

Accounting Alert

Staying on top of developments



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Progress on the new financial reporting framework continues apace. The External Reporting Board has issued exposure drafts of the simple format reporting standards that will apply to public benefit entities. These standards are designed to be simple to use with the requirements for each tier incorporated in a single standard supported by (optional) “fill-in-the-box” templates in excel and guidance notes on how to complete the templates.

Proposed legislative changes mean that many not-for-profit entities, such as charities, will be required to prepare financial statements in accordance with generally accepted accounting practice (GAAP) once the legislation is passed. The simple format reporting standards will apply to these entities if their expenses are less than \$2 million.

Submissions on the standards that are proposed to apply for public benefit entities in the public sector are due by 28 March 2013. As this will be the first time many not-for-profit entities will have to comply with GAAP, a longer submission deadline has been provided – 28 June 2013. This Accounting Alert summarises the proposed requirements for reporting in accordance with the simple format standards.

We also report 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 – Simple format reporting

The New Zealand Accounting Standards Board (NZASB) has issued exposure drafts for comment on the simple format reporting standards that will apply to public benefit entities (PBEs). The standards are split between:

- PBEs in the public sector (i.e. public sector entities as captured by the Public Audit Act 2001)
- PBEs that are not in the public sector – referred to as not-for-profit (NFP) entities.

Simple format reporting standards apply to PBEs that meet the criteria to report using the Tier 3 (accrual accounting) or Tier 4 (cash accounting) standards. The table below summarises the criteria for each reporting tier, the standards that will apply to public sector (PS) entities and NFP entities, and key dates in the NZASB workplan. Proposed PS standards for Tier 1 and Tier 2 entities were issued in 2012 and the NZASB is currently considering submissions on those standards. For more information refer to our [July 2012 Accounting Alert](#). Exposure drafts of the Tier 1 and 2 standards to apply to NFP entities are expected later this year.

Tier	Who captured	PBE Public Sector	PBE Not-for-profit
Tier 1	<ul style="list-style-type: none"> • Publicly accountable entities ⁽¹⁾ • Large (expenses > \$30 million) <p>Note: All entities fall in this tier unless they meet the criteria and elect to report in accordance with one of the below tiers.</p>	PBE Accounting Standards <ul style="list-style-type: none"> • ED issued: June 2012 • Standards expected: Q2, 2013 • Effective date: 1 July 2014 ⁽²⁾ 	PBE Accounting Standards <ul style="list-style-type: none"> • ED expected: September 2013 • Standard expected: 2014 • Effective date: 1 April 2015 ⁽³⁾
Tier 2	<ul style="list-style-type: none"> • Non publicly accountable and non-large (expenses below \$30 million) • Elects to be in tier 2 	PBE Accounting Standards Reduced Disclosure Regime <ul style="list-style-type: none"> • ED issued: June 2012 • Standards expected: Q2, 2013 • Effective date: 1 July 2014 ⁽²⁾ 	PBE Accounting Standards Reduced Disclosure Regime <ul style="list-style-type: none"> • ED expected: September 2013 • Standard expected: 2014 • Effective date: 1 April 2015 ⁽³⁾
Tier 3	<ul style="list-style-type: none"> • Non-publicly accountable with expenses ≤ \$2 million • Elects to be in tier 3 	PBE Simple Format Reporting Standard – Accrual (PS) <ul style="list-style-type: none"> • ED issued: December 2012 • Comments due: 28 March 2013 • Standards expected: Q2 2013 • Effective date: 1 July 2014 ⁽²⁾ 	PBE Simple Format Reporting Standard – Accrual (NFP) <ul style="list-style-type: none"> • ED issued: December 2012 • Comments due: 28 June 2013 • Standard expected: Q4, 2013 • Effective date: 1 April 2015 ⁽³⁾
Tier 4	<ul style="list-style-type: none"> • Entities allowed by law to use cash accounting – operating payments less than \$40,000 • Elects to be in tier 4 	PBE Simple Format Reporting Standard – Cash (PS) <ul style="list-style-type: none"> • ED Issued: December 2012 • Comments due: 28 March 2013 • Standards expected: Q2, 2013 • Effective date: 1 July 2014 ⁽²⁾ 	PBE Simple Format Reporting Standard – Cash (NFP) <ul style="list-style-type: none"> • ED issued: December 2012 • Comments due: 28 June 2013 • Standard expected: Q4, 2013 • Effective date: 1 April 2015 ⁽³⁾

(1) Publicly accountable entities include those entities with debt or equity instruments traded (or about to be traded) in a public market; or entities that hold 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). In addition some New Zealand entities are deemed to be publicly accountable including issuers, registered banks, deposit takers, and registered superannuation schemes.

