

# Accounting Alert

## Special update



### In this issue:

- Exposure Draft on Rate-Regulated Activities
- Exposure Draft on 2009 Improvements to IFRSs
- Proposed Amendment to IAS 19 regarding the Discount Rate For Employee Benefits
- Proposed Amendment to IAS 32 regarding the Classification of Rights Issues
- Draft Interpretation on Extinguishing Financial Liabilities with Equity Instruments
- Draft Discussion Paper on Extractive Activities
- Other Publications of Interest

This Accounting Alert provides you with information about a number of recent developments in financial reporting, including exposure drafts and discussion papers issued by the IASB and FRSB.

### Exposure Draft on Rate-Regulated Activities

This exposure draft establishes criteria for the recognition of assets and liabilities arising from rate regulation and requires disclosures regarding the nature and financial effects of rate regulation on an entity's activities.

The exposure draft applies to an entity when the following two criteria are met:

1. an authorised body establishes the price an entity must charge its customers, and
2. the rate is set to recover the specific costs the entity incurs to provide the regulated goods or services plus a specified return that could be a minimum or a range and need not be fixed or guaranteed.

The regulated rate must be charged to all customers (including if within set bands). The guidance doesn't apply unless both criteria are met, and would not apply where an entity is authorised to negotiate with or set different amounts with specific customers. Assessment is made initially and at each reporting date. If the criteria are no longer met, regulatory assets and liabilities previously recognised are immediately derecognised.

Under the proposal, regulatory assets are recognised for an entity's "right to recover specific previously incurred costs and to earn a specified return" and regulatory liabilities are recognised for that entity's "obligation to refund previously collected amounts and to pay a specified return". Such assets and liabilities would be recognised when the entity "has the right to increase or the obligation to decrease rates in future periods as a result of the actual or expected actions of the regulator." Such regulatory assets and liabilities are recognised "in addition to the assets and liabilities recognised in accordance with other IFRSs".

Comments are due to the FRSB by 1 November 2009 and to the IASB by 20 November 2009.

Download the [Exposure Draft, Basis for Conclusions](#) and [Illustrative Examples](#) from the NZICA website.

Further information can be found in the Deloitte IAS Plus Newsletter: [IASB Provides Guidance on Rate-regulated Activities](#).

### Exposure Draft on 2009 Improvements to IFRSs

The 2009 improvements exposure draft includes proposals for 15 separate amendments affecting 11 different Standards. The improvements are part of the IASB's annual improvements programme, under which the IASB makes necessary, but non-urgent, amendments to IFRSs. The proposed amendments cover a variety of topics, including but not limited to:

- the measurement of non-controlling interests under IFRS 3 *Business Combinations*
- impairment of investments in subsidiaries, associates and jointly controlled entities in the separate financial statements of the parent/investor/joint venturer
- removal of the requirements in IAS 40 *Investment Property* to transfer investment property carried at fair value to inventories when it will be developed for sale
- various clarifications to disclosure requirements, for example to financial instrument disclosures, interim disclosures regarding significant events and transactions and to the presentation of movements in equity.

In most cases, the proposed effective date for the amendments is for annual periods beginning on or after 1 January 2011, with early adoption permitted. The proposed effective date for the amendments arising from IFRS 3 and the consequential amendments to the transition requirements of IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) is 1 July 2010.

Comments are due to the FRSB by 28 October 2009 and to the IASB by 24 November 2009.

Download the [Exposure Draft](#) from the NZICA website.

Further information can be found in the Deloitte IAS Plus Newsletter: [IASB Releases Omnibus Exposure Draft of Annual Improvements](#).

### Proposed Amendment to IAS 19 regarding the Discount Rate for Employee Benefits

The IASB proposes to amend the discount rate for measuring employee benefits. The global financial crisis has led to a widening of the spread between yields on corporate bonds and yields on government bonds leading groups that cross jurisdictions to report similar employee benefit obligations at very different amounts. The proposed amendment to IAS 19 is intended to eliminate the requirement to use government bond rates to determine the discount rate for employee benefit obligations when there is no deep market in high-quality corporate bonds. Instead, entities would use the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, to estimate the yield on high quality corporate bonds to determine the appropriate discount rate.

Comments are due to the FRSB by 21 September 2009 and to the IASB by 30 September 2009. The IASB hopes to process this amendment quickly to allow entities to adopt the changes in their December 2009 financial statements.

The August IASB meeting discussed transitional requirements for this amendment. The Board decided that entities should apply the proposed amendment prospectively from the beginning of the period in which the entity changes its accounting policy. The amount resulting from the change in accounting policy should be recognised directly in retained earnings.

Download the [Exposure Draft](#) and [IASB Briefing Note](#) from the NZICA website.



