

Accounting Alert

Staying on top of developments



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This Accounting Alert provides you with information about a number of recent developments in New Zealand financial reporting.

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

External Reporting Board (XRB) takes over New Zealand standard setting

The **External Reporting Board (XRB)** is an independent Crown Entity established under section 22 of the Financial Reporting Amendment Act 2011 (FRAA) and is subject to the Crown Entities Act. The XRB commenced operating from 1 July 2011 when the FRAA came into force. Essentially the XRB has taken over the roles and responsibilities of the Accounting Standards Review Board (ASRB), the Financial Reporting Standards Board and the Professional Standards Board.

The XRB has two sub-boards, the New Zealand Accounting Standards Board (NZASB) that is responsible for developing and issuing accounting standards for entities required to comply with GAAP and the New Zealand Auditing and Assurance Standards Board (NZAuASB) that is responsible for developing and issuing auditing and assurance standards.

Who has to follow Accounting Standards issued by the XRB?

A reporting entity that is required by law to prepare its financial statements in accordance with GAAP should comply with accounting standards issued by the XRB. These standards include the existing standards approved by the ASRB and new or revised standards issued by the XRB. Other entities may voluntarily follow these standards.

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The XRB issued a new accounting standard **XRB A1: Application of Accounting Standards** on 1 July 2011 which replaces the old ASRB Releases and NZICA's Preface and codifies the current Framework for Differential Reporting. The standard also explains which accounting standards, or parts of standards, are to be applied by entity types (i.e. for profit entities, exempt companies, small and medium-sized companies, small and medium-sized entities other than companies, differential reporting entities, public benefit entities, small and medium-sized public benefit entities, etc). XRB A1 does not substantively change the existing requirements. XRB A1 also provides a complete list of the XRB standards to be followed. This standard is applicable for annual periods beginning on or after 1 July 2011.

The accounting standards previously approved by the ASRB continue to apply under the new arrangements.

Increased transparency of interests in other entities – Five new / amended standards issued

A package of new financial reporting standards has been issued by the IASB to address issues highlighted during the global financial crisis where entities found themselves exposed to risks from off balance sheet financing vehicles that were not consolidated or appropriately disclosed.

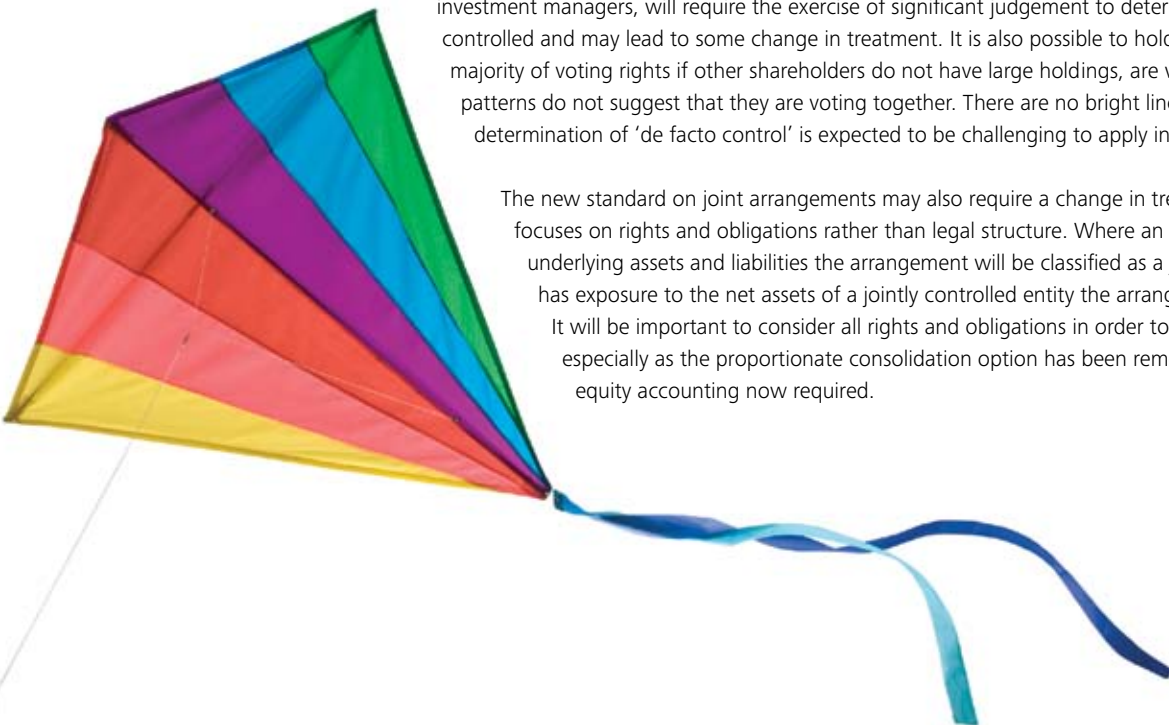
The most significant change comes out of the new standard on the disclosure of interests in other entities. As the requirements are more extensive than currently provided, significant effort may be needed to accumulate the required information on an entity's relationships with other entities.

Previous decisions on the types of interests held will also need to be reconsidered by all entities in light of these new standards.

A single control model has been introduced to determine whether an interest in another entity should be consolidated, removing the risks and rewards approach currently applied to special purpose vehicles.

Added guidance regarding holdings of potential rights and agency relationships, particularly relevant for investment managers, will require the exercise of significant judgement to determine which entities are controlled and may lead to some change in treatment. It is also possible to hold control with less than a majority of voting rights if other shareholders do not have large holdings, are widely dispersed and voting patterns do not suggest that they are voting together. There are no bright line tests to follow so the determination of 'de facto control' is expected to be challenging to apply in practice.

