those optional treatments in Australian Accounting Standards aligned with the principles or rules in the ABS GFS Manual shall be applied.

13A A government is not required to early adopt Australian Accounting Standards.

13B For the purpose of this Standard, a government shall apply a version of the ABS GFS Manual that was effective on or after the beginning of the previous annual reporting period as the basis for GFS information included in the financial statements under this Standard.

11 Paragraph 18 is amended as follows (new text is underlined and deleted text is struck through):

18 A government may elect to disclose key fiscal aggregates (as defined) or other information in accordance with the ABS GFS Manual that are additional to the requirements of this Standard. If a government elects to make additional disclosures, they are made in a way that does not detract from the information prescribed in this Standard. If a government elects to disclose aggregates that are not key fiscal aggregates, they are made in a

way that clearly differentiates them from key fiscal aggregates. Examples of additional disclosures that may be made voluntarily include the classification of *other economic flows* consistent with Table 7.4 of the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0) ~~GFS Manual~~ and additional key fiscal aggregates such as change in *net worth* due to revaluations and change in net worth due to other changes in the volume of assets. Consistent with the requirements in paragraph 16 of this Standard, additional key fiscal aggregates are measured in a manner consistent with recognised amounts. Consistent with paragraphs 41(a)(i) and 52(b)(ii) of this Standard, where they differ, corresponding key fiscal aggregates measured in accordance with the ABS GFS Manual are disclosed, together with a reconciliation of the two measures of each key fiscal aggregate. ~~Measures of key fiscal~~ Fiscal aggregates that are not measured in a manner consistent with recognised amounts in accordance with this Standard or the ABS GFS Manual are not disclosed as key fiscal aggregates or other fiscal aggregates.

- 12 Paragraph 23 is amended as follows (new text is underlined and deleted text is struck through):

GGs Investment in PNFC Sector and PFC Sector Entities

- 23 For the purposes of determining the carrying amount of net assets of entities within the PNFC sector and PFC sector recognised and measured in accordance with paragraph 20(b):
- (a) each PNFC sector and PFC sector entity's accounting policies are adjusted to align with the accounting policies adopted for the whole of government for the same period;
 - (b) intersector balances between the GGS and entities within the PNFC sector and PFC sector are not eliminated; and
 - (c) individual amounts for each PNFC sector and PFC sector entity are ~~aggregated and~~ presented in aggregate on a net basis.

- 13 The first sentence of paragraph 34B is amended as follows (new text is underlined and deleted text is struck through):

Whole of Government and GGS Statements of Changes in Equity

34B Generally, transactions ~~Transactions~~ with owners in their capacity as owners do not arise in a GGS context because there is no ownership group identified for the GGS. They may arise in a whole of government context in relation to partly-owned subsidiaries, ~~where they exist~~. They may also arise between PNFC sector and PFC sector entities and their owner, the GGS.

- 14 Paragraph 39 is amended as follows (new text is underlined and deleted text is struck through) and paragraph 39A is added:

Notes

Summary of Significant Accounting Policies

39 **In addition to the disclosures required by other Australian Accounting Standards in the note containing the summary of significant accounting policies, the following disclosures shall be made prominently in that note:**

(a) **for the whole of government and the GGS:**

(i) **a statement that the financial statements are prepared in accordance with this Standard; ~~and~~**

(ii) **a reference to the version of the ABS GFS Manual as being used as the basis for GFS information that is included in the complete set of financial statements; and when an entity has not applied the most recent version of the ABS GFS Manual:**

(A) this fact; and

(B) known or reasonably estimable information relevant to assessing the possible impact that application of the latest version of the ABS GFS Manual will have on the financial statements in the period of initial application; and

(iii) where the GGS financial statements and whole of government financial statements are presented separately from each other, a cross-reference to each other; and

(b) for the GGS only:

(i) a statement of the purpose for which the GGS financial statements are prepared;