(2) Proposed effective date for adoption is periods beginning on or after 1 July 2014. Early adoption is not permitted.

(3) Proposed effective date for adoption is periods beginning on or after 1 April 2015. Early adoption is permitted.

Overview of the Simple Format Reporting Standards

As their title suggests, these standards are designed to be simple to use standards with the requirements for each tier incorporated in a single standard supported by (optional) “fill-in-the-box” templates in excel and guidance notes on how to complete the templates. While there are four separate standards and supporting templates (Tier 3 and Tier 4 standards and templates each for public sector and not-for-profit entities), the core requirements are largely consistent between the standards for public sector PBEs and not-for-profit PBEs, with tailored examples reflecting the different nature of the entities. As the core requirements are similar, we have summarised the Tier 3 standards and Tier 4 standards, noting any requirements specific for public sector entities (PS) and not-for-profit entities (NFP).

Tier 3: PBE Simple Format Reporting Standard – Accrual

The PBE Simple Format Reporting Standard – Accrual sets out the objectives of reporting and then proposes a performance report that responds to these objectives.

The objective of reporting is to address the following eight questions:

Who are we?	Why do we exist?	What did we do?
What did it cost?	How was it funded?	When did we do it?
How did we do our accounting?	What do we need to do to continue operating?	

In order to address this objective a performance report is required to include the components as shown in the table below. The Standard requires the performance report to present fairly (or provide a true and fair view of) the entity’s service performance, financial performance and cash flows over the financial year, and its financial position as at the balance date, in accordance with the Standard. Fair presentation includes the same concepts as in current standards – information should be relevant, reliable, comparable and understandable. Timeliness of information is also important. The concept of materiality is also included in the Standard consistent with current practice.

Component	Summary of requirements
Entity information	<p>Summarises what an entity does, how it is organised and how it makes decisions. Information disclosed would include:</p> <ul style="list-style-type: none"> entity’s name, type of entity and legal basis (if any) entity’s mission statement and objectives of the entity structure of the entity’s operations main sources of cash and resources, and main methods used to raise funds. <p>If a PS entity is not required to provide a Statement of Service Performance (see below) a general description of the activities of the entity during the reporting period and how they contribute to the achievement of the entity’s objectives would also be provided here.</p> <p>NFP entities are also required to disclose the entity’s reliance on volunteers, and donated services and products.</p>
Statement of Service Performance	<p>Service reporting is based around:</p> <ul style="list-style-type: none"> Outcomes – what the entity is seeking to achieve in terms of its impact on society, and Outputs – what the entity achieved during the year by providing services and products (which are described and quantified to the extent practicable). <p>A description of each major category of outputs (services and products) is required with commentary on factors within and outside of the entity’s control which relate to the achievement of its outcomes.</p> <p>There are a number of other disclosures noted as being optional. For example, appropriate quality measures of outputs delivered, timeliness of delivery of entity outputs, allocations of revenue and expenses to each category of outputs, quantification of contributions from volunteers.</p> <p>This statement is mandatory for NFP entities, and for PS entities required by law to prepare the statement. It is optional for other PS entities.</p>

