

Extract from 24-25 June 2009 AASB meeting approved minutes**GAAP/GFS Harmonisation (Entities within the GGS)**

Agenda item 7

The Board had before it:

- (a) a memorandum from Robert Keys, Latif Oylan and Chris Pang, dated 10 June 2009 (Agenda paper 7.1);
- (b) a summary of discussions at the Roundtables (Agenda paper 7.2);
- (c) a summary of discussions with a user of departmental financial statements (Agenda paper 7.3);
- (d) a collation of written submissions on ED 174 (Agenda paper 7.4);
- (e) written submissions on ED 174 (Agenda paper 7.5);
- (f) ED 174 Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052] (Agenda paper 7.6); and
- (g) Supplement to ED 174 Draft Illustrative Example of Financial Statements for Entities within the General Government Sector (Agenda paper 7.7).

The Board first considered the threshold issues [addressed in ED 174's specific matters for comment (g), (h) and (a)] in agenda paper 7.4 and therefore the merits of proceeding with the project, particularly with respect to whether the proposals in ED 174 would provide useful information for users of general purpose financial statements of entities within the GGS.

The Board noted the views of constituents are mixed.

The Board acknowledged that there are potential benefits of harmonising GAAP and GFS for entities within the GGS via the issuance of a common mandatory Standard arising from ED 174, because it could potentially:

- (a) increase consistency of general purpose financial reporting between the GGS and entities within the GGS;
- (b) increase comparability of the financial statements for entities within the GGS across jurisdictions;
- (c) facilitate the consolidation process; and
- (d) be useful to users who possess GFS knowledge.

However, the Board was persuaded by the strong views expressed by many constituents that, overall, the proposals would not result in financial statements that would be useful to a range of users (question g); and the proposals are not in the best interests of the Australian economy (question h). The main points noted were as follows:

- (a) GAAP/GFS harmonisation for entities within the GGS would not meet the needs of a range of users (e.g. rating agencies, service providers and the general public);
- (b) the benefits of GAAP/GFS harmonisation for entities within the GGS do not justify the costs of preparing such information (e.g. training costs and potential costs of changing accounting systems);
- (c) domestically and internationally, apart from statisticians, very few people would have sufficient GFS knowledge to understand GAAP/GFS harmonised general purpose financial statements;

Extract from 24-25 June 2009 AASB meeting approved minutes

- (d) the ABS GFS Manual largely focuses on fiscal policy at a macro level and therefore lacks relevance for entities within the GGS;
- (e) GAAP/GFS harmonisation moves away from transaction neutrality, resulting in general purpose financial statements for entities within the GGS looking different from those of private sector entities;
- (f) information for consolidation purposes could be derived by central agencies through special purpose financial statements or other means;
- (g) a certain degree of comparability in the presentation of financial statements of entities within the GGS has been achieved under existing GAAP through the operation of AASB 101 *Presentation of Financial Statements*;
- (h) the increased level of comparability that would arise from ED 174 is limited if only the presentation of financial statements reflects GAAP/GFS harmonisation principles, while recognition/measurement principles are not harmonised;
- (i) the option of presenting a net cost of services format for the statement of comprehensive income for entities within the GGS, which is appropriate, would mean that comparability would not be achieved in full under ED 174 proposals; and
- (j) GAAP/GFS harmonisation for entities within the GGS is not being pursued internationally, and the adoption of ED 174 proposals would be inconsistent with the objective of Australia/New Zealand convergence.

The Board noted that possible alternatives to the approach proposed in ED 174 include the AASB issuing a Standard that specifies requirements:

- (a) for presenting GAAP/GFS harmonised information as an 'alternative' set of financial statements in the notes to the GAAP general purpose financial statements; or
- (b) to be applied only if an entity/jurisdiction elects to present GAAP/GFS harmonised information on the face of general purpose financial statements.

The Board decided against imposing GAAP/GFS harmonisation requirements in the manner proposed in ED 174 on the general purpose financial statements of entities within the GGS. Accordingly, the Board decided it would not be appropriate to progress this project further before consulting with Financial Reporting Council (FRC) members. In doing so, the Board decided to form a sub-committee (Mr. Stevenson, Ms Highland, Ms Peach and Ms Perry) to assist staff in preparing a paper, reflecting its decisions at this meeting, to help facilitate future discussions with FRC members. The Board agreed that the FRC should be informed that the Board's view against imposing GAAP/GFS harmonisation requirements on entities within the GGS is strongly held.

Despite this threshold level decision, consistent with its comprehensive due process, the Board proceeded to consider all the other specific matters for comment raised in the Preface to ED 174 and other issues raised by constituents (except detailed comments about the draft illustrative example, which would be addressed at a future meeting depending on how the project proceeds), on the presumption that the project would proceed.

A detailed list of tentative decisions made by the Board is provided in Attachment B.

