



The Treasury

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
Collins St West
Victoria 8007

Contact: R. Williams
Telephone: (02) 9228 3019
Our Reference:
Your Reference:

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Dear Mr Stevenson

ED 212 *Not-for-profit entities within the General Government Sector (GGS)*

New South Wales Treasury welcomes the opportunity to provide comments on the above Exposure Draft. Detailed comments on the ED are attached.

NSW Treasury agrees with the Board's decision not to proceed with the proposals in ED 174 on the basis that there was insufficient evidence that the proposals would satisfy the needs of a broad range of users.

However, NSW Treasury does not believe that the different approach taken in ED 212, which instead has an explicit focus on improving financial reporting for entities within the GGS, has merit for the following reasons:

- It will not lead to an overall improvement in, or increase in comparability of, general purpose financial statements
- The reasons given for not proceeding with ED 174 in para BC 3 are equally applicable to the current proposal
- The objective of improving financial reporting is not a sufficient basis to proceed unless the proposals are applied to *all* public and private sector entities
- A new standard is not necessary, because any jurisdiction can apply GAAP / GFS at the entity level under existing accounting standards to the extent it is relevant
- GAAP and GFS are designed to satisfy different objectives
- The cost to jurisdictions in applying this proposal exceeds any perceived benefits.

Given this, NSW Treasury does not support the proposals in ED 212 and supports the Alternative View (paras AV1- AV5).

If you have any queries regarding the submission, please contact Robert Williams on 02 9228 3019 or Mark Ronsisvalle on 02 9228 5182.

Yours sincerely

Philip Gaetjens
Secretary

**NSW TREASURY SUBMISSION
ED 212 NOT-FOR-PROFIT ENTITIES WITHIN
THE GENERAL GOVERNMENT SECTOR**

General comments

NSW Treasury does not support the proposals in ED 212 for the following reasons:

- It will not lead to an overall improvement in, or increase in comparability of, general purpose financial statements
- The reasons given for not proceeding with ED 174 in paragraph BC 3 are equally applicable to the current proposal
- The objective of improving financial reporting is not a sufficient basis to proceed unless the proposals are applied to *all* public and private sector entities
- A new standard is not necessary, because any jurisdiction can apply GAAP / GFS at the entity level under existing accounting standards to the extent it is relevant
- GAAP and GFS are designed to satisfy different objectives
- The cost to jurisdictions in applying this proposal exceeds any perceived benefits.

It will not lead to an overall improvement in, or increase in comparability of, general purpose financial statements

No overall improvement in general purpose financial statements

The adoption of ED 212 and the disclosure of GAAP/GFS information for GGS entities will reduce the quality of the general purpose financial statements as the additional information provided under the proposal is not likely to be relevant to the needs of most, if not all users of general purpose financial statements. The inclusion of this information is therefore likely to reduce the usefulness, transparency and accessibility of GGS entity financial statements. GFS is solely designed as an information source for macroeconomic analysis. Such analysis is *only* undertaken at the sector and whole of government level and therefore information at an entity level is not relevant to users of general purpose financial statements.

No increase in comparability of general purpose financial statements

Consistent with AV5, NSW Treasury believes the ED will not result an increase in comparability in general purpose financial statements. The proposed standard will only apply to not-for-profit GGS entities. This will create inconsistencies between not-for profit GGS entities and:

- Not-for-profit entities in the PTE/PFE sectors (eg rail entities are not-for-profit entities but are in the PTE sector under GFS)
- For-profit General Government, public non-financial corporations (PTE) and public financial corporations (PFE) entities
- Not-for-profit and for-profit entities in the private sector
- Entities (public and private sector) in the rest of the world.

Resolving the first two inconsistencies would require the application of the ED to all public sector entities which is not proposed and is not supported by NSW.

Furthermore, given the significant organisation differences between jurisdictions, NSW Treasury believes that interstate comparisons between individual entities is of limited value irrespective of whether it is undertaken using financial statements on a GAAP or GAAP/GFS basis.

