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From: @anao.gov.au>
Sent: Monday, 17 September 2012 3:16 PM
To:
Subject: Treasury receivable

We appreciate the time you are spending on this important issue.

The Treasury accounting view is largely based on AASB 110 paragraph 12 and AASB 118 paragraph 30 (c). This would be the appropriate reference point in the majority of dividend/distribution accounting considerations, however, special considerations apply in this situation.

AASB 110.12 states that a dividend is not recognised until declared. However, the RBA Act does not provide for a declaration of a dividend by the Treasurer. Neither the Treasurer nor the Board has the power to "declare" a distribution similar to what would occur in a corporate situation. The distribution is therefore 'determined' by the Act and the traditional view of a 'dividend' does not apply here. Hence, we do not see AASB 110.12 as applicable in these circumstances.

AASB 118.30(c) states that a dividend is recognised when the shareholder's right to receive payment is established. As the RBA is under an obligation at 30 June, then the Treasurer must have a right to receive. The Treasurer could simply decide to set aside no amounts in reserve, and hence the full profit of the RBA would automatically flow to the Australian Government, without further action on his part. In other words, the Treasurer has a statutory right to receive a distribution at 30 June, notwithstanding any actions on his, or anyone else's, part. This can be confirmed with the RBA CFO
( ). The Treasury accounting position means that the Australian Government would defer, to a later period, revenue that it had a right to in 2011-12. We would expect this difference would flow through to the GGS financial statements with consequential understatement of revenue of $500 million in 2011-12 and an overstatement of the same amount in 2012-13.

We think that the accounting treatment needs to be the recognition of a revenue and a receivable of $500 million with the administered investment in the RBA being measured at $6.4 billion.

I have discussed with the Auditor-General who agrees with my approach.

Group Executive Director, Assurance Audit Services Group
Australian National Audit Office
Phone 02 6203 , Mobile

From: [mailto: @TREASURY.GOV.AU]
Sent: Friday, 14 September 2012 6:22 PM
To:
Cc:
Subject: RE: Treasury receivable

Hi

I have consider the net asset issue.

The Treasury will book investment at $6.9 bn (adjusting for the dividend). I will update the accounting policy note to make it clear that the net assets do not include the dividend payable (consistent with the revenue note).

If I was to recognise the investment at $6.4bn I would be understating the amount of net assets entitled to Commonwealth if they were wound up as at 30 June 2012. (this is based on the fact that I am not recognising the dividend receivable).

At the CFS level Finance would eliminate the RBA dividend expense and associated liability as you cannot have a liability with yourself.

From:
Sent: Friday, 14 September 2012 9:57 AM
To: ' '
Cc:
Subject: RE: Treasury receivable

Hi

It would be good if we could meet today to settle the issue.

From: [mailto: @anao.gov.au]
Sent: Thursday, 13 September 2012 6:07 PM
To:
Cc:
Subject: RE: Treasury receivable

I will have my EA arrange a meeting

Group Executive Director, Assurance Audit Services Group
Australian National Audit Office
Phone 02 6203 , Mobile

From: [mailto: @TREASURY.GOV.AU]
Sent: Thursday, 13 September 2012 5:09 PM
To:
Cc:
Subject: RE: Treasury receivable

I have considered ANAO's position paper on the RBA dividend.

I do not agree with the case put forward as FMO 41.3 is not applicable to Treasury's administered accounts.

Also AASB 110 (paragraph 9 (d)) relates to the recognition of legal or construction obligations such as employee benefits not dividends.

The key standards that relate to the Treasury are AASB 118 (paragraph 30 (c)) and AASB 110 (paragraph 12) . Both these paragraphs are relevant to dividends.

I would prefer to go with the current accounting treatment (include the dividend in the Events occur after the balance sheet date) as I am not aware of any changes to the standards relevant to this issue. I am happy to explore the matter further with Finance and ANAO during 2012-13.

I am available to meet with you and to discuss the matter. I would also be interested in the Auditor-General's view on this matter before I take it to the Secretary.

Regard

From: [mailto: @anao.gov.au]
Sent: Thursday, 13 September 2012 12:13 PM
To:
Cc:
Subject: Treasury receivable

Thank you for sending over the Treasury thinking on the RBA dividend and the note regarding view . For my part, the attachment describes our thinking for raising a receivable in 2011-12. We give greater weight to the RBA legislation than you do in your paper, and in that regard have considered the implications for Treasury. I would welcome your thoughts on that thinking.

I am tied up most of today at DVA however I am happy to meet to discuss.

Regards

Notes on RBA dividends and implications for Treasury

Statutory scheme for RBA profits
Section 30 of the *Reserve Bank Act 1959* provides that the profit of the RBA for each year, less amounts set aside by the Treasurer for contingences and the RBA Reserve Fund, shall be paid to the Commonwealth.
Finance Minister's Orders
Section 41.3 of the Finance Ministers Orders provides that where an entity is required to pay its profit for the year to the Australian Government, after the deduction of certain amounts, a liability for the dividend must be recognised if those amounts are known before the completion of the financial statements.
Section 41.3 is clearly applicable to the RBA profit for 2011-12. As a result, the RBA must recognise a liability to the Australian Government equal to its profit for the year, less the amounts the Treasurer has decided to be placed in reserve.
Implications for Treasury Administered
The underlying rationale for Section 41.3 of the FMOs is that the RBA, having made whatever profit they have, have no control over whether that profit should or should not be paid to the Commonwealth. The extent to which any dividend should be paid is wholly in the control of the Treasurer. The RBA's obligation arises from the statute and is in effect at 30 June; all that happens after 30 June is that the liability becomes measureable when the amounts to be placed in reserve are known.
It follows from the fact that RBA have an obligation at 30 June that Treasury Administered has a right at the same date. The amount that is to be paid to the Commonwealth as an RBA dividend is wholly within the control of the Treasurer. The Treasurer is able to have the full amount of the profit paid to the Commonwealth, merely by declining to place any amounts in reserve. Therefore, the Treasurer has, at 30 June, the right to receive a dividend from the RBA; all that is uncertain is the amount, which is known when the amounts to be placed in reserve are determined.
AASB 110 Events After the Reporting Date

AASB 110 provides for recognition in the balance sheet where an event after balance date provides evidence of conditions that existed at balance date. It cites (at paragraph 9(d)) the determination of profit sharing or bonus payments after balance date as an example of such an event. This is clearly analogous to the RBA situation.

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