(ii) a description of the GGS; and

(iii) a description of how the GGS financial statements differ from the whole of government financial statements in terms of the treatment of the government's investments in PNFC sector and PFC sector entities; and

~~(iv) where the GGS financial statements are presented separately from the whole of government financial statements, a cross-reference to the whole of government financial statements that have been prepared for the same period and made available at the same time as the GGS financial statements.~~

39A In complying with paragraph 39(a)(ii)(A) and (B), an entity considers disclosing:

(a) the version of the latest ABS GFS Manual;

(b) the nature of the impending change or changes in the ABS GFS Manual;

(c) the date by which application of the latest version of the ABS GFS Manual is required;

(d) the date as at which it plans to apply the latest version of the ABS GFS Manual initially; and

(e) either:

(i) a discussion of the impact that initial application of the latest version of the ABS GFS Manual is expected to have on the entity's financial statements; or

- (ii) if that impact is not known or reasonably estimable, a statement to that effect.

15 Paragraphs 48 and 50 are amended as follows (new text is underlined and deleted text is struck through):

48 In respect of each broad function identified in Table 2.6 “Government Purpose Classification: Major Groups” of the ABS publication Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005 (ABS Catalogue No. 5514.0) ~~GFS Manual~~, the whole of government and the GGS shall disclose by way of note:

- (a) a description of that function;**
- (b) the carrying amount of assets recognised in the respective statements of financial position that are reliably attributable to that function; and**
- (c) expenses, excluding losses, included in operating result in the respective statements of comprehensive income for the reporting period that are reliably attributable to that function.**

50 Paragraph 48 requires disclosure of information about the recognised expenses, excluding losses, included in operating result and assets that are reliably attributable to broad functions determined to at least the ABS GFS Manual two-digit level of classification shown in Table 2.6 of the ABS publication Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005 (ABS Catalogue No. 5514.0). Disclosure of this information assists users in identifying the resources committed to particular functions and the costs of service delivery that are reliably attributable to those functions. Functional classification of financial information, where it can be determined reliably, will also assist users in assessing the significance of financial or non-financial performance indicators reported by the government.

16 Paragraphs 59, 63 and 64 are amended as follows (new text is underlined and deleted text is struck through):

Budgetary Information

59 Where ~~one or more of the following~~ a whole of government or GGS budgeted:

- (a) statements of financial position;
- (b) statements of comprehensive income;
- (c) statements of changes in equity; and
- (d) statements of cash flows;

is ~~or are~~ presented to parliament, the whole of government or GGS, respectively, shall disclose for the reporting period:

- (e) ~~that original budgeted financial statement or those original budgeted financial statements that were presented to parliament, presented on a basis that is consistent with the presentation and classification bases prescribed for financial statements by this Standard; and~~
- (f) explanations of major variances between the actual amounts presented in ~~the that financial statement or those financial statements~~ and corresponding original budget amounts.

63 For the purpose of this Standard, governments are required to report the financial information required by paragraph 59 about their original budgets for the reporting period that are presented to parliament. This facilitates users of financial statements (including taxpayers) making and evaluating decisions about the allocation of scarce resources and for assessing the discharge of a government's accountability. The budget information is disclosed on the same ~~presentation and classification basis, bases, which includes in the same format, for the same scope and with the same content,~~ as the presentation and classification accounting basis bases adopted in the financial statements, to facilitate a comparison of actuals outcomes against the budget.

64 The whole of government and GGS statements of financial position, statements of comprehensive income, statements of changes in equity and statements of cash flows include information about the government, as determined in accordance with this Standard. To the extent the presentation and classification bases adopted in the first budget presented to parliament ~~is- are not consistent with the information presentation and classification bases adopted in the~~ corresponding financial statements, the budget presented to parliament is restated for budget disclosure purposes to align with the presentation and classification accounting basis- bases

specified in this Standard. As the presentation and classification bases adopted in the budget basis to be disclosed ~~is~~ are consistent with the presentation and classification bases in the financial statements ~~accounting basis~~, budget information may be presented in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows.

