

Accounting Alert

Staying on top of developments



In this issue:

- Financial Reporting Framework – Tier 1 and 2 standards for public sector PBEs finalised
- Commerce Committee reports back on the proposed Financial Reporting Bill
- Proposed amendments for bearer plants
- Proposed amendments to NZ IFRS 4: Insurance contracts
- Proposed amendments to prospective financial statements
- Novation of derivatives – amendment to IAS 39
- New publications

Changes to New Zealand's financial reporting framework are being made from two angles:

- the Government has proposed changes to legislation which specifies which entities are required to prepare financial statements in accordance with generally accepted accounting practice (GAAP), and whether such financial statements need to be audited or filed, and
- the External Reporting Board (XRB) is determining which standards apply for entities required to prepare financial statements in accordance with GAAP.

The proposed legislation continues to undergo development, with the Commerce Committee issuing a report in late May 2013 proposing amendments to the Financial Reporting Bill. The financial reporting standards suites that will apply are also being progressed with the XRB finalising the standards that will apply to public benefit entities in the public sector with operating expenses in excess of \$2m. These new standards will apply to periods beginning on or after 1 July 2014.

We provide an update on these developments in this alert. For more information on the project to date refer to our website at:

http://www.deloitte.com/view/en_NZ/nz/services/audit/7a4520657c337310VgnVCM1000001956f00aRCRD.htm

This alert also reports on a number of recent developments in financial reporting.

We will continue to keep you apprised of developments as they occur, so watch this space...

Financial Reporting Framework – Tier 1 and 2 standards for public sector PBEs finalised

In May 2013, the External Reporting Board (XRB) and the New Zealand Accounting Standards Board (NZASB) issued the Tier 1 and Tier 2 standards that will apply to public benefit entities in the public sector. These new standards will apply to periods beginning on or after 1 July 2014, and early adoption is not permitted.

The new standards are largely based on International Public Sector Accounting Standards (IPSAS) published by the International Public Sector Accounting Standards Board (IPSASB).

The standard XRB A1 *Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities Update)* sets out the criteria for determining which standards apply. In summary:

Tier	Public benefit entities in the public sector – criteria for each tier	Applicable Accounting Standards
Tier 1	Publicly accountable entities. An entity has public accountability if: <ul style="list-style-type: none"> its debt or equity instruments are traded (or about to be traded) in a public market, or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (e.g. banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks), or it is deemed to be publicly accountable in New Zealand. Includes issuers, registered banks, deposit takers, registered superannuation schemes. <p>Large entities (total expenses > \$30 million)</p>	PBE Standards
Tier 2	Non-publicly accountable and non-large Elects to be in tier 2	PBE Standards Reduced Disclosure Regime (PBE Standards RDR)
Tier 3	Non-publicly accountable with total expenses ≤ \$2 million Elects to be in tier 3	PBE Simple Format Reporting Standard – Accrual (Public Sector)
Tier 4	The following public sector PBEs may elect to report in accordance with this tier: <ul style="list-style-type: none"> Rural Education Activity Programmes (REAPs) Reserves Boards and Administrating Bodies Trustees of Cemeteries Provision Patriotic Councils, and Any other entity that is permitted by legislation or any other legal instrument or agreement to report on a basis other than in accordance with GAAP. <p>Elects to be in tier 4</p>	PBE Simple Format Reporting Standard – Cash (Public Sector)

The standards for Tier 3 and Tier 4 are not yet finalised.

The Tier 1 and Tier 2 PBE Standards are broadly similar to the original exposure drafts issued last year with a few changes. In particular, the concept of Other Comprehensive Income (OCI) was introduced. Although OCI is not included in IPSAS, the NZASB decided to include it based on the strong degree of support in submissions for its continuing use.