Component	Summary of requirements
Statement of Financial Performance	<p>This statement shows all revenue and expenses for the entity and all its activities during the year.</p> <p>Revenue:</p> <ul style="list-style-type: none"> • Revenue will be aggregated and disclosed across defined categories in order to achieve comparability of presentation between entities. Additional breakdowns are optional note disclosure. • Revenue is recorded when there is a legal right to receive cash either now or sometime in the future. Guidance is provided on when to record revenue for a range of revenue sources. • Revenues from government grants, donations, grants and public fundraising is recorded when cash or significant assets are received. Services and products received in kind from donations, grants or fundraising are not recorded as revenue. Material donations and any conditions are disclosed. <p>Expenses:</p> <ul style="list-style-type: none"> • Expenses will be aggregated and disclosed across defined categories in order to achieve comparability of presentation between entities. Additional breakdowns are optional note disclosure. • Expenses are included when there is a legal obligation to pay cash either now or sometime in the future. Details of the timing of recording specific expense items are provided. <p>Amounts collected or paid on behalf of others as an agent of the government, of another entity, or on behalf of other third parties, are not reported as revenue or expenses. Revenue and expenses are limited to the commission receivable or payable.</p>
Statement of Financial Position	<p>The following categories are required to be aggregated and presented to enable comparability between entities (unless not relevant or significant to the entity):</p> <ul style="list-style-type: none"> • Assets – cash, debtors and prepayments, inventory, property, plant and equipment (PP&E), investments, other assets • Liabilities – creditors and accruals, loans, other liabilities • Accumulated funds – funds contributed by owners/members, accumulated surpluses or deficits, other reserves (such as designated and restricted reserves) <p>Assets are typically recorded at cost, or at the amount receivable. Donated PP&E is recorded at current value (such as insurance value, rateable value or government value). The standard notes that an entity may elect to revalue a class of PP&E with reference to the Tier 2 standard ED PBE IPSAS 17: <i>Property, Plant and Equipment</i>. However an entity can choose to use the current government valuation or rateable value of PP&E instead of fair value as defined in ED PBE IPSAS 17. Disclosures will be required.</p> <p>Liabilities are typically recorded at the amount owing. For provisions this is an entity's best estimate of the amount to be paid.</p>
Statement of Cash Flows	<p>The Statement of Cash Flows reports separately major classes of cash receipts and payments during the period classified as operating, investing or financing activities. The reconciliation of profit to operating cash flows (also referred to as the indirect method) is not required.</p>
Statement of Accounting Policies	<ul style="list-style-type: none"> • An entity will disclose that it has elected to apply this Standard and the criteria that allows it to do so. • Major accounting policies should be disclosed. • Where the Standard is silent on a specific transaction, judgement is used to determine the appropriate method of accounting by reference to principles and requirements in the Standard for dealing with similar and related transactions and definitions and concepts in the PBE Framework. An entity may consider (but is not required to apply) the relevant requirements in the Tier 2 PBE Accounting Standards dealing with the same, similar and related transactions. Disclosure is required of the accounting standard applied where this is the case. • Changes in accounting policies are only permitted if required by this Standard, or where it results in more reliable or relevant information. Disclosures are specified when an accounting policy is changed. • Prior period errors are corrected by adjusting the opening balance of the relevant asset, liability or accumulated funds at the beginning of the financial year.

Component	Summary of requirements
Notes to the financial statements	<p>Notes are specified for:</p> <ul style="list-style-type: none"> • Changes in accumulated funds by category • Details on each class of asset including description of assets, carrying amount at the beginning and end of the year, depreciation and/or impairment incurred, sources of valuation • Donated assets not recorded • Grants and donations received with on-going conditions attached or that have not been fulfilled at balance date • Commitments • Contingent liabilities and guarantees • Assets used as security for liabilities • Resources provided to the entity in kind • Assets held on behalf of others • Related party transactions • Events after balance date • Ability to continue operating – particular where an entity plans to stop operating, or it is likely that the entity will be unable to continue operating.
Additional information	<p>Additional information to that required by this standard should be provided where considered to be relevant to users' understanding of the performance and activities of the financial year.</p>

Other matters:

- The Performance Report should incorporate all the activities of the entity, including all branches or other operating units if structured into more than one unit. The Standard does not currently cover groups (the entity together with any entities that it controls) – the NZASB may extend it in the future.
- Financial statements are required to be presented in New Zealand Dollars.
- The Performance Report should be internally consistent.
- A consistent treatment of Goods and Services Tax (GST) is required – this could be GST-inclusive or GST-exclusive.
- Comparative information is required for the Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows and any notes unless otherwise permitted.
- Public sector entities required by law to publish their budgets are required to report budgeted information alongside their actual results.
- An entity shall not change presentation and classification of line items unless there has been a significant change in operations, or the Standard requires a change in treatment. Comparatives would be restated unless impracticable.
- Amounts are not permitted to be offset. Measuring assets net of valuation allowances (e.g. write downs of inventory) are not considered offsetting. However, guidance notes that when a fixed asset is sold or otherwise disposed of, the transaction is shown in the Performance Report by showing separately the amount received and the carrying value of the asset sold.