- 17 Paragraphs 65A – 70 and the heading immediately preceding paragraph 65A, being ‘Transitional Requirements’, are deleted.
- 18 The definition of the ABS GFS Manual is amended as follows (new text is underlined and deleted text is struck through):

Defined Terms

ABS GFS Manual The Australian Bureau of Statistics (ABS) publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0) and associated updates, and guidance notes issued by the ABS, and published on the ABS website ~~as updated from time to time~~.

- 19 In defined terms in Appendix A, where specific page or paragraph references to the ABS GFS Manual are given, the phrase ‘the ABS GFS Manual’ is amended to ‘the ABS Publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0)’.
- 20 Explanatory note r(ii) in the Illustrative Examples accompanying AASB 1049 is amended as follows (deleted text is struck through):

Explanatory Notes Supporting Illustrative Examples A and B

- r(ii) \$506m in the PNFC sector because GFS does not recognise the deferred tax liability.

This difference does not flow through to the whole of government amounts as it arises from a PNFC sector liability that is not a whole of government liability.

~~[Note: Depending on the nature of the tax equivalents regime operating in a particular jurisdiction, a GGS, as the tax collector, may not be able to recognise a related revenue unless it meets~~

~~the criteria in AASB 1004 *Contributions*. For the purpose of this example, the GGS, as the tax collector, does not recognise deferred tax balances to the extent the tax events associated with the PNFC sector's deferred tax balances have not occurred, even though from the PNFC sector's viewpoint, the event is the recognition of the underlying assets and/or liabilities in accordance with AASB 112 *Income Taxes*. This treatment in the GGS accords with GFS and therefore does not give rise to a convergence difference.]~~

BASIS FOR CONCLUSIONS

The Basis for Conclusions accompanies, but is not part of, AASB 10XX.

Background

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board (AASB) considerations in reaching the conclusions in this [draft] Standard. Individual Board members gave greater weight to some factors than to others.
- BC2 Given the substantial change to financial reporting brought about by AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007), the Board decided to undertake a post-implementation review of that Standard. The objective was to identify any material issues at an operational level with a view to improving financial reporting. The post-implementation review included consideration of the consistency of application of AASB 1049 across jurisdictions.
- BC3 Various methods were used to identify the AASB 1049 implementation issues that are the subject of this [draft] Standard. These methods included consulting with personnel with AASB 1049 implementation experience from each jurisdiction's Department of Treasury and Finance and Auditor-General's Office.
- BC4 After reviewing the implementation issues identified, the Board decided to make amendments to AASB 1049 to clarify some of its requirements on the bases outlined in paragraphs BC5 – BC21. The Board decided that some potentially significant issues raised in the implementation review did not warrant amendments to AASB 1049, on the bases outlined in paragraphs BC22 – BC39.

Issues Giving Rise to Amendments to AASB 1049

Preparation of GGS and Whole of Government Financial Statements [paragraph 7]¹

- BC5 Consistent with the original intention of paragraph 7 of AASB 1049 [see for example paragraphs BC5 and BC25 of AASB 1049 (October 2007)] the Board decided to clarify within the body of the Standard that both whole of government and GGS financial statements are required to be prepared. The amendment addresses the

¹ References to paragraphs in the headings of this Basis for Conclusions are to paragraphs in AASB 1049 (October 2007, as amended).

concern that some could conceivably interpret AASB 1049 as merely specifying requirements for financial statements if they are prepared.