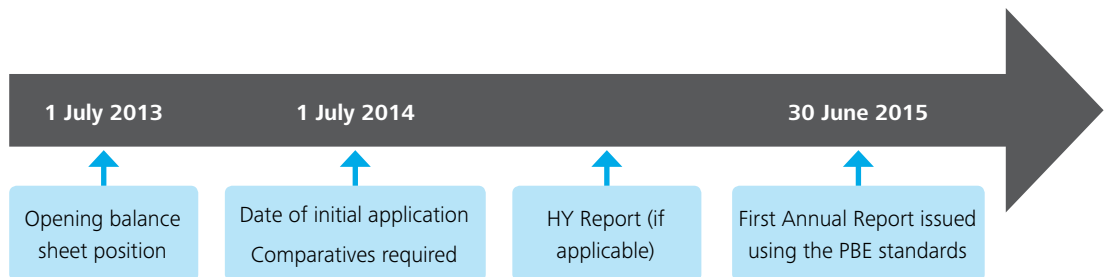
Many submissions also requested that there be minimal differences between the PBE Standards and NZ IFRS as used by for-profit entities as a result of concerns for mixed groups (PBE groups with for-profit subsidiaries). The NZASB and XRB have established a joint working group to consider further when it is appropriate for the PBE Standards to depart from IPSAS (where necessary to align with NZ IFRS).

The NZASB is developing a comparison table setting out the major substantive recognition and measurement differences between NZ IFRS and the PBE standards. We understand that it is currently being finalised.

The **Invitation to Comment** issued with the exposure drafts included an initial analysis between NZ IFRS and the PBE Standards. It is still available on the XRB website, www.xrb.govt.nz.

The NZASB also acknowledged requests in submissions made for additional guidance and enhancement to standards. As a result, there is a work programme to address some of these requests, such as for guidance on determining whether an entity is a public benefit entity and determining whether revenue arises from an exchange or non-exchange transaction.

Most public sector PBEs have a balance date of 30 June, so the new framework will apply for the first time in the 30 June 2015 financial statements. As the standards require comparative information, the new requirements will effectively be applied to relevant transactions and balances from the opening balance sheet date - 1 July 2013.



The standards and other resources are available on the XRB website at: http://www.xrb.govt.nz/Site/Accounting_Standards/Current_Standards/Standards_for_Public_Sector_PBEs/Standards_after_1_July_14/Standards_for_Tier_1_and_2_PS_PBEs.aspx



Commerce Committee report on the proposed Financial Reporting Bill

The Commerce Committee completed its review of submissions on the Financial Reporting Bill and issued a report recommending that the Bill be passed with some amendments. Our **September Accounting Alert** summarises the proposals of the original Bill. The main changes proposed by the Commerce Committee include:

- Instead of having separate deadlines for preparation and filing of financial statements, a single deadline is proposed. Issuers and other FMC reporting entities (i.e. those entities captured by the Financial Markets Conduct Act when finalised) will have four months to file audited financial statements. Companies that are not FMC reporting entities will have five months, longer than the original three month proposal. Deadlines for some other entities will also change to become five months.
- “Inactive” companies will be exempt from the requirement to prepare financial statements, consistent with the current Financial Reporting Act 1993. An entity is inactive if (during the relevant accounting period) it has not derived or been deemed to have derived any income; has no expenses; and has not disposed of or been deemed to have disposed of any assets.
- A large company which is a wholly-owned subsidiary of a company that has complied with a requirement to file group financial statements will not be automatically subject to an audit requirement.
- If a company does not have a particular financial reporting requirement (under the Bill or another Act), but does prepare financial statements for tax purposes, it will have to provide a copy of those financial statements to shareholders who request them.
- The Financial Reporting Bill proposed that registered charities and other specified not-for-profit entities could use the cash basis for financial reporting if operating payments were below \$40,000. The Commerce Committee proposes increasing this threshold to \$125,000.

There are also a number of other amendments that would affect friendly societies, limited partnerships, retirement village operators and charities.