Transition to Tier 3 Standards:

Situation	Guidance
New entity in the current financial year	Apply standard from the beginning of the period. Comparative figures are not required. New entities disclose their date of commencement.
Previously Tier 4 (PBE Simple Format Reporting Standard – Cash)	Two options: <ul style="list-style-type: none"> • Follow this standard from the beginning of the current period, comparative information is not required. The previous financial statements and list of previous accounting policies should be attached. • Apply standard from the beginning of the earliest comparative period presented. Assets and liabilities are recorded at their readily available amounts (or best estimate of the value). For PP&E significant items are recorded at their readily obtainable current values (such as insurance value, rateable value or government valuation). Where PP&E current values are not readily available the entity does not need to record the assets but shall disclose this fact in the notes. Insignificant items of PP&E are not required to be recorded.
Previously Tier 2	The Tier 2 figures are presented as the comparative figures. Any changes in accounting policies are disclosed (e.g. changing to straight line depreciation as required by this standard).
Residual: Entities that have not followed any accounting standard issued in the previous financial year, but have been operating prior to the current financial year	This category also includes entities applying this standard for financial years beginning on or after: <ul style="list-style-type: none"> • 1 July 2014 for public sector entities, and • 1 April 2015 for not-for-profit entities. Two options as for entities previously in Tier 4 above.



Tier 4: PBE Simple Format Reporting Standard – Cash

The PBE Simple Format Reporting Standard – Cash sets out the objectives of reporting and then proposes a performance report that responds to these objectives.

The objective of reporting is to address the following eight questions:

Who are we?	Why do we exist?	What did we do?
What did it cost?	How was it funded?	When did we do it?
How did we account for our activities?	What do we need to do to continue operating?	

In order to address this objective a performance report is required to include the components as shown in the table below.

Component	Summary of requirements
Entity information	<p>Summarises what an entity does, how it is organised and how it makes decisions. Information disclosed would include:</p> <ul style="list-style-type: none"> entity's name, type of entity and legal basis (if any) entity's mission statement and objectives of the entity structure of the entity's operations main sources of cash (with PS entities also disclosing main sources of resources) main methods used to raise funds, and the entity's reliance on volunteers, and donated services and products. <p>If a PS entity is not required to provide a Statement of Service Performance (see below) a general description of the activities of the entity during the reporting period and how they contribute to the achievement of the entity's objectives would also be provided here.</p>
Statement of Service Performance	<p>Service reporting is based around:</p> <ul style="list-style-type: none"> Outcomes – what the entity is seeking to achieve in terms of its impact on society, and Outputs – what the entity achieved during the year by providing services and products (which are described and quantified to the extent practicable). <p>A description of each major category of outputs (services and products) is required with commentary on factors within and outside of the entity's control which relate to the achievement of its outcomes.</p> <p>There are a number of other disclosures noted as being optional. For example, appropriate quality measures of outputs delivered, timeliness of delivery of entity outputs, allocations of revenue and expenses to each category of outputs, quantification of contributions from volunteers.</p> <p>This Statement is mandatory for NFP entities and PS entities required by law to prepare the statement. It is optional for other PS entities.</p>
Statement of Receipts and Payments	<p>This statement shows all cash received and cash paid out for the entity and all its activities during the year.</p> <p>Receipts:</p> <ul style="list-style-type: none"> Receipts will be aggregated and disclosed across defined categories in order to achieve comparability of presentation between entities. Additional breakdowns are optional note disclosure. Receipts are recorded on the receipt of cash, either in a bank account or physical money received by the entity. <p>Payments:</p> <ul style="list-style-type: none"> Payments will be aggregated and disclosed across defined categories under subheadings for operating payments and capital payments in order to achieve comparability of presentation between entities. Additional breakdowns are optional note disclosure. Payments are recorded on the date payment is made, e.g. when a cheque is passed to the recipient (such as by posting) and not when the amount is withdrawn from the bank account.

