Treasury Circular

TC16-02
8 February 2016

Mandates of Options and Major Policy Decisions under Australian Accounting Standards

This Circular updates NSW Treasury mandates under Australian Accounting Standards to be applied in all NSW public sector entity financial statements for financial years ending on or after 30 June 2016. This Circular applies to all entities required to prepare general purpose financial statements under the *Public Finance and Audit Act 1983*, including Statutory State Owned Corporations.

Summary:

All NSW public sector entities must apply Australian Accounting Standards. This Circular updates the mandates of accounting policy options and major policy decisions under Australian Accounting Standards to be applied in entity financial statements for financial years ending on or after 30 June 2016.

The main change to the mandates is to update the list of Standards issued but not yet effective and confirm that Accounting Standards cannot be early adopted, except for AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*.

This Circular is issued as a Direction in accordance with sections 9 and 45E of the *Public Finance and Audit Act 1983*. A specific reference to this Treasury Circular will also be included in the Statement of Corporate Intent of Statutory State Owned Corporations. Accordingly, this Circular applies to all entities required to prepare general purpose financial statements under the Act, including Statutory State Owned Corporations.

This Circular supersedes and withdraws Treasury Circular NSW TC 15/03 *Mandates of Options and Major Policy Decisions under Australian Accounting Standards.*

This Circular should be read in conjunction with relevant Treasury Circulars and Treasury Policy Papers (refer Treasury's website).

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1. Background

Australian Accounting Standards provide certain accounting policy options. This Circular updates the mandates of accounting policy options and major policy decisions for recent amendments to Australian Accounting Standards and Treasury requirements (refer section 3 of the Circular).

The main change to the mandates is to update the list of Standards issued but not yet effective and confirm that Accounting Standards cannot be early adopted, except for AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*. AASB 2015-7, applicable for reporting periods beginning on or after 1 July 2016, relieves not-for-profit public sector entities from certain AASB 13 *Fair Value Measurement* disclosures. It applies to Level 3 property, plant and equipment held primarily for their current service potential rather than to generate future net cash inflows.

2. Application

This Circular applies to financial years ending on or after 30 June 2016. The Circular is issued as a Direction in accordance with sections 9 and 45E of the *Public Finance and Audit Act 1983* and applies to all entities that must prepare general purpose financial statements under the Act, including Statutory State Owned Corporations. A specific reference will be included in the Statement of Corporate Intent of those entities.

This Circular supersedes and withdraws NSWTC 15/03 *Mandates of Options and Major Policy Decisions under Australian Accounting Standards.*

This Circular must be read in conjunction with Treasury's other Circulars and Policy Papers regarding Australian Accounting Standards. Only major policy decisions are listed in this Circular and, where applicable, the Circular cross refers to the particular Treasury Circular or Policy Paper.

3. Mandates of options and major policy decisions under Australian Accounting Standards

Options / Requirements	Treasury Mandate
For-profit (FP) / not-for-profit (NFP) entity classification	
The FP / NFP classification is used across a number of Standards. More significant impacts occur in the areas of impairment and grants.	Refer NSW TPP 05-4. NSW public sector entities must consider the following factors when deciding whether to classify an entity as FP or NFP, for general purpose financial statement purposes: • Statements by owners about the objectives of the entity, such as statements contained in legislation, regulations, entity constitutions and shareholder resolutions. • The governance framework applied to the entity; i.e. the corporate structure adopted and the formal relationship with owners. • The purpose, nature and extent of funding from owners, focusing on the extent to which ongoing budget support is provided to an entity. • The targeted financial performance of the entity, as agreed between owners and the board/management, focusing on the extent to which the entity funds its expenses, maintains its asset base and provides returns to owners. • The classification of the entity under Government Finance Statistics (GFS).
Reserve accounting	
Legislation or Australian Accounting Standards may require agencies to create and recognise reserve accounts in their annual financial statements.	All NSW public sector entities must not create and recognise reserve accounts in their annual financial statements unless required by specific legislation or Australian Accounting Standards.
Public private partnerships	
In the absence of an Australian Accounting Standard on Privately Financed Projects (PFPs), Treasury's policy on Accounting for PFPs applies. Treasury's policy is largely based on the principles in UK standard FRS 5.	Refer NSW TPP 06-8. Agencies are required to adopt Treasury's policy on Accounting for PFPs. The policy deals with recognition of infrastructure assets or the right to receive them, recognition of up-front contributions and accounting for associated land leases.
AASB 10 Consolidated Financial Statements	
A parent may elect not to present consolidated financial statements where certain conditions are satisfied, in accordance with AASB 10, para 4 and Aus4.1.	Mandate that a parent must present consolidated financial statements.
AASB 101 Presentation of Financial Statements	
AASB 101 *Presentation of Financial Statements* allows either (para 10A): • the presentation of a single statement of profit or loss and other comprehensive income (statement of comprehensive income) or • two statements: a separate statement of profit or loss and a statement presenting comprehensive income (displaying components of other comprehensive income; i.e. non owners' changes in equity, such as asset revaluation surplus movements).	Mandate a single statement of comprehensive income for all General Government Sector (GGS) entities, consistent with GFS. Allow either the presentation of a single statement of comprehensive income or two statements for Public Trading Enterprises (PTE) and Public Financial Enterprises (PFE).