For an update on the impact of proposed changes to the legislation and accounting standards for “for-profit” companies refer to our publication: **Financial reporting framework for “for-profit” companies in New Zealand – Frequently Asked Questions** available at www.deloitte.co.nz. This publication includes the Commerce Committee proposals.



Proposed disclosure concessions for Tier 2 and Tier 3 for-profit entities

The NZASB has issued an exposure draft NZASB 2013-2: *Disclosure Concessions for Tier 2 and Tier 3 For-Profit Entities* which proposes:

- RDR concessions for Tier 2 for-profit entities resulting from *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)*,
- RDR concessions for Tier 2 for-profit entities to be included in standards resulting from IASB Exposure Draft ED/2013/3 *Financial instruments: Expected Credit Losses*, and
- Differential reporting disclosure concessions to be included in standards resulting from IASB Exposure Draft ED/2013/3 *Financial Instruments: Expected Credit Losses* which Tier 3 for-profit entities may elect to apply.

Comments are due to the NZASB by 30 August 2013.

The **Exposure Draft** is available on the XRB Website at www.xrb.govt.nz

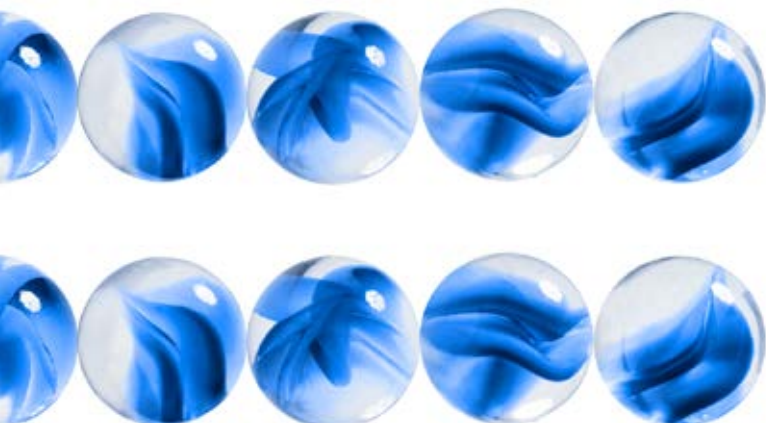
Proposed amendments for bearer plants

The IASB has published an exposure draft proposing amendments to IAS 16: *Property, Plant and Equipment* and IAS 41: *Agriculture* to include bearer plants (e.g. grapevines, kiwifruit vines, fruit trees) within the scope of IAS 16. Currently, IAS 41 requires that all biological assets that are related to agricultural activity must be measured at fair value less costs to sell. The amendments would bring bearer plants which no longer undergo significant biological transformation into the scope of IAS 16 so that they would be accounted for in the same way as property, plant and equipment (i.e. cost or revaluation). The produce growing on the bearer plants would remain under the fair value model in IAS 41.

Comments are due to the NZASB by 27 September 2013 and to the IASB by 28 October 2013.

The **Exposure Draft** is available on the XRB Website at www.xrb.govt.nz

For more information on the proposal read the Deloitte **IFRS in Focus – IASB proposes amendments to IAS 16 and IAS 41 for bearer plants** available at www.iasplus.com.



Proposed amendments to NZ IFRS 4: Insurance contracts

The NZASB has issued an exposure draft (ED NZASB 2013-3) proposing to delete the explicit requirement for a life insurer to consolidate policyholders' interests in order to avoid any potential conflict with NZ IFRS 10 *Consolidated Financial Statements*. This will leave NZ IFRS 10 as the sole source for consolidation requirements applicable to life insurer entities.

Comments are due to the NZASB by 25 September 2013.

The **Exposure Draft** is available on the XRB Website at www.xrb.govt.nz.

Proposed amendments to prospective financial statements

The NZASB has issued an exposure draft proposing to amend FRS-42 to address an inconsistency between the requirements of that standard and the Securities Regulations 2009 regarding an entity's ability to present prospective financial statements for an interim period. The ED proposes similar amendments to FRS-42 (PBE) *Prospective Financial Statements* and PBE FRS 42 *Prospective Financial Statements*.