Component	Summary of requirements
Statement of Resources and Commitments	<p>The Statement of Resources and Commitments consists of:</p> <ul style="list-style-type: none"> • Schedule of Resources Resources are listed under three main categories - cash, cash owed to the entity and other resources (both owned by the entity, or owned by others but can be used by the entity). Examples of other resources include land and buildings, motor vehicles, investments, inventory on hand and others. For each purchased resource the report should include the purchase date and where available the cost or a current value. For donated resources disclosure of the current value would be provided where available. • Schedule of Commitments Commitments are listed under two main categories – cash payable by the entity (e.g. unpaid invoices, wages and salaries due and payable, interest payable, loans payable and others), and commitments and guarantees. Commitments are legal obligations at balance date for the entity to pay cash at a future date to third parties. Significant operating and capital commitments should be disclosed (e.g. contracts to purchase resources, make payments under a lease or rental agreement, to maintenance or supply agreements, to loans or grants the entity is legally committed to making and others). Guarantee disclosure includes the nature of the guarantee, reason why it was provided, likelihood of having to make payment, and maximum amount that could be paid under the guarantee. • Other information Disclosures required include information about grants with conditions attached, if the entity has used any of its resources as security for borrowings and any resources to be provided in kind.
Notes to the financial statements	<p>Notes are specified (as applicable) for:</p> <ul style="list-style-type: none"> • The fact that this Standard is applied, why the entity is permitted by law to do so and that all transactions are on a cash basis • The presentation of GST selected – either GST-inclusive or GST-exclusive • Correction of errors • Related party transactions • Events after the balance date
Additional information	<p>Additional information to that required by this standard should be provided where considered to be relevant to users' understanding of the performance and activities of the financial year.</p>

Other matters:

- The Performance Report should incorporate all the activities of the entity, including all branches or other operating units if structured into more than one unit. The Standard does not currently cover groups (the entity together with any entities that it controls) – the NZASB may extend it in the future.
- Financial statements are required to be presented in New Zealand Dollars.
- The Performance Report should be internally consistent.
- Comparative information is required for the Statement of Service Performance, Statement of Receipts and Payments, Statement of Resources and Commitments and any associated notes, including the related parties note.
- Public sector entities required by law to publish their budgets are required to report budgeted information alongside their actual results.
- An entity shall not change presentation and classification of line items unless there has been a significant change in operations, or the Standard requires a change in treatment. Comparatives would be restated unless impracticable.
- Amounts are not permitted to be offset. Cash received and cash paid (even if for a similar purpose) should not be netted off against each other.

Transition to Tier 4 Standards:

Situation	Guidance
New entity in the current financial year	Apply standard from the beginning of the period. Comparative figures are not required. New entities disclose their date of commencement.
Continuing entity – has not followed this Standard in the previous reporting period but has been operating prior to the current financial year	Two options: <ul style="list-style-type: none"> Follow this standard from the beginning of the current period, comparative information is not required. The previous financial statements and list of previous accounting policies should be attached. Follow this standard from the start of the previous period by restating the entity's previous financial statements (if any) in accordance with the requirements of this Standard.

Submissions

Submissions are due to the NZASB:

- on the public sector simple format reporting standards by 28 March 2013, and
- on the not-for-profit simple format reporting standards by 28 June 2013.

The Exposure Drafts are available on the XRB website at www.xrb.govt.nz:

Not-for-profit entities:

http://xrb.govt.nz/Site/Accounting_Standards/Exposure_Drafts/NFP_Simple_Format_Reporting_EDs.aspx

Public sector entities:

http://xrb.govt.nz/Site/Accounting_Standards/Exposure_Drafts/Public_Sector_PBE_Simple_Format_Reporting_EDs.aspx

Investment entities amendments (update)

As noted in our **November 2012 Accounting Alert**, the IASB has issued its amendments to IFRS 10: *Consolidated Financial Statements* providing relief from the consolidation requirements of IFRS 10 for investment entities. In summary:

- Where an entity qualifies as an 'investment entity' it does not consolidate its subsidiaries but measures its investments at fair value
- Consideration of the criteria for meeting the definition of an 'investment entity' will require a degree of judgement based on facts and circumstances
- These changes may impact entities beyond those traditionally seen as investment-type entities
- The new requirements are effected through a series of changes to IFRS 10, IFRS 12: *Disclosure of Interests in Other Entities* and IAS 27: *Separate Financial Statements*.
- The requirements are to be applied retrospectively for reporting periods beginning on or after 1 January 2014.

The NZASB approved the amendment for use in New Zealand at its December 2012 meeting. At this stage, the amendment has been issued unchanged. However, the Australian Accounting Standards Board (AASB) has issued Exposure Draft 233: *Australian Additional Disclosures – Investment Entities* which proposes that an investment entity should provide disclosures in the form of consolidated financial statements including:

- Consolidated statement of profit or loss and other comprehensive income
- Consolidated statement of financial position
- Consolidated statement of changes in equity
- Consolidated statement of cash flows.