Relative Timing and Cross-Referencing of GGS and Whole of Government Financial Statements [paragraphs 8, 39(a) and 39(b)]

BC6 AASB 1049 previously allowed GGS financial statements to be made available later than whole of government financial statements being made available. Where the GGS financial statements were presented separately from the whole of government financial statements, a cross-reference from the GGS financial statements to the whole of government financial statements was required to be made. The Board decided that AASB 1049 should be amended to require, at all times, GGS and whole of government financial statements to be made available at the same time and cross-referenced to each other. This is on the basis that:

- (a) GGS financial statements provide useful information (e.g. budgetary information) for users, and users should receive such information on a timely basis;
- (b) GGS financial statements provide a bridge between a government's budget and its whole of government financial statements; and
- (c) given that GGS is a sector of whole of government, whole of government financial statements provide a context to the GGS financial statements.

Adoption of Options in GAAP that align with GFS [paragraphs 13 & 14]

Early Adoption of New or Revised Standards

BC7 The Board noted that paragraph 13 of AASB 1049 could be interpreted as requiring early adoption of a new or revised Standard if its adoption is more in line with GFS than the requirements of the Standard being superseded. The Board decided that such an interpretation is not the intention of paragraph 13 as it would potentially undermine the Board's intention of facilitating the orderly adoption of new or revised requirements. Accordingly, the Board decided to amend AASB 1049 to clarify that AASB 1049, in mandating a particular accounting policy or limiting an otherwise broader choice of policies for the objective of GAAP/GFS harmonisation, does not require that a new or revised Standard must

be adopted early, even if early adoption would more quickly allow alignment with GFS.

Definition of the ABS GFS Manual [Appendix A]

BC8 The Board decided that the ABS GFS Manual continues to be the appropriate authoritative source for GFS matters that are pertinent to general purpose financial reporting. The Board also decided it should be defined to include updates, and guidance notes associated with the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0), issued by the ABS and published on the ABS website, as this definition would clarify the status of the material. The ABS was consulted on the appropriate wording of the definition.

Orderly Adoption of Changes to the ABS GFS Manual [paragraphs 13B & 39]

BC9 The Board considered how best to draft requirements into AASB 1049 that would help facilitate the orderly adoption of future amendments to the ABS GFS Manual for the purposes of GAAP/GFS harmonised financial reporting. The Board noted that there are potentially two broad aspects to this issue:

- (a) the manner in which a change to the ABS GFS Manual should be initially adopted in the GAAP/GFS harmonised financial statements for the purposes of determining GFS information included in those statements; and
- (b) the time lag to allow between the change being issued and it becoming mandatory for the GAAP/GFS harmonised financial statements.

BC10 In relation to the manner in which a change in the ABS GFS Manual should be initially adopted, the Board noted that if AASB 1049 were to override, or even merely clarify, GFS transitional arrangements, it would arguably go beyond the Board's role, and potentially result in the Board interpreting or effectively modifying the ABS GFS Manual. To avoid this, consistent with the approach in AASB 1049, the Board decided that AASB 1049 should adopt the ABS GFS Manual as it is. The Board noted that to do otherwise would create the potential for there to be a permanent difference between the amounts presented as GFS in the financial statements and amounts published by the ABS. However, the Board noted this decision only pertains to GFS information, and therefore GAAP requirements, (including those relating to retrospectivity in AASB 108 *Accounting*

Policies, Changes in Accounting Estimates and Errors) apply, unamended, to the manner in which a change in accounting policy is initially adopted.