Comments are due to the NZASB by 11 August 2013.

The **Exposure Draft** is available on the XRB Website at www.xrb.govt.nz.

Novation of derivatives – amendment to IAS 39

The IASB has issued an amendment to IAS 39: *Financial Instruments: Recognition and Measurement* on the "Novation of Derivatives and Continuation of Hedge Accounting". This amendment responds to changing laws and regulations on over-the-counter (OTC) derivatives in several jurisdictions (based on the G20 commitments arising out of the financial crisis), requiring many of them to be transacted with a central counterparty. Under the amendments there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met.

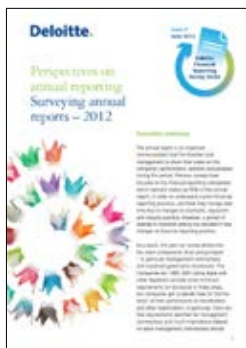
The amendments are effective for annual periods beginning on or after 1 January 2014, with earlier application being permitted.

For more information on the amendment read the **IFRS in Focus — IASB publishes an amendment to IAS 39 on novation of derivatives** available at www.iasplus.com.

New publications

Deloitte Financial Reporting Survey Series – Survey of 2012 annual reports

We continue to consider how entities apply the financial reporting requirements in practice in the latest two publications in the Deloitte Financial Reporting Survey Series.



Issue 9: Perspectives on annual reporting – Surveying annual reports 2012

This issue provides an overview of disclosures made in the 2012 annual reports of a sample of 100 listed and other large companies with publicly available information, focusing on management commentary, corporate governance disclosures and the financial statements. Consideration is also given to a smaller sample of 30 entities taking advantage of differential reporting concessions.



Issue 10: Underlying profit 2012

This issue considers the practice of providing alternative measures of profit in the 2012 annual reports of 100 listed and other large companies as a follow up to our 2011 survey (Issue 8), as well as an overview of current practice compared against the FMA's guidance on this topic which became effective from 1 January 2013.



Financial reporting framework for “for-profit” companies in New Zealand – Frequently Asked Questions

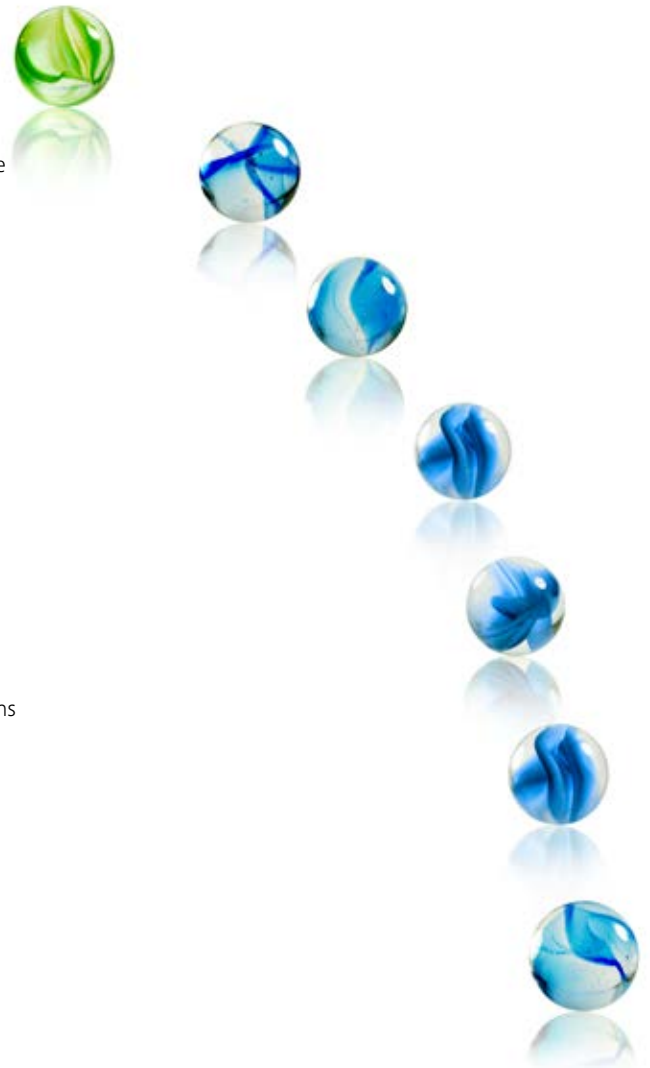
Financial reporting framework for “for-profit” companies in New Zealand – Frequently Asked Questions (May 2013)