These statements would be prepared consistent with the requirements of AASB 10: *Consolidated Financial Statements* (equivalent to NZ IFRS 10) and a summary of significant accounting policies used in preparing these statements would also be provided. Additional note disclosures would not be required.

The NZASB will consider how to maintain harmonisation with Australia by for-profit entities that meet the definition of an investment entity, once Australia has finalised its deliberations on this exposure draft. The NZASB is encouraging New Zealand entities, that meet the definition of an investment entity, to make a submission to the AASB.

ED 233 is available from the [AASB website](http://www.aasb.gov.au) at www.aasb.gov.au. Submissions are due by 29 March 2013.

The NZASB commentary is available in the [NZASB Communiqué 2013 - 2: 4 February 2013](#) on the XRB website at www.xrb.govt.nz.

IASB defers key projects

The International Accounting Standards Board (IASB) has updated its work plan leading to the deferral of a number of outputs. In particular, three project milestones have been deferred until the second quarter of 2013 (previously expected in the first quarter):

- the hedge accounting section of IFRS 9: *Financial Instruments*,
- a revised exposure draft on lease accounting, and
- the finalised IFRS for revenue recognition.

The [IASB work plan](#) is available on their website at www.ifrs.org.



Proposed changes to impairment disclosures

ED/2013/1: *Recoverable Amount Disclosures for Non-Financial Assets (Proposed amendments to IAS 36)* proposes to change amendments made to IAS 36: *Impairment of Assets*, made by IFRS 13: *Fair Value Measurement*.

The IFRS 13 amendment introduced the requirement to disclose the recoverable amount of each cash-generating unit/s ('CGU') to which a significant portion of the overall carrying amount of goodwill or intangible assets with indefinite useful lives has been allocated (regardless of whether there has been an impairment or not). The ED proposes to only require this disclosure when there has been an impairment loss recognised during the period.

The exposure draft also proposes to amend and clarify the disclosures required when an asset or CGU is impaired and recoverable amount has been determined on the basis of the asset's fair value less costs of disposal. Disclosures required largely align with those already required when the value in use basis is used to determine recoverable amount for an impaired asset. For example, proposed disclosures include:

- the valuation techniques used and any changes in that valuation technique
- the level of the 'fair value hierarchy' (from IFRS 13) within which the fair value measurement of the asset or CGU has been determined
- for items in Levels 2 and 3 of the fair value hierarchy, key assumptions used in the measurement of fair value, including an explicit requirement to include the discount rate used if a present value technique has been used (the discount rate requirement was previously proposed in ED/2012/1: *Annual Improvements to IFRSs*).

Comments are due to the NZASB by 1 March 2013 and to the IASB by 19 March 2013.

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

For more information on the amendments read the Deloitte **IFRS in Focus – IASB proposed limited scope amendments to IAS 36** available at www.iasplus.com.

Proposed scope amendment for IFRS 11: Joint Arrangements

ED/2012/7: *Acquisition of an Interest in a Joint Operation (Proposed Amendment to IFRS 11)* proposes narrow scope amendments to IFRS 11 to clarify how an entity should account for the acquisition of an interest in a joint operation where the activity of the joint operation constitutes a business.

The amendment clarifies that IFRS 3 and other relevant standards would be applied to acquisitions of interests in joint operations that are businesses.

The amendments would apply to the acquisition of an interest in an existing joint operation and also to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business.

Comments are due to the NZASB by 28 March 2013 and to the IASB by 23 April 2013.

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

For more information on the amendments read the Deloitte **IFRS in Focus — IASB proposes limited scope amendment to IFRS 11** available at www.iasplus.com.

Proposed clarification on when unrealised profits are eliminated when using equity accounting

ED/2012/6: *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (Proposed Amendments to IFRS 10 and IAS 28)* proposes to clarify when unrealised profits and losses on transactions between an investor and an associate should be fully recognised. The proposals:

- require full recognition in relation to transactions involving businesses, and
- partial elimination in the case of asset sales/contributions.

This consideration addresses the conflict in the requirements between IAS 28 (2011): *Investments in Associates and Joint Ventures* which requires the partial elimination of unrealised profits on the contribution of assets to an associate or joint venture, and IFRS 10: *Consolidated Financial Statements* which requires the full recognition of a gain/loss on loss of control of a subsidiary.

Comments are due to the NZASB by 28 March 2013 and to the IASB by 23 April 2013.