The reasons given for not proceeding with the previous Exposure Draft (refer para BC 3) are equally applicable to the current proposal

In NSW Treasury's view, the following reasons for not to proceed with ED 174, as stated in BC 3 and AV2, are equally applicable to ED212; i.e.:

- The proposals would not meet the needs of a broad range of users, as the ABS manual on which GFS is based largely focuses on fiscal policy at a macro economic level and therefore lacks relevance for individual entities in the GGS.
- It is inconsistent with the AASB policy of transaction neutrality as it will result in the financial statements of not-for-profit GGS entities looking different from those of private sector and other public sector entities.
- It is not necessary for general purpose financial reports to provide information to facilitate consolidation when the party responsible for preparing consolidated reports has the capacity to require the provision of this information.
- GAAP/GFS is not being pursued internationally and therefore is inconsistent with the objective of Australia / NZ convergence.

The objective of improving financial reporting is not a sufficient basis to proceed

If the ED results in improved financial reporting, the ED should be applied to *all* public sector and private sector entities, not just GGS entities. Furthermore, restricting GAAP options to those that align with GFS presumes GFS options represent an improvement in financial reporting. This position is not accepted by Standard setters across the world given that options are provided in the current Standards. For example, if fair value is accepted as more relevant (as stated in BC17), the AASB should eliminate the other options from the Standards and require the use of fair value by all entities in the public and private sector.

A new standard is not necessary, because any jurisdiction can apply GAAP / GFS at the entity level under existing accounting standards to the extent it is relevant

Consistent with AV4, the following demonstrates that GAAP / GFS can be applied at the entity level under existing accounting standards and, as a result, a new standard is not necessary:

- AASB 101 *Presentation of Financial Statements* requires an entity to use relevant additional sub-headings and line items:
“...An entity shall present additional line items, headings and subtotals...in the [financial] statements...when such presentation is relevant to an understanding of the entity's financial position...and financial performance” (AASB 101, paras 55 and 85).
- A jurisdiction can require its subsidiaries to adopt uniform accounting policies.
- Disclosure of administered items is already required for Departments under AASB 1050 *Administered Items*.
- Information on functions for comparison between jurisdictions is already provided under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

GAAP and GFS are designed to satisfy different objectives

The objective of GFS is different to GAAP reporting. The GFS framework is designed to facilitate macroeconomic analysis, while the objective of GAAP is to provide information about an entity for making and evaluating decisions about resource allocation. While it may be argued that AASB 1049 GAAP/GFS harmonisation at the whole of government and GGS level is useful, as it ensures the integrity and user confidence in both sets of data, this cannot be said regarding GFS information at the entity level, as GFS reporting and analysis does not occur at this level.

Cost to jurisdictions in applying this proposal exceeds any perceived benefits

NSW Treasury does not support ED 212 because we believe the costs involved in the application of a unique standard to the preparation of individual GGS entity financial statements would be extensive and would exceed the benefits, which we consider to be limited. NSW Treasury believes that the proposals will not lead to an improvement in financial reporting because GFS is not relevant to individual entities and the benefits to a broad range of users have not been demonstrated. In contrast, the costs of the current proposal are no different from those in ED 174 (per AV3), whether the GFS presentation and classification is disclosed on the face of the statements or in the notes. Both would include high system, training and ongoing maintenance costs.

**NSW TREASURY SUBMISSION
ED 212 NOT-FOR-PROFIT ENTITIES WITHIN
THE GENERAL GOVERNMENT SECTOR**

SPECIFIC MATTERS FOR COMMENT

- (a) whether the proposals would lead to an overall improvement in general purpose financial reporting by not-for-profit entities within the GGS.

No, NSW Treasury does not believe that the proposals will lead to an overall improvement or increase in comparability in general purpose financial reporting; i.e.:

- No overall improvement in general purpose financial statements – the proposals will reduce the quality of the financial statements of GGS entities, as the information is not likely to be relevant to the needs of a broad range of users
- No increase in comparability in general purpose financial statements - as the proposal will increase inconsistencies between not-for-profit entities and for-profit entities, both in the public and private sectors.

This is further discussed in the 'general comments' above (pp 1-3), in particular, under the sub-heading 'It will not lead to an overall improvement in, or increase in comparability of, general purpose financial statements' (p 1).

Further, NSW Treasury does not agree that under ED 212 the financial statements of a not-for-profit GGS entity will provide meaningful information about the contribution of the entity to the GGS / whole of government (ED 212, para 1(c)). This is because the GAAP/GFS information will be presented on an uneliminated basis.

