



To:	AASB members	Date:	20 January 2010
From:	Robert Keys	Agenda Item:	3.1
Subject:	GAAP/GFS harmonisation entities within the GGS	File:	

Action

Consider the agenda papers, particularly agenda paper 3.2, and decide the next step in the project.

Background

At its December 2009 meeting, the Board noted the FRC's view that the issue of non-mandatory guidance on GAAP/GFS harmonisation for entities within the GGS would not satisfy the FRC's direction on this topic. The Board decided to consider the project's next step at the forthcoming meeting.

To help facilitate discussions at the forthcoming meeting, and to take the project forward substantially, the Board directed staff to prepare a number of documents, including:

- a paper on the alternative approaches that could be employed in issuing a Standard (see agenda paper 3.2);
- a paper on individual responsibilities of Board members in assessing the merits of a draft Standard that is developed in response to a strategic direction (see agenda item 2); and
- any additional material that has become available since the Board discussed the matter at its October 2009 meeting that would be useful input to the Board making a decision on the next step (see agenda papers 3.4 and 3.5, which are a copy of papers considered by the FRC at its December 2009 meeting. These papers were tabled at the AASB's 9-10 December 2009 meeting [as tabled agenda papers 20.3 and 20.4 respectively]. They are being provided again for your convenience).

The draft AASB December 2009 minutes also record that the Board directed staff to prepare a draft Standard that is based on ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052]*,

amended to reflect the tentative decision the Board made after reviewing comments on ED 174 and the subsequent staff work on an illustrative example (noting that at this stage the Board has not concluded on the publication of that Standard). Given the issues raised in agenda paper 3.2, staff felt that it would not be a productive use of time to develop such a draft Standard, given that the content, style and format of the document would vary significantly depending on the Board's decisions relating to the issues. However, we note that because of previous work staff have done on developing a draft pronouncement and an illustrative example, there is a skeletal document that provides a solid basis for us to develop a final document that reflects whatever the Board's decisions might be.

Alternative Approaches and Tentative Staff Views

Approach A

At its December 2009 meeting, the Board noted that one possible approach to issuing a Standard would be to adopt ED 174 (amended to reflect the Board's decisions on technical issues in response to comments on the ED) that specifies GAAP/GFS harmonisation requirements for entities that elect or are required to present GAAP/GFS harmonised general purpose financial statements and requires an entity to disclose whether it has adopted the Standard. This approach is referred to as Approach A in agenda paper 3.2. However, some reservations were expressed at the meeting that this approach might not satisfy the FRC direction, particularly because it would not necessarily result in financial statements being comparable between jurisdictions. Therefore, staff have given some thought to an alternative approach (referred to in agenda paper 3.2 as Approach B), outlined below.

Approach B

In broad terms, based on the extensive discussions that have taken place on this topic since prior to the issue of ED 174, staff have arrived at the tentative view, reflected in agenda paper 3.2, that a stand-alone Standard applicable to general purpose financial statements of entities within the GGS (whether for-profit or not-for-profit) should be developed that requires an entity to:

- (a) adopt a GAAP recognition and measurement option that aligns with GFS;
- (b) elect whether to adopt GFS classification and presentation in the format of the financial statements, or to disclose such information in the notes (the Standard should include an illustrative example of the financial statements prepared on the assumption that an entity

elects to adopt GFS classification and presentation in the format of the financial statements); and

- (c) disclose the same kind of budgetary reporting information that is required to be disclosed by the whole of government (WoG)/GGS by AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Transitional requirements should be consistent with those for WoG in AASB 1049. A reasonably long lead time (say 3 years) should be allowed before the Standard becomes mandatory (with early adoption allowed).

The Need for Re-exposure

The staff tentative view is that if Approach A is adopted, re-exposure is not necessary. If Approach B is adopted, re-exposure would be appropriate.

Attachments

- Agenda paper 3.2: Issues paper: GAAP/GFS Harmonisation Entities within the GGS – Alternative approaches for issuing a Standard;
- Agenda paper 3.3: Extract from 24-25 June 2009 AASB meeting approved minutes (for information);
- Agenda paper 3.4: the FRC's December 2009 Accompanying Paper 4(a)(ii) – being Don Challen's response to AASB progress report on GAAP/GFS harmonisation (a repeat of Tabled Agenda paper 20.3 of the AASB's December 2009 meeting, tabled after discussions at suggestion of FRC Chair); and
- Agenda paper 3.5: the FRC's December 2009 Agenda Item 4(a) – being the FRC Secretariat's cover note to the agenda item, entitled 'Public Sector Accounting: GAAP/GFS Harmonisation' (a repeat of Tabled Agenda paper 20.4 of the AASB's December 2009 meeting, tabled after discussions at suggestion of FRC Chair).