- BC11 In relation to time lag, the Board noted that providing relief through a 'time lag' has the potential to give rise to temporary differences between the amounts presented as GFS in the financial statements and amounts published by the ABS. After considering alternative approaches on how to give an effective time lag between the issue of an amendment to the ABS GFS Manual and when it becomes mandatory for GAAP/GFS harmonised financial reporting purposes, the Board decided AASB 1049 should specify that references to the ABS GFS Manual are to any versions of the Manual effective on or after the beginning of the previous annual reporting period. The Board decided to allow jurisdictions to adopt a version of the ABS GFS Manual for AASB 1049 financial reporting purposes, even if that version was not effective until after the beginning of the reporting period, consistent with the Board's usual policy of allowing early adoption of Australian Accounting Standards.
- BC12 The Board noted that this approach is broadly aligned with the Board's normal approach to specifying transitional requirements for changes to GAAP because it:
- (a) specifies, albeit in an ambulatory two year lagged way, a mandatory operative date for changes to the ABS GFS Manual;
 - (b) provides a reasonable time for entities to implement changes to the ABS GFS Manual that could affect comparative information; and
 - (c) allows, but does not require, entities to adopt changes to the ABS GFS Manual prior to mandatory operative dates.
- BC13 The Board also noted that this approach would warrant an amendment to paragraph 39 of AASB 1049, to help ensure users are informed about the version of the ABS GFS Manual adopted as the basis for GFS information included in financial statements. Also, consistent with paragraph 30 of AASB 108 relating to new but not yet effective Standards, the Board decided that AASB 1049 should require the disclosure of information about the latest version of the ABS GFS Manual that has not yet had an impact on the financial statements.

Presentation of Additional Fiscal Aggregates [paragraphs 16 & 18]

BC14 The Board noted that AASB 1049 allows jurisdictions to disclose fiscal aggregates that are additional to the key fiscal aggregates required by AASB 1049. However, the Board noted the concern that, in practice, these other fiscal aggregates are not necessarily clearly distinguished from those key fiscal aggregates in the financial statements. To address this concern, the Board decided that AASB 1049 should be amended to require a clear differentiation between key fiscal aggregates and other fiscal aggregates, to help avoid potential confusion for users. Furthermore, to make the requirements relating to key fiscal aggregates and other fiscal aggregates within AASB 1049 consistent, the Board decided that the last sentence of paragraph 18 should be amended to align with paragraphs 41(a)(i) and 52(b)(ii), and thereby explicitly prohibit the disclosure of measures of fiscal aggregates, as either key fiscal aggregates or other fiscal aggregates, unless they are measured in a manner consistent with recognised amounts or the ABS GFS Manual.

Determination of the Amount to be Recognised for GGS Investments in PNFC and PFC Sector Entities [paragraphs 20(c) & 23(c)]

BC15 Paragraph 20 of AASB 1049 requires GGS controlling investments in PNFC sector and PFC sector entities to be measured at, depending on circumstances, fair value, the government's proportional share of the carrying amount of net assets or zero. Therefore, an investment is not recognised at an amount below zero. As noted in paragraph BC13 of AASB 1049, measurement at fair value, or at the government's proportional share of the carrying amount of net assets where fair value is not reliably measurable, is consistent with GFS. That paragraph also notes that not allowing investments to be measured below zero is consistent with the principles elsewhere in GAAP (for example, AASB 128 *Investments in Associates* does not allow negative investment values when using the equity method).

BC16 With that background, in relation to paragraph 20 of AASB 1049, the Board noted the view of some practitioners that paragraph 23(c) of AASB 1049 is inconsistent with paragraph 20(c) because paragraph 23(c), which refers to 'net basis', implies individual amounts may be less than zero whereas paragraph 20(c) requires individual amounts to be not less than zero for the purposes of measuring a GGS equity investment in a PNFC sector or PFC sector entity. Consistent with the rationale in paragraph BC13 of

AASB 1049, the Board decided the last sentence of paragraph 23(c) should be amended to be consistent with paragraph 20(c).

Transactions with Owners as Owners in a GGS Context [paragraph 34B]

BC17 The Board noted that, although not common, transactions with owners in their capacity as owners that are not eliminated on consolidation could arise because of non-controlling interest attributable to entities outside the GGS. Therefore, the Board decided that the last sentence of paragraph 34B should be amended to acknowledge that this could occur.