Action:

Staff
Ms Highland
Ms Peach
Ms Perry
Chairman (incoming)

Extract from 24-25 June 2009 AASB meeting approved minutes

ATTACHMENT B

GAAP/GFS Harmonisation (Entities within the GGS)

Agenda Item 7

1. Specific matter for comment (a)

Are the proposals in ED 174 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?

In relation to the 'necessary' aspect of the question, the Board noted that it would be necessary to amend Accounting Standards in some way to satisfy the objective of GAAP/GFS harmonisation for entities within the GGS, to provide a basis for consistency in presenting harmonised information. However, the Board concluded that the particular proposals in ED 174 are not necessary and that alternative approaches might be preferable if it were to be concluded that a form of GAAP/GFS harmonisation is appropriate at an entity within the GGS level. Those alternatives include presenting required GAAP/GFS harmonised information in a separate note in the general purpose financial statements, or issuing a Standard that specifies requirements if an entity/jurisdiction elects to present GAAP/GFS harmonised information on the face of financial statements.

The Board addressed the 'sufficient' aspect of the question in the context of the other specific matters for comment.

2. Specific matter for comment (b)

Is it appropriate for the proposals to apply to for-profit entities within the GGS?

The Board decided that it would not be appropriate to apply the proposals to for-profit entities within the GGS, even if the proposals were to be applied to other entities within the GGS, because GAAP/GFS harmonisation would particularly not meet the needs of users of for-profit general purpose financial statements.

3. Specific matter for comment (c)

Should the entities within the GGS be subject to the principle in AASB 1049 "Whole of Government and General Government Sector Financial Reporting" that, where there is a choice in GAAP that aligns with GFS, that choice is mandated?

The Board decided that if the objective of GAAP/GFS harmonisation were to enhance comparability across and within jurisdictions, and to simplify consolidation processes and audit, a recognition/measurement choice in GAAP that aligns with GFS should be mandated. The Board noted that a presentation-only approach would achieve limited harmonisation. The Board considered options of where to locate such a requirement (whether within AASB 1049 or an entity within the GGS specific Standard), but did not make a decision on that issue. However, the Board concluded that it would not be appropriate to include Aus paragraphs in each Standard that contains an option.

4. Specific matter for comment (d)

Is it appropriate to expand the application of paragraphs 15-21 of AASB 1052 "Disaggregated Disclosures" beyond government departments?

The Board decided that AASB 1052 should not be amended as part of this project and should be addressed separately. The separate project should include consideration of the merits of the GFS functional classification requirements.

5. Specific matter for comment (e)

Should entities within the GGS be subject to the same kind of budgetary reporting requirements that are specified in paragraphs 59-65 of AASB 1049?

The Board decided that budgetary reporting requirements should not be mandated as part of this project, on the basis that such requirements should be dealt with in a separate project. However, a minority of Board members expressed a strong view that, if GAAP/GFS harmonisation were to be imposed on entities within the GGS, there is no conceptual reason to not subject them to the same budgetary reporting requirements that are imposed on whole of governments by AASB 1049.

Extract from 24-25 June 2009 AASB meeting approved minutes

6. Specific matter for comment (f)***Is there a need for specific transitional requirements to facilitate the adoption of the proposals in ED 174?***

The Board decided that there would be a need for specific transitional requirements to facilitate adoption of the proposals if a choice in GAAP is mandated (see item 3 specific matter for comment (c) above). However, the Board noted that the approach it took for land under roads in AASB 1051 *Land Under Roads* [that land under roads does not represent a unique issue specific to GAAP/GFS harmonisation], continues to be suitable in the context of entities within the GGS.

7. Specific matter for comment (g)***Overall, would the proposals result in financial statements that would be useful to users?***

The Board's decisions relating to this issue are contained in the body of the minutes.

8. Specific matter for comment (h)***Are the proposals in the best interest of the Australian economy?***

The Board's decisions relating to this issue are contained in the body of the minutes.

9. Specific matter for comment (i)***Does the draft Illustrative Example provide guidance that is appropriate/helpful in implementing the proposals in ED 174?***

The Board noted that the majority of constituents who commented on this issue found the draft Illustrative Example useful. The Board considered the following high level issues:

- (a) *Net cost of services format:* The Board noted that a net cost of services format for the statement of comprehensive income is relevant to and adopted by some jurisdictions. Therefore, this format should continue to be allowed. The Board agreed that if the project were to proceed it would need to consider developing an acceptable illustrative statement of comprehensive income using a net cost of services format and including it as an accompaniment to the requirements, perhaps as the only illustration. However, the Board also acknowledged that allowing such a format would result in less comparable financial statements between and within jurisdictions than otherwise.
- (b) *Alignment with AASB 1049:* In relation to the overall presentation of the Illustrative Example, the Board agreed that it should be amended to align to a greater degree with AASB 1049 Illustrative Example B, which illustrates GGS Financial Statements. Therefore, the Illustration should adopt a similar format and terminology, with a minimal level of detail presented, no comparatives, no source references and no zero balance items. The Board formed this view, on the basis that the illustration in AASB 1049 reflects its view of the interplay between GAAP and GFS for the purposes of describing and presenting line items on the face of the financial statements.
- (c) *Statement of financial position in liquidity order:* The Board decided that the liquidity order presentation should not be prescribed because neither AASB 101 *Presentation of Financial Statements* nor AASB 1049 prescribes it, but agreed that the example should be consistent with the illustration in AASB 1049 in presenting the statement of financial position in a liquidity order.
- (d) *Recycling:* The Board acknowledged that the recycling issue is a more general GAAP issue that is not peculiar to GAAP/GFS harmonisation, and that the transactions/other economic flows split would not cause a greater level of 'recycling' than that which already occurs under existing GAAP. Therefore, the Board concluded that this issue is outside the scope of this project.