Options / Requirements	Treasury Mandate
For each component of equity, an entity must present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item (para 106A).	Mandate the analysis of other comprehensive income by item must be presented in the statement of changes in equity for all GGS entities. PTE/PFE entities may present an analysis of other comprehensive income by item either in the statement of changes in equity or in the notes.
AASB 102 Inventories	
Each NFP entity must measure inventories held for distribution at cost, adjusted when applicable for any loss of service potential (para Aus9.1).	No mandate necessary. Refer AASB 102, para Aus9.2: "…For many inventories held for distribution, a loss of service potential would be identified and measured based on the existence of a *current replacement cost* that is lower than the original acquisition cost or other subsequent carrying amount".
AASB 107 Statement of Cash Flows	
Cash flows from operating activities must be reported using either the (para 18): • direct method or • indirect method.	Mandate the direct method.
The Standard allows certain cash flows to be reported on a net basis, in *limited* circumstances (para 22-24) i.e. • cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity and • cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.	Mandate that relevant cash flows must be reported net, in the *limited* circumstances referred to in paras 22-24. Cash flows must be reported gross in all other circumstances (para 18 and 21).
Interest paid and interest and dividends received may be classified as operating or financing / investing flows (para 33).	Mandate interest paid and interest and dividends received as operating cash flows, to harmonise with GFS.
Dividends paid may be classified as (para 34): • a financing cash flow or • a cash flow from operating activities.	Mandate dividends paid as a financing cash flow.
AASB 116 Property, Plant and Equipment (PP&E)	
Cost model or revaluation model (fair value) (para 29).	Refer NSW TPP 14-01. Mandate the fair value (i.e. revaluation model) option.
Gross or net restatement option (para 35) i.e. where PP&E is revalued, any accumulated depreciation is treated in one of two ways: • Restated proportionately with the change in gross carrying amount so that the carrying amount of the asset after revaluation equals its revalued amount (gross restatement). • Eliminated against the gross carrying amount of the asset and the net carrying amount restated to the revalued amount of the asset (net restatement).	Refer NSW TPP 14-01. TPP 14-01 mandates use of: • gross restatement where an asset is revalued using the cost approach • net restatement where an asset is revalued using the income approach or market approach.
Asset revaluation surplus may be transferred to retained earnings on de-recognition or progressively as the asset is used (para 41).	Mandate the transfer of asset revaluation surplus on de-recognition.