Interpretation of ‘presented on a basis that is consistent with’ in the Context of Budgetary Information [paragraphs 59(e), 63 and 64]

BC18 Paragraph 59(e) requires disclosure of the original budgeted financial statements, presented on a basis that is consistent with the basis prescribed for the financial statements by AASB 1049. The Board noted that some practitioners questioned the meaning of ‘presented on a basis that is consistent with’. In particular, it was questioned whether the budget would be required to be recast solely for presentation and classification or whether the requirement extends to recognition and measurement. The Board noted the practical difficulties of recasting for recognition and measurement differences – e.g. retrospectively determining ‘budgeted’ fair values when hindsight is likely to influence such a determination. Therefore, the Board decided that paragraph 59(e) of AASB 1049 should be amended to clarify that the budget should be recast solely for presentation and classification matters, not for recognition and measurement matters. This amendment gave rise to consequential amendments to paragraphs 63 and 64 to focus them on presentation and classification.

BC19 In relation to the requirement in paragraph 59(f) to disclose explanations of major variances between actual and budget amounts, the Board noted that variances might arise from recognition and measurement principles adopted in the budget being different from the recognition and measurement principles adopted in the financial statements.

Tax-effect Accounting by GGS [explanatory note r(ii) to the Illustrative Examples accompanying AASB 1049]

BC20 The Board noted that of those jurisdictions that recognise deferred tax liabilities at the PNFC/PFC level, only some reflect corresponding amounts in the GGS statement of financial position as deferred tax assets. The Board also noted:

- (a) the view that, from a GAAP perspective, such ‘mirror’ accounting can be justified given the amount is known in a ‘closed system’ (i.e. the taxpayer and taxing authority are within the government); and
- (b) the question of whether the amounts are in the nature of a tax or distribution to owners as owners.

After considering these issues, the Board decided to remove the text in square brackets in Explanatory Note r(ii) on the basis that the subject matter of that text is beyond the scope of the GAAP/GFS Harmonisation project.

Transitional Requirements [paragraphs 65A, 66, 67, 68, 69 & 70]

BC21 The Board noted it is no longer necessary to specify transitional requirements because all jurisdictions have previously first-time adopted AASB 1049 for their whole of government and GGS financial statements.

Significant Issues that did not give rise to Amendments to AASB 1049

Purpose of the GGS Financial Report [paragraphs 12 & BC6]

BC22 The Board noted that paragraph 12 does not require disclosure of whether GGS financial statements are general purpose financial statements or special purpose financial statements and considered whether the absence of such a requirement gives rise to implementation issues. The Board decided AASB 1049 should not be amended in relation to this issue at this time because the AASB 1049 approach to the issue has not created insurmountable practical problems for jurisdictions. The Board notes that, in due course, it may be appropriate to revisit the way AASB 1049 deals

with the issue, depending on the outcome of future work to be undertaken on the Board's Differential Reporting project.

Adoption of Options in GAAP that align with GFS [paragraphs 13 & 14]

Examples of Particular Optional Treatments in GAAP

BC23 The Board noted the view that the Board should fully analyse optional treatments in GAAP and specify directly in AASB 1049 those treatments to be adopted, to avoid the need for preparers to refer directly to the ABS GFS Manual. The Board decided that the relatively principles-based approach in AASB 1049 should be retained, rather than including an exhaustive list of GAAP options that align with GFS, on the basis that it is not the Board's role to interpret GFS. Also, the Board decided to monitor the development of any further guidance by other interested parties on this issue and expressed a willingness to collaborate with Treasuries and the ABS in developing such guidance if Treasuries decide to develop separate guidance.

BC24 The Board noted that some practitioners questioned the application of paragraph 12 of AASB 108 in the context of aligning optional treatments in GAAP with GFS and whether the wording in that paragraph of 'most recent pronouncements of other standard setting bodies' included the ABS GFS Manual.

Paragraph 12 of AASB 108 states:

"In making the judgement described in paragraph 10, management may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11."

The Board decided that the ABS GFS Manual should not be included in the AASB 108 hierarchy, on the basis that GFS, per se, is not a part of GAAP.