More generally, financial statements are unlikely to be comparable between jurisdictions, given the degree of flexibility in the presentation requirements in the Accounting Standards and the diversity of practices. Jurisdictions structure their entities differently, so that meaningful comparisons cannot be made.

Irrespective of your response to this general question, the AASB would value specific comments on:

- (i) the proposal to limit the entities affected by the proposals in this Exposure Draft to not-for-profit entities within the GGS. In particular, the Board seeks comment on whether the proposals should also apply to for-profit entities within the GGS (see paragraphs 2 and BC10-BC13);

If the AASB proceeds with this project, we believe that in principle it should apply to all GGS entities, whether they are for-profit or not-for-profit. However, in practice, given that we are not aware of any for-profit GGS entities in the NSW public sector, it would make no difference if for-profit GGS entities were included in the scope of this Standard.

- (ii) the proposal that the version of the ABS GFS Manual to be applied is a version that was effective at the beginning of the previous annual reporting period or any version effective at a later date, rather than necessarily the latest version (see paragraphs 9 and BC14-BC15);

If the AASB proceeds with this project, NSW Treasury agrees that entities should apply the version of the ABS GFS Manual effective at the beginning of the previous annual reporting period or any version effective at a later date, consistent with AASB 2011-3.

- (iii) the proposal to limit GAAP recognition and measurement options to those that align with GFS and thereby require the same accounting policies as those adopted under AASB 1049 for whole of governments and the GGSs (see paragraphs 10-12 and BC16-BC25);

NSW Treasury does not support the proposal to limit GAAP options. We do not believe that it is the role of an Accounting Standard setter to restrict GAAP options in order to obtain consistency between subsidiaries and consolidated financial statements. It is the role of the parent entity to ensure consistent accounting policies on consolidation. AASB 127 *Consolidated and Separate Financial Statements* requires consolidated financial statements to be prepared using uniform accounting policies, but does not require the subsidiaries to use those policies in their financial statements. Nor do we agree that comparability on its own improves the quality of financial reporting.

In practice, a requirement to select GAAP options that align with GFS is not likely to improve the quality of financial reporting, given that most jurisdictions already mandate these options at the entity level to facilitate consolidation at the whole of government level.

- (iv) the proposal to require disclosure, under both Tier 1 and Tier 2 requirements, either in the financial statements or in the notes, of information based on GAAP/GFS harmonised classification and presentation principles for controlled items and, separately, administered items (including classification of income and expenses as transactions and other economic flows, and classification and presentation of cash flows from investing activities for policy purposes and liquidity management purposes) (see paragraphs 13-18, 22 and BC26-BC35). In relation to this proposal, the Board is particularly interested in comments on:

As discussed under the above 'general comments' (pp 1 – 3), NSW Treasury does not believe GAAP/GFS harmonised information is relevant at the entity level and on this basis we do not support any requirements to disclose such information on the face or in the notes to the financial statements.

- A. whether the on-the-face or in-the-notes presentation option should be allowed and, if not, whether on-the-face presentation of GAAP/GFS harmonised information should be prohibited given the potential for complexity; and

If the AASB proceeds with this Standard, we would prefer that on-the-face presentation is prohibited, to address in part NSW Treasury's concerns regarding relevance.

- B. the proposal to require disclosure of GAAP/GFS harmonised classification information at line item level, where it is presented in the notes; and whether information at the line item level would be more beneficial than at the GFS category level.

If the AASB proceeds with this Standard, NSW Treasury believes that information should be disclosed at the line item level, so that the GFS-type note disclosures reconcile to the GAAP primary financial statements.

- (v) the proposal to require AASB 1050 to continue to apply to government departments, to the extent its requirements are not satisfied by the proposals in this Exposure Draft (see paragraphs 19 and BC29-BC31);

NSW Treasury agrees that AASB 1050 should continue to apply, until such time as this Standard is more fundamentally reviewed.

However, NSW Treasury does not support extending GAAP/GFS disclosure requirements relating to administered items, until AASB 1050 is more fundamentally reviewed. In particular, Treasury does not support extending disclosures of administered items to administered cash flows (as proposed in ED 212), until AASB 1050 is reviewed.

Notwithstanding the above, it is noted that, in jurisdictions such as NSW which has a separate residual reporting entity (referred to as the Crown Entity) that aggregates all of the administered items, the GAAP/GFS information will be disclosed as part of the financial statements of that entity.