Options / Requirements	Treasury Mandate
AASB 116 does not prescribe the unit of measure for recognising assets, that is, what constitutes an item of PP&E (para 9). This is relevant for *FP entities*, when offsetting revaluation increments and decrements on an individual asset basis (para 39 and 40).	Refer NSW TPP 14-01 section 3.1. For *FP entities*, asset revaluation increments and decrements must be offset for individual "assets" (para 39 and 40). An "asset", not a "part of an asset", is the basis for accounting for the movement in the asset revaluation surplus. Therefore, asset revaluation increments and decrements relating to components (or parts) of a complex infrastructure asset may be offset. For NFP entities asset revaluation increments and decrements are offset for classes of assets (para Aus39.1, Aus40.1 and Aus40.2).
AASB 119 Employee Benefits	
The rate used to discount post-employment benefit obligations must be determined by reference to market yields at the reporting date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields at the reporting date on government bonds must be used (para 83). For NFP public sector entities, post-employment benefit obligations denominated in Australian currency must be discounted using market yields on government bonds (para Aus83.1).	Refer NSW TC 14/05. For FP entities, mandate the government bond rate (rather than the high quality corporate bond rate). This means the government bond rate applies for NSW NFP *and* FP public sector entities. NSW Treasury considers that Australia does not have a sufficiently deep, active and liquid market for high quality corporate bonds. The above also applies to other long term employee benefits.
AASB 119 requires certain disclosures regarding the effect of the defined benefit plan on the entity's future cash flows, including the funding arrangements and funding policy (para.135). However, the revised Standard no longer requires the disclosure of the net defined benefit liability on a "funding basis"; i.e. using the expected rate of after-tax return on plan assets based on AAS 25 *Financial Reporting by Superannuation Plans.*	Refer NSW TC 14/05. NSW Treasury requires additional disclosures regarding the defined benefit surplus or deficit measured in accordance with AAS 25 and other related disclosures. This information will be provided to agencies in the annual Superannuation Position Statement (i.e. provided centrally to agencies by Pillar Administration or the Energy Industries Superannuation Scheme (EISS), using actuarial information for the State Super Schemes and EISS).
AASB 120 Accounting for Government Grants and Disclosure of Government Assistance - *FP entities only*	
A government grant in the form of a non-monetary asset (e.g. land or other resource) may be accounted for at either (para 23): • fair value or • nominal amount.	Mandate that government grants of non-monetary assets are accounted for at fair value.
Government grants related to assets, including non-monetary grants at fair value, must be presented in the statement of financial position either by (para 24): • setting up the grant as deferred income or • deducting the grant in arriving at the carrying amount of the asset.	Mandate that government grants related to assets are presented as deferred income.
Grants related to income are either (para 29): • presented as a credit in the statement of profit or loss or • deducted in reporting the related expense.	Mandate that grants related to income are presented as a credit (i.e. income) in the statement of profit or loss.

Options / Requirements	Treasury Mandate
AASB 121 The Effects of Changes in Foreign Exchange Rates	
An entity may present its financial statements in any currency (para 38) i.e. presentation currency.	Mandate the use of Australian dollars.
AASB 123 Borrowing Costs	
FP entities must capitalise borrowing costs relating to qualifying assets (para 8), while NFP public sector entities have the option to expense or capitalise (para Aus8.1).	Mandate that borrowing costs of all GGS NFP entities must be expensed, rather than capitalised, consistent with GFS. NFP PTE entities can choose to either expense or capitalise borrowing costs. Under AASB 123 there is no option for FP entities i.e. they must capitalise borrowing costs, where directly attributable. This amends TPP 06-6 which provides that both FP and NFP PTE entities can choose to either expense or capitalise these costs.
AASB 128 Investments in Associates and Joint Ventures	
An entity may elect not to use the equity method in accounting for its investment in an associate or joint venture where certain conditions are satisfied, in accordance with AASB 128, para 17–19 (para 16).	Mandate that the entity must use the equity method.
AASB 138 Intangible Assets	
Cost model or revaluation model (fair value) (para 72).	Mandate the fair value (i.e. revaluation model) option. Note, it will be uncommon for fair value to exist, as there is unlikely to be an "active market" (although it may happen) (AASB 138, para 78). Where there is no active market, the asset shall be carried at its cost less any accumulated amortisation and impairment losses (AASB 138 para 81).
Easements are an interest in land (e.g. transmission and pipeline easements) that may be regarded as an intangible asset (subject to AASB 138) rather than a tangible property, plant and equipment item (subject to AASB 116).	Mandate that easements be accounted for as an intangible asset (subject to AASB 138).
AASB 139 Financial Instruments: Recognition and Measurement (June 2014 Compilation version) – refer also to Treasury's *Financial Instruments Policy*	
Designation as 'fair value through profit or loss' or 'available-for-sale' at initial recognition; and use of the 'held to maturity' category (para 9).	Refer NSW TPP 08-1. TCorp Hour-Glass Investment facilities are designated at fair value through profit or loss (refer section 5.4 of Financial Instruments Policy (TPP 08-1)). Under NSW TPP 08-1: 1. Apart from Hour-Glass Investment facilities, an entity may only designate at 'fair value through profit or loss' where (refer section 5 of Financial Instruments Policy): ▪ it satisfies the fair value option criteria ▪ it determines it is appropriate for its operations (e.g. NSW TCorp) and ▪ it is approved by NSW Treasury. 2. An entity may only designate as 'available-for-sale' where approved by NSW Treasury (refer section 6 of Financial Instruments Policy). 3. An entity can only use the 'held to maturity' classification where approved by NSW Treasury (section 4 of Financial Instruments Policy).