Presentation of the Whole of Government/GGS Statements of Financial Position [paragraph 15]

BC25 The Board noted that the illustrative examples accompanying AASB 1049 subclassify non-financial assets between 'produced' and 'non-produced' categories even though the ABS GFS Manual does not explicitly require such a subclassification. The Board decided it is not necessary to amend AASB 1049 to remove the

subclassification because the illustrative examples are not prescriptive.

BC26 The Board also noted the view that AASB 1049 should be amended to clarify requirements relating to the presentation of statements of financial position based on liquidity. However, the Board decided it is not necessary to amend AASB 1049 in relation to this issue because the principles in AASB 1049 are sufficiently clear and the illustrative examples are not prescriptive.

Presentation of Operating Result on the Face [paragraph 29]

BC27 The Board noted the view that AASB 1049 should be amended to allow the operating result not to be presented on the face of the statement of comprehensive income on the basis that its presentation on the face clutters the operating statement. This is consistent with a view that users are most interested in the 'net result from transactions – net operating balance', and that including the 'operating result' on the face has the potential to confuse users. However, the Board decided that paragraph 29 should continue to require jurisdictions to present the operating result (a GAAP subtotal) on the face of the statement of comprehensive income because, consistent with the fundamental basis upon which AASB 1049 was developed, such a presentation is required by AASB 101 *Presentation of Financial Statements*.

Classification of Items between Transactions and Other Economic Flows [paragraphs 30 & 55(b)]

BC28 The Board noted the view that paragraphs 30 and 55(b) should be amended to provide further guidance for the classification of items between transactions and other economic flows. However, the Board decided paragraphs 30 and 55(b) should not be amended in relation to this issue, consistent with the principles-based approach in AASB 1049. In particular:

- (a) in relation to paragraph 30, the Board noted that AASB 1049 already clearly requires GFS principles for distinguishing between transactions and other economic flows to be applied in a GAAP context; and
- (b) in relation to paragraph 55(b), which addresses the classification of deferred tax amounts, the Board confirmed its October 2007 decision that GFS does not recognise deferred tax expense and therefore it is necessary to extrapolate from the general GFS principles for classification.

The Board noted that, although AASB 1049 requires deferred tax expense relating to an asset revaluation reserve to be classified as an other economic flow, when that deferred tax balance reverses, it would give rise to current tax which would be classified as a transaction (consistent with GFS).

Treatment of Non-cash Items in relation to Cash Flow Statements [paragraphs 18 & 37]

BC29 The Board noted that some jurisdictions present the value of assets acquired under finance leases and similar arrangements on the face of the cash flow statements. The Board also noted the concern expressed by some about such non-cash flows being included in cash flow statements. However, the Board decided it is not necessary to amend AASB 1049 for this issue because it is already obvious in GAAP (including AASB 1049) that an entity should clearly distinguish between information that is and is not cash flow information.

GAAP/GFS Reconciliation Requirements [paragraphs 41(a)(i)B & 52(b)(ii)B]

BC30 The Board noted that AASB 1049 requires disclosure of reconciliations of GAAP and GFS measures of certain key fiscal aggregates, and an explanation of the differences. The Board also noted the view that such disclosures are unnecessary and therefore that the reconciliation requirement should be removed. However, the Board decided paragraphs 41(a)(i)B and 52(b)(ii)B should continue to require the reconciliations and explanations because they provide useful information for users in the context of GAAP/GFS harmonisation and the reconciliation schedule is a critical part of AASB 1049.

BC31 On a related issue, the Board considered whether it is necessary to amend AASB 1049 to explicitly address the circumstances where GFS amounts determined by the ABS differ from and are published after amounts disclosed as GFS amounts in the financial statements. The question arises as to which GFS amounts should be reconciled to in the comparative information disclosed in the following year's financial statements. The Board decided that it is not necessary to explicitly address this issue in AASB 1049, noting that the GFS amounts previously reported in the financial statements would be the relevant amounts.