This document answers some frequently asked questions for for-profit companies based on the accounting standards framework now finalised by the XRB, and recent comments from the Commerce Committee proposing changes to the Financial Reporting Bill.

The New Zealand Centre for Corporate Governance

This site provides resources, information, and tools for boards of directors and others interested in governance. The New Zealand Centre for Corporate Governance aims to promote dialogue in the critical area of corporate governance among industry bodies, companies and their boards of directors, investors, professional services firms, academia, and government. The site is tailored for the governance concerns of New Zealand and includes a diverse collection of governance tools, resources and thought leadership from Deloitte and third party sources.

<http://www.corpgov.deloitte.com/site/nz/>



Contacts

Auckland

Denise Hodgkins

+64 (0) 9 303 0918
dhodgkins@deloitte.co.nz

Peter Gulliver

+64 (0) 9 303 0891
pegulliver@deloitte.co.nz

Dunedin

Mike Hawken

+64 (0) 3 474 8684
mhawken@deloitte.co.nz

Brett Tomkins

+64 (0) 3 471 4341
btomkins@deloitte.co.nz

Wellington

Trevor Deed

+64 (0) 4 470 3527
tdeed@deloitte.co.nz

Jacqueline Robertson

+64 (0) 4 470 3561
jacrobertson@deloitte.co.nz

Hamilton

Bruno Dente

+64 (0) 7 834 7842
bdente@deloitte.co.nz

Christchurch

Paul Bryden

+64 (0) 3 363 3862
pbryden@deloitte.co.nz

Michael Wilkes

+64 (0) 3 363 3845
mwilkes@deloitte.co.nz

New Zealand Directory

Auckland PO Box 33, Ph +64 (0) 9 309 4944, Fax +64 (0) 9 309 4947

Hamilton PO Box 17, Ph +64 (0) 7 838 4800, Fax +64 (0) 7 838 4810

Rotorua PO Box 12003, Ph +64 (0) 4 472 1677, Fax +64 (0) 4 472 8023

Wellington PO Box 1990, Ph +64 (0) 4 472 1677, Fax +64 (0) 4 472 8023

Christchurch PO Box 248, Ph +64 (0) 3 379 7010, Fax +64 (0) 3 366 6539

Dunedin PO Box 1245, Ph +64 (0) 3 474 8630, Fax +64 (0) 3 474 8650

Internet address <http://www.deloitte.co.nz>

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/nz/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

Deloitte New Zealand brings together more than 900 specialists providing audit, tax, technology and systems, strategy and performance improvement, risk management, corporate finance, business recovery, forensic and accounting services. Our people are based in Auckland, Hamilton, Rotorua, Wellington, Christchurch and Dunedin, serving clients that range from New Zealand's largest companies and public sector organisations to smaller businesses with ambition to grow. For more information about Deloitte in New Zealand, look to our website www.deloitte.co.nz

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

© 2013. For information, contact Deloitte Touche Tohmatsu Limited.

This publication is intended for the use of clients and personnel of Deloitte. It is also made available to other selected recipients. Those wishing to receive this publication regularly are asked to communicate with:

The Editor,
Accounting Alert
PO Box 33, Auckland.
Ph +64 (0) 9 309 4944
Fax +64 (0) 9 309 4947