- (vi) the proposal to require disclosure, under both Tier 1 and Tier 2 requirements, of any original budgeted financial statements reflecting controlled or administered items presented to parliament, recast to align with the presentation and classification adopted in the primary financial statements and accompanying information about administered items or the GAAP/GFS harmonisation note (whichever is judged to be the more useful) and an explanation of variances (see paragraphs 23-29 and BC40-BC42);

NSW Treasury does not support introducing requirements regarding budgeted financial statements at the entity level until the AASB conducts its separate project on budget reporting. We also do not believe that it is appropriate to include note disclosures regarding an explanation of variances within audited financial statements, as this is considered to be management analysis, which in the private sector is excluded from the audited financial statements.

However, if these requirements are introduced, NSW Treasury supports allowing entities to exercise their judgement as to whether they disclose information consistent with the presentation and classification in the primary financial statements or the GAAP/GFS note. Despite this, we believe that para 23(e) should be better expressed. In particular, the reference to 'accompanying information about administered items' in para 23(e) is unclear; i.e. as the administered item information may be on a GAAP/GFS basis, even though the primary financial statements are not.

- (vii) the proposals relating to other disclosures, from both a Tier 1 and Tier 2 perspective (see paragraphs 30-32), in particular relating to:

- A. requiring information to be disclosed in the accounting policy note (paragraph BC36), including disclosures about the version of the ABS GFS Manual adopted and, where relevant, a later version (paragraph BC15); and

If the AASB proceeds with this Standard, NSW Treasury supports requiring entities to disclose information about the version of the GFS Manual adopted.

- B. not requiring disclosure of disaggregated information, except to the extent it continues to be required by AASB 1052 for government departments (paragraphs BC37-BC39);

NSW Treasury supports not requiring disclosure of disaggregated information, except to the extent required by AASB 1052, pending a more fundamental review of AASB 1052.

(viii) the proposal to provide no specific transitional requirements, except to require an entity to change the elections it previously made under AASB 1 to the extent necessary to comply with the ABS GFS Manual (see paragraphs 33-35 and BC44-BC47);

If the AASB proceeds with this Standard, NSW agrees that no specific transitional requirements are required, except to change AASB 1 elections to the extent necessary to comply with the ABS GFS Manual.

(ix) unless already provided in response to other specific matters for comment relating to disclosures, the proposal to exempt entities adopting Tier 2 requirements from certain disclosures (shown as shaded text in this Exposure Draft);

No comment.

(x) the illustrative examples, and whether they provide guidance that is appropriate/helpful in implementing the proposals (see Illustrative Examples A and B and paragraphs BC49-BC50); and

If this Standard proceeds, NSW Treasury supports including illustrative examples. However, NSW Treasury believes that the 'net costs of services', should be based on the 'net cost of services from transactions', as this is the aggregate that it is most analogous to the net operating balance at the GGS level (refer Attachment A, example proforma).

The 'net cost of services from transactions' approach is consistent with GFS/GAAP harmonisation at the GGS level, as it measures an individual GGS agency's contribution to the GGS Net Operating Balance; i.e. government contributions eliminate at the GGS level. This approach also has the benefit of allowing the Net Operating balance to flow through on the face of the statement, rather than as a footnote at the end.

(xi) the proposed operative date (see paragraphs 3-4 and BC48);

If this Standard proceeds, NSW Treasury supports the proposed extended transitional period, on the basis that substantial time will be required for agencies to be trained in relevant aspects of the GFS Manual and to allow adequate time for system modifications.

(b) unless already provided in response to specific matter for comment (a) above, whether overall, from both a Tier 1 and Tier 2 perspective, the proposals would result in financial statements that would be useful to users;

No. As discussed in the 'general comments' above (pp 1-3), we do not believe that GAAP/GFS is relevant at the entity level, given that GFS is designed for macroeconomic analysis. We also do not believe that increasing comparability, by itself, results in an improvement in quality in financial statements.

(c) whether the proposals, from both a Tier 1 and Tier 2 perspective, are in the best interests of the Australian economy; and

No comment.