Options / Requirements	Treasury Mandate
Regular way contracts – AASB 139 provides the option of using either trade date or settlement date accounting for purchases or sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned (para 38 and paras AG53-56).	Mandate trade date accounting; i.e. date on which the entity commits itself to purchase or sell the asset (refer AASB 139 para AG55).
Inputs to valuation techniques – current bid / asking price or mid-market price (AASB 13 para 70-71).	No mandate – the TCorp Medium and Long Term Hour-Glass growth facilities use the bid price.
Hedges of firm commitments – a hedge of foreign currency risk of a firm commitment may be accounted for as either a fair value hedge or cash flow hedge (para 87).	No mandate – this should not be a material issue for most NSW public sector agencies.
Hedging – where a hedge of a forecast transaction results in recognition of a non-financial asset or liability, or a forecast transaction becomes a firm commitment for which fair value hedge accounting is applied, the entity must either reclassify gains and losses recognised in other comprehensive income to profit or loss, OR include in initial cost of asset or liability (para 98).	Mandate inclusion in the initial cost of an asset or liability. This reduces the record-keeping burden involved in transferring amounts progressively from equity to profit or loss.
AASB 140 Investment Property	
An entity may elect to use as its accounting policy either the fair value model or the cost model (para 30).	Refer NSW TPP 14-01. Mandate fair value model.
Property interests held by a lessee under an operating lease may be classified and accounted for as investment property (para 6).	Mandate that such interests be classified as investment property.
AASB 1053 Application of Tiers of Australian Accounting Standards	
Public sector entities, whether FP or NFP (other than the Australian Government, State, Territory and Local Governments and General Government Sectors of the Australian Government, State and Territory Governments) may elect to apply: • Tier 1 (Australian Accounting Standards) reporting requirements or • Tier 2 (Australian Accounting Standards – Reduced Disclosure Requirements) reporting requirements in preparing general purpose financial statements (para 13).	Mandate that all NSW public sector entities must apply Tier 1 (Australian Accounting Standards) reporting requirements.
AASB 1055 Budgetary Reporting	
Any revised budget that is presented to parliament during the reporting period may be disclosed in the financial statements in addition to the original budget (para 11).	Mandate all GGS entities not disclose a revised budget in their financial statements. Subsequent amendments to the original budget resulting in major variances between the actual amounts and original budget should be explained in the notes to the financial statements.

Options / Requirements	Treasury Mandate
If the budgeted information is presented to parliament only at a more highly summarised level than the level of information required by Australian Accounting Standards, that entity would not be required to report the budgeted information in its financial statements (para13).	Mandate all GGS entities that have an original budgeted financial statement presented to parliament present that information in the primary financial statements.
Early adoption of new or revised Accounting Standards / Interpretations	
Whether or not to early adopt the following Standards / Interpretations that have been issued but are not yet effective [1] [2]: • AASB 9 and AASB 2014-7 regarding financial instruments • AASB 14 and AASB 2014-1(Part D) regarding Regulatory Deferral Accounts • AASB 15, AASB 2014-5 and AASB 2015-8 regarding Revenue from Contracts with Customers • AASB 1056 *Superannuation Entities* • AASB 1057 and AASB 2015-9 *Application of Australian Accounting Standards* • AASB 2014-3 regarding accounting for acquisitions of interests in joint operations • AASB 2014-4 regarding acceptable methods of depreciation and amortisation • AASB 2014-6 regarding bearer plants • AASB 2014-9 regarding equity method in separate financial statements • AASB 2014-10 and AASB 2015-10 regarding sale or contribution of assets between and investor and its associate or joint venture • AASB 2015-1 regarding annual improvements to Australian Accounting Standards 2012-2014 cycle • AASB 2015-2 regarding amendments to AASB 101 (disclosure initiative) • AASB 2015-5 *Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception* • AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* • AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*	Mandate not to early adopt any of the new Standards / Interpretations, except for AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*. Entities may elect to early adopt AASB 2015-7. AASB 2015-7, applicable for reporting periods beginning on or after 1 July 2016, relieves not-for-profit public sector entities from making certain disclosures for Level 3 property, plant and equipment that are held primarily for their current service potential rather than to generate future net cash inflows.

[1] Where an entity does not early adopt a Standard (i.e. a Standard that has been issued but is not yet effective), in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* the entity must disclose this fact and known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity's financial statements in the period of initial application.

[2] For any future Accounting Standards or Interpretations issued subsequent to the date of this Circular, unless otherwise notified, agencies should assume that the new requirements will not be early adopted.