### Proposed Amendment to IAS 32 regarding the Classification of Rights Issues

The proposal to amend IAS 32 *Financial Instruments: Presentation* will clarify the accounting treatment when rights issues are denominated in a currency other than the functional currency of the issuer. A rights issue offered pro rata to all of an entity's existing shareholders on the exercise of which the entity will receive a fixed amount of cash for a fixed number of the entity's own equity instruments, should be classified as an equity instrument regardless of the currency in which the exercise price is denominated.

The shortened comment period has passed. The IASB plans to issue the final amendment before the end of 2009 with early application permitted. If adopted the amendment will apply retrospectively.

Download the [Exposure Draft](#) from the NZICA website.

### Draft Interpretation on Extinguishing Financial Liabilities with Equity Instruments

The draft Interpretation, IFRIC D25 *Extinguishing Financial Liabilities with Equity Instruments*, addresses the accounting for the situation where a creditor agrees to accept an entity's shares or other equity instruments to settle a financial liability fully or partially. IFRIC D25 proposes that:

- an entity's equity instruments are part of any 'consideration paid' to extinguish a financial liability
- the equity instruments should be measured at either their fair value or the fair value of the financial liability extinguished, whichever is more reliably determinable
- any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of those equity instruments should be included in the entity's profit or loss for the period.

Comments on the amendment should be submitted to the FRSB by 25 September 2009 and to the IFRIC by 5 October 2009.

Download the [Exposure Draft](#) from the NZICA website.

### Draft Discussion Paper on Extractive Activities

The IASB has put a working draft of a discussion paper *Extractive Activities* on its website. It is posted for information only – comments are not being sought. The paper addresses financial reporting issues associated with exploring for and finding minerals, oil, and natural gas deposits, developing those deposits, and extracting the minerals, oil, and natural gas. The paper notes that an absence of comprehensive IFRS literature on the subject has contributed to a divergence in practice under IFRSs. The paper reviews the issues and presents the recommendations of the project team.

The project team make the following key recommendations in the working draft:

- Asset recognition: Legal rights, such as exploration rights or extraction rights, should form the basis of the minerals or oil and gas asset, with an asset recognised when the legal rights are acquired. Information obtained from subsequent exploration and evaluation activities and development works undertaken to access the minerals or oil and gas deposit would both be treated as enhancements of the legal rights asset.
- Measurement: Assets should be measured at historical cost and detailed disclosure provided about the entity's minerals or oil and gas assets in order to enhance the relevance of the financial statements.
- Unit of account: The geographical boundary of the unit of account would initially be defined according to the exploration rights held. As exploration, evaluation and development activities take place, the unit of account will progressively contract until it becomes no greater than a single area, or group of contiguous areas, for which the legal rights are held and which is managed separately and would be expected to generate largely independent cash flows.

The draft was prepared by a project team comprising staff of the national accounting standard-setters in Australia, Canada, Norway and South Africa. The IASB plans to invite comments on the project team's proposals in the first quarter of 2010. While the project is not yet on the IASB's active agenda, the IASB has agreed that if it adds the extractive activities project to its agenda, it will regard the discussion paper as the first stage in its due process.

The [Draft Discussion Paper](#) is available on the IASB website.

### Other Publications of Interest

The IASB has updated its comprehensive overview of measures undertaken by the IASC Foundation and the IASB in response to the G20 conclusions on financial reporting. The [IASB summary](#) is available on the IASB's website.

The Financial Crisis Advisory Group (FCAG) has issued its recommendations related to accounting standard-setting activities, and other changes to the international regulatory environment following the global financial crisis. The four main areas addressed in the report are:

- Effective financial reporting
- Limitations of financial reporting
- Convergence of accounting standards
- Standard-setters' independence and accountability

Download the [FCAG Report](#) from the IASB website.

Deloitte (United Kingdom) has issued a comprehensive newsletter [IAS 39 The Sequel: Time for New Measures](#) on the IASB's proposals to replace the financial instruments classification and measurement requirements in IAS 39.

The International Valuation Standards Council (IVSC) has invited comment on an exposure draft of a Proposed Guidance Note *The Valuation of Investment Property under Construction*, which takes into account the recent annual improvements to IAS 40 *Investment Property*. Comments are requested by 31 October 2009. Download the [Exposure Draft](#) from the IVSC website.

Deloitte (United Kingdom) continues to issue a monthly newsletter focusing on the joint IASB and FASB project to develop a new global financial reporting standard for insurance. [Issue 7](#) of the *Insurance Accounting Newsletter* highlights the possibility that two significant differences of opinion have emerged and there is a risk now that convergence between IFRS and US GAAP could be more difficult on accounting for insurance contracts.

Previous issues of this newsletter are available on the [IAS Plus Insurance Project Page](#).

Kind Regards,

Denise Hodgkins  
National Technical Partner  
Ph: +64 (0) 9 303 0918  
Email: [dhodgkins@deloitte.co.nz](mailto:dhodgkins@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

**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 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, 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.

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 140 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's 165,000 professionals are committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from cultural diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/nz/about](http://www.deloitte.com/nz/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its Member Firms.

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