10. Other issues***(a) Other issue 1: Definition of an 'entity' within the GGS***

The Board decided that 'entity' within the GGS should be defined from a GAAP perspective, on the basis that the ABS GFS Manual does not focus on the individual entity in the same way that GAAP does.

Extract from 24-25 June 2009 AASB meeting approved minutes

(b) Other issue 2: References to 'entity within the GGS' throughout the Standard

The Board acknowledged the issue and noted that adoption of an omnibus application Standard and glossary would overcome the issue. However, until these are in place, the Board agreed that the drafting of specific Standards should not pre-empt the Differential Reporting project.

(c) Other issue 3: Exclusion of multi-jurisdictional entities

The Board agreed, consistent with the scope of the FRC's strategic direction, that multi-jurisdictional entities (e.g. universities, Murray-Darling Basin Commission) should be scoped out of any GAAP/GFS harmonisation requirements.

(d) Other issue 4: Definition of the 'ABS GFS Manual'

The Board agreed that, if the definition of the 'ABS GFS Manual' is included in a legislative instrument such as AASB 101, it should be defined and referred to in a way that avoids concerns about having ambulatory (rather than stationary) references to external documents in legislative instruments.

(e) Other issue 5: Additional explanations/definitions of relevant GFS terms

If GAAP/GFS harmonisation requirements were to be contained in Standards that do not already contain relevant GFS terms and definitions, the Board agreed that there is merit in providing more definitions of those terms, subject to the Board's comments about a general glossary in specific issue 2 specific matter for comment (b) above.

(f) Other issue 6: Application to economic entities that include subsidiaries that are public trading enterprises

After discussing the relief in AASB 127 *Consolidated and Separate Financial Statements* for subsidiaries not to prepare consolidated financial statements, the Board agreed that if GAAP/GFS harmonisation requirements were imposed on entities within the GGS, the requirements should note clearly that these entities are required to consolidate line-by-line all controlled entities, including those in the Public Non-Financial Corporations sector and Public Financial Corporations sector.

(g) Other issue 7: Key fiscal aggregates

The Board agreed that, if the proposals in ED 174 were to be progressed, it should be stated explicitly in any resulting Standard that only the GFS key fiscal aggregate 'net operating balance' is required (together with GAAP aggregates) and other GFS key fiscal aggregates are not required.

(h) Other issue 8: Liabilities of a department assumed by its central government

This issue was not discussed at this meeting, and is to be carried over to a future meeting if the project is progressed further.

(i) Other issue 9: Presentation of discontinued operations

This issue was not discussed at this meeting, and is to be carried over to a future meeting if the project is progressed further.

(j) Other issue 10: Presentation of the statement of financial position in liquidity order

See item 9(c), relating to specific matter for comment (i), above.

(k) Other issue 11: Require entities to explicitly refer to GAAP/GFS harmonisation in the accounting policy note

The Board agreed that if the ABS GFS Manual is used as a basis for determining accounting policies consistent with GAAP, the accounting policy note should make reference to that fact along similar lines to paragraph 39(a) of AASB 1049.

(l) Other issue 12: Explicitly allow the presentation of additional information in the financial statements

The Board agreed that entities should be permitted to present additional information in the financial statements. Furthermore, the Board agreed that, if an entity within the GGS elects to make additional disclosures, they should be explicitly required to be made in a way that does not detract from the information prescribed in the Standard. This is consistent with the second sentence of paragraph 18 of AASB 1049.

Extract from 24-25 June 2009 AASB meeting approved minutes

(m) Other issue 13: Explanation of why the approach adopted is so different from AASB 1049

This issue was not discussed at this meeting, and is to be carried over to a future meeting if the project is progressed further.

(n) Other issue 14: Amendments to AASB 1052

See other issue 4, specific matter for comment (d), above.

(o) Other issue 15: Costs associated with GAAP/GFS harmonisation at the entity level

This issue was not discussed at this meeting, and is to be carried over to a future meeting if the project is progressed further.

(p) Other issue 16: The appropriateness of GAAP/GFS harmonisation

This issue was not discussed at this meeting, and is to be carried over to a future meeting if the project is progressed further.

(q) Other issue 17: Implications of IASB projects on GAAP/GFS harmonisation

This issue was not discussed at this meeting, and is to be carried over to a future meeting if the project is progressed further.