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

For more information on the amendments read the Deloitte **IFRS in Focus – IASB issues exposure draft on accounting for the sale or contribution of assets between an investor and its associate or joint venture** available at www.iasplus.com.

Proposed clarification regarding depreciation and amortisation methods

ED/2012/5: *Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed Amendments to IAS 16 and IAS 38)* provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated.

The proposed amendments to IAS 16: *Property, Plant and Equipment* and IAS 38: *Intangible Assets* clarify that revenue based methods for depreciation or amortisation do not reflect the pattern in which an asset's future economic benefits are expected to be consumed, so cannot be used. The Basis for Conclusion notes the limited circumstance when revenue could be used – when it gives the same result as the units of production method.

The proposed amendments also provide some further guidance in the application of the diminishing balance method.

Comments are due to the NZASB by 28 February 2013 and to the IASB by 28 March 2013.

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

For more information on the amendments read the **IFRS in Focus — IASB proposes clarification of acceptable methods of depreciation and amortisation** available at www.iasplus.com.

Proposed changes to financial instruments standards

Proposed amendments to IFRS 9: Financial Instruments

ED/2012/4: *Classification and Measurement: Limited Amendments to IFRS 9 (proposed amendments to IFRS 9 (2010))* introduces a "fair value through other comprehensive income" (FVOCI) measurement category for particular financial assets (including debt instruments) when two conditions are met:

- the assets are held in a business model in which assets are managed both in order to collect contractual cash flows and for sale, and
- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

When using the FVOCI category, gains or losses on a financial asset would be recognised in other comprehensive income, with the exception of impairment losses and foreign exchange gains and losses. Upon disposal, any gain or loss previously recognised in other comprehensive income (OCI) would be recycled to profit or loss for the period.

The ED application guidance includes several examples where assets would meet the criteria to be included in the FVOCI category.

The ED also proposes that only the completed version of IFRS 9 (including classification and measurement, impairment and general hedge accounting chapters) can be newly applied prior to the mandatory effective date with the exception that entities would be permitted to choose to early apply only the 'own credit' provisions in IFRS 9 once the completed version of IFRS 9 is issued. This means that the current choice regarding which version of the standard can be early applied would be dropped.

Comments are due to the NZASB by 8 March 2013 and to the IASB by 28 March 2013.

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

For more information on the amendments read the Deloitte **IFRS in Focus — IASB issues proposals for limited amendments to IFRS 9** available at www.iasplus.com.

Novation of derivatives

This limited scope exposure draft 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. ED 2013/2: *Novation of Derivatives and Continuation of Hedge Accounting (Proposed amendments to IAS 39 and IFRS 9)* proposes that novation of a hedging instrument should not be considered an expiration or termination giving rise to the discontinuation of hedge accounting when a hedging derivative is novated to a central counterparty if certain criteria are met.

Comments are due to the NZASB by 27 March 2013 and to the IASB by 2 April 2013.

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

For more information on the amendments read the **IFRS in Focus — IASB publishes exposure draft on novation of derivatives** available at www.iasplus.com.

IFRS 13: Fair Value Measurement Guidance

The first chapter of educational material to accompany IFRS 13 – *Measuring the fair value of unquoted equity instruments within the scope of IFRS 9 Financial Instruments* – has been issued by IFRS Foundation staff. This is part of the IASB’s Education Initiative and was prepared with the assistance of the IASB’s valuation expert group. The publication presents a range of commonly used valuation techniques for measuring the fair value of unquoted equity instruments within the market.

Additional chapters of educational material are being developed to aid in the thought process for measuring assets, liabilities and an entity’s own equity instruments at fair value. These will be published as they are finalised.

The **Guidance** is available on the IASB’s website at www.ifrs.org

For more information read the Deloitte **IFRS in Focus – Valuation Methodologies** which describes the valuation approaches and techniques considered in the educational material to support IFRS 13: *Fair Value Measurements* which is available at www.iasplus.com.

Deloitte has also issued the publication ***A Closer Look — Fair value measurement of financial instruments under IFRS 13*** which considers the practical and technical aspects of applying IFRS 13 to the following areas:

- Including an own credit risk adjustment in fair valuing financial liabilities
- Fair valuing portfolios of financial assets and financial liabilities with offsetting risks
- Using quoted mid-market prices to derive fair value
- Additional disclosures.

This publication is also available at www.iasplus.com.



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