Disclosure of the Aggregates of Dividends and Other Distributions to Owners as Owners [paragraph 41(b)(iii)]

- BC32 The Board noted that paragraph 41(b)(iii) requires the GGS financial statements to disclose the aggregate amount of dividends and other distributions to owners as owners from PNFC sector and PFC sector entities to the GGS. The Board also noted the suggestion that the wording in paragraph 41(b)(iii) should be amended because it is unclear as to what is meant by 'other distributions'. The Board decided paragraph 41(b)(iii) should not be amended in relation to this issue on the basis that there is apparently no significant issue in complying with the requirement in paragraph 41(b)(iii). The Board particularly noted it is a matter of professional judgement based on circumstances whether income tax equivalent income is in the nature of a distribution to owners as owners.
- BC33 The Board noted the view that paragraph 41(b)(iii) should be amended to require the disclosure of contributions from the GGS in its capacity as owner to PNFC sector and PFC sector entities to enable derivation of 'net distributions'. However, the Board noted that typically such information is already disclosed and therefore it is not necessary for AASB 1049 to mandate it.

Carrying Amounts of Assets Attributable to Functions [paragraph 48(b)]

- BC34 The Board noted that AASB 1049 requires disclosure of the carrying amount of recognised assets that are reliably attributable to each function (paragraph 48). The Board also noted that the relevance of such a disclosure when it is not based on an ABS GFS Manual concept was questioned by some. The Board decided paragraph 48(b) should continue to require the disclosure, noting that the Board's work program includes a Disaggregated Disclosures project that will address, amongst other things, issues raised in the post-implementation review of AASB 1049.

'Expenses, excluding Losses, included in Operating Result' by Function [paragraph 48(c)]

- BC35 The Board noted that AASB 1049 requires note disclosure of 'expenses, excluding losses, included in operating result' that are reliably attributable to each function (paragraph 48). The Board also noted that 'expenses excluding losses' is not explicitly described in AASB 1049. Furthermore, the Board noted the view that inclusion of this term in the functional information could confuse users (and preparers) as there is no clear definition of what is intended to be

included in the calculation and that the phrase should be replaced with the phrase 'expenses from transactions', which would avoid the reconciliation required by paragraph 49. However, the Board decided paragraph 48(c) should not be amended because the terminology in paragraph 48(c) aligns with GAAP and therefore the fundamental underlying approach taken in AASB 1049.

Explanations of Variances from Budget [paragraph 59(f)]

- BC36 The Board noted that the AASB 1049 requirement to include explanations of variances between budgeted and actual financial information was questioned by some practitioners for two primary reasons:
- (a) the requirement to explain variances is unnecessary as the variance explanations are not relevant to users because variance explanations are more relevant at entity level and the reasons for changes in budgetary assumptions are explained every time the budgets are updated; and
 - (b) the inclusion of unaudited budgetary information within the audited financial statements results in audit report comments in relation to budget information within the statements. In particular, whilst audit of variances between budgeted and actual data is possible at the higher levels, at a lower level there is insufficient evidence available to make assessments.
- BC37 The Board decided not to amend paragraph 59(f) in relation to this issue on the basis that disclosure of variance information provides useful information for users and facilitates the discharge of accountability by governments. Paragraph BC60 of AASB 1049 (October 2007) contains the Board's rationale for the requirement for disclosure of explanations of major variances between the actual amounts presented on the face of the financial statements and corresponding budget amounts.

Capital Management Disclosures

- BC38 The Board considered whether the exemption provided by paragraph Aus1.7 of AASB 101 for whole of governments and GGSs from presenting certain capital management disclosures required by paragraphs 134-136 of AASB 101 should be retained or removed.
- BC39 The Board noted that New Zealand Standards and International Public Sector Accounting Standards do not provide such an exemption. Accordingly, the Board decided to consider the

exemption as part of the second phase of the AASB/FRSB joint Trans-Tasman Convergence project, rather than as part of the post-implementation review of AASB 1049, on the basis that the issue should be considered in the context of a broader range of not-for-profit entities than whole of governments and GGSs.