- (d) unless already provided in response to the specific matters for comment above, the costs and benefits of the proposals relating to both Tier 1 and Tier 2 requirements relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

No. As discussed in the 'general comments', sub-heading 'The cost to jurisdictions in applying this proposal exceeds any perceived benefits' (p 3), NSW Treasury does not support ED 212 as we believe the costs would be extensive and would exceed the benefits, which we consider to be limited. We believe the benefits would be limited because the information is not likely to be relevant to the needs of a broad range of users. In contrast, the costs are no different from those in ED 174 (per AV3). Both would include high system, training and ongoing maintenance costs.

The effect of the proposal is that the AASB 1049 GAAP/GFS information will in part need to be derived and reconciled to individual GGS entity financial statements. Therefore, although individual GGS entities are not required to disclose reconciliations between harmonised GFS and pure GFS, reconciliation information will still be required at the entity level to facilitate consolidation, to satisfy the additional AASB 1049 disclosure requirements. Given this, system costs are likely to include costs required to devolve centrally maintained GFS systems to individual GGS entities.

In addition, other costs include system changes required for agencies to map and maintain their chart of accounts using GAAP/GFS harmonisation principles; e.g. impacting on the format of the primary financial statements, including, but not limited to the following:

- dissecting expenses and income between transactions and other economic flows
- adding the Net Operating Balance key fiscal aggregate
- dissecting assets between financial and non financial assets
- dissecting the cash flow statement between investments in financial assets for policy and liquidity management purposes

There will also be ongoing maintenance costs to ensure uniformity and correct application of GAAP/GFS harmonisation principles across agencies.

Similarly, training costs are likely to be high as agencies will need to have a thorough knowledge of GFS to facilitate consolidation, and explanation and identification of reconciliations between harmonised and pure GFS at the whole of government and GGS level. These costs will be particularly high at the agency level because GFS, as a macroeconomic tool, is not used or understood by agency accountants nor is it relevant to them.

Further, system and training costs will be exacerbated because GAAP / GFS convergence differences are more likely to be material at the entity level.

Other comments

- GAAP/ GFS note - Statement of Cash flows and Statement of Financial Position – While NSW Treasury does not support any of the GAAP/GFS disclosure requirements, if the Standard is to proceed, we believe that only the Statement of Comprehensive Income should be required. That is, of the three primary financial statements referred to in the GAAP/GFS information this is the most relevant statement from an entity perspective, as it is the only financial statement that includes any of the GFS key fiscal aggregates (i.e. net operating balance).
- Additional guidance may be required regarding AASB 1 elections that are not available (refer para 34). This is necessary to reduce the costs of implementation.
- GAAP/GFS information presented consistent with the "principles" in AASB 101 and AASB 107 – NSW Treasury believe that reference should be made to the "requirements" of these Standard, which is also consistent with the approach in AASB 1049, para 27. "Principles" and "rules" are only used in reference to the ABS GFS Manual. Using the word "principles" in relation to Accounting Standard may imply that there is only a requirement to comply with those specified Standards at a high level.

ATTACHMENT A

**Possible Format – Comprehensive Operating statement –
Modified Net Cost of Services format**

	(\$ thousand)	
	2010	2009
Expenses from transactions		
Operating expenses		
Employee related		
Other operating expenses		
Depreciation and amortisation		
Grants and subsidies		
Finance costs		
Other expenses		
Total expenses from transactions		
Revenue from transactions (excluding appropriations)		
Sale of goods and services		
Investment revenue		
Retained taxes, fees and fines		
Grants and contributions		
Other revenue		
Total revenue from transactions		
NET COST OF SERVICES FROM TRANSACTIONS		
Government contributions (transactions)		
Recurrent appropriations		
Capital appropriations		
(Asset sale proceeds transferred to the Crown Entity)		
Acceptance by the Crown Entity of employee benefits and other liabilities		
Total Government contributions (transactions)		
NET RESULT FROM TRANSACTIONS (NET OPERATING BALANCE)		
Other economic flows included in surplus / deficit		
Net gain/(loss) on non-financial assets		
Net gain/(loss) on financial instruments and statutory receivables/payables		
Other gains/(losses) from other economic flows		
Total other economic flows		
SURPLUS / (DEFICIT) FOR THE YEAR		
Other economic flows – other non-owner changes in equity		
Changes in physical asset revaluation reserve		
Financial assets available-for-sale reserve:		
– Gain/(loss) taken to equity		
– Transferred to profit or loss for the period		
Other		
Total other economic flows – Other non-owner changes in equity		
COMPREHENSIVE RESULT		