The new standard on joint arrangements may also require a change in treatment, as the standard focuses on rights and obligations rather than legal structure. Where an entity has exposure to the underlying assets and liabilities the arrangement will be classified as a joint operation, and where it has exposure to the net assets of a jointly controlled entity the arrangement will be a joint venture. It will be important to consider all rights and obligations in order to classify a joint arrangement, especially as the proportionate consolidation option has been removed for joint ventures with equity accounting now required.



In summary, the new and amended standards, now approved for use in New Zealand by for-profit entities are:

Title	Main features
NZ IFRS 10: Consolidated Financial Statements	<ul style="list-style-type: none"> Replaces NZ SIC 12: <i>Consolidation – Special Purpose Entities and most of NZ IAS 27: Consolidated and Separate Financial Statements</i> Provides a new single consolidation model based on control. Control is based on whether an investor has: <ul style="list-style-type: none"> power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the returns.
NZ IFRS 11: Joint Arrangements	<ul style="list-style-type: none"> Replaces NZ IAS 31: <i>Interests in Joint Ventures</i> Differentiates jointly controlled arrangements as either: <ul style="list-style-type: none"> joint operations – whereby the parties that have joint control have rights to the assets and obligations for the liabilities, or joint ventures – whereby the parties that have joint control have rights to the net assets of the joint arrangement. Prescribes the accounting for interests in joint operations (largely unchanged). Accounting for joint ventures is now covered by NZ IAS 28 as the equity method is prescribed (proportional consolidation is no longer permitted).
NZ IFRS 12: Disclosure of Interests in Other Entities	<ul style="list-style-type: none"> Brings together the disclosure requirements relating to interests in subsidiaries, joint arrangements and associates. Introduces new disclosures for interests in other entities. For example, significant judgements made in the application of NZ IFRSs 10 and 11, risk exposures arising from interests in unconsolidated structured entities, and additional information about non-controlling interest holders' interests in the activities of consolidated entities.
NZ IAS 27 (amended): Separate Financial Statements	<ul style="list-style-type: none"> Contains the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements, unchanged from the previous standard.
NZ IAS 28 (amended): Investments in Associates and Joint Ventures	<ul style="list-style-type: none"> Continues to include guidance on the equity method which applies to interests in associates and to joint ventures as noted above.

This suite of standards is applicable for annual periods beginning on or after 1 January 2013, with earlier application permitted if they are all adopted at the same time. Public benefit entities are not permitted to adopt these standards.

Further information can be found in the following Deloitte newsletters available on www.iasplus.com:

- IFRS in Focus: **IASB issues new standard on consolidation**
- IFRS in Focus: **IASB issues new standard on disclosure of interests in other entities**
- IFRS in Focus: **IASB issues new standard on joint arrangements**
- IFRS Industry Insights: **The new consolidation standard — insights for the investment management industry**
- IFRS Industry Insights: **Joint Arrangements in the Energy and Resources Industry**

These new and amended standards are available on the [NZICA website](http://www.nzica.govt.nz) or [XRB website](http://www.xrb.govt.nz).

IASB proposes to defer the mandatory date of IFRS 9

Delays in the finalisation of the financial instruments project, particularly in relation to impairment and hedge accounting have led the IASB to propose delaying the mandatory effective date of IFRS 9 to periods commencing on or after 1 January 2015 (instead of 2013 as originally proposed). Early adoption will still be permitted.

The transitional requirements which provide relief from the presentation of comparative information where the standard is adopted in periods beginning prior to 1 January 2012, are not proposed to be extended in the exposure draft. The IASB believes that this relief will not be necessary because entities will have a longer time frame to implement the standard. The IASB is requesting views on this matter.

Comments are due to the NZASB by 1 October 2011 and to the IASB by 21 October 2011.

The **exposure draft** is available on the XRB's website.

Further information can be found in the following Deloitte newsletter, IFRS in Focus: **IASB proposes to defer the mandatory date of IFRS 9**.

New IFRS on fair value measurement and disclosure requirements

NZ IFRS 13: *Fair Value Measurement* establishes a single framework for measuring fair value, where fair value measurement or disclosure is required by other standards (covering both financial and non-financial items). Fair value is defined as "*the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*" and should be based on:

- the principal (or most advantageous) market in which an orderly transaction would take place for the asset or liability,
- for a non-financial asset, the highest and best use of the asset that is "*physically possible, legally permissible, and financially feasible*",
- for a liability or equity instrument of the entity, on the basis that the instrument would be transferred on the measurement date, but would remain outstanding (i.e. a transfer value, not a settlement value), and
- assumptions that market participants would use when pricing the asset or liability.

NZ IFRS 13 is applicable for periods beginning on or after 1 January 2013 with early adoption permitted.

Further information can be found in the following Deloitte IFRS in Focus: **IASB issues new standard on fair value measurement and disclosure**.

The standard is available on the **NZICA website** or **XRB website**.

IASB plans to re-expose revenue recognition and lease accounting proposals

The IASB plans to re-expose the revenue recognition and lease accounting exposure drafts due to the significant revisions made since original publication. The revenue recognition re-exposure is planned for the third quarter of 2011 and the leases re-exposure is planned for the fourth quarter of 2011. Both standards are expected to be finalised in 2012.

Deloitte periodically issues industry insights on the progress of these key projects which are available at http://www.iasplus.com/dttpubs/pubs.htm#toc_industry. Recent issues focus on proposals of the revenue recognition project in respect of the consumer business, manufacturing and telecommunications industries and the leases proposal in respect of financial services, shipping, energy and resources, manufacturing and consumer business industries.

The Deloitte IAS Plus website also includes Project Insights which summarise the current status of key projects. These are available at <http://www.iasplus.com/insight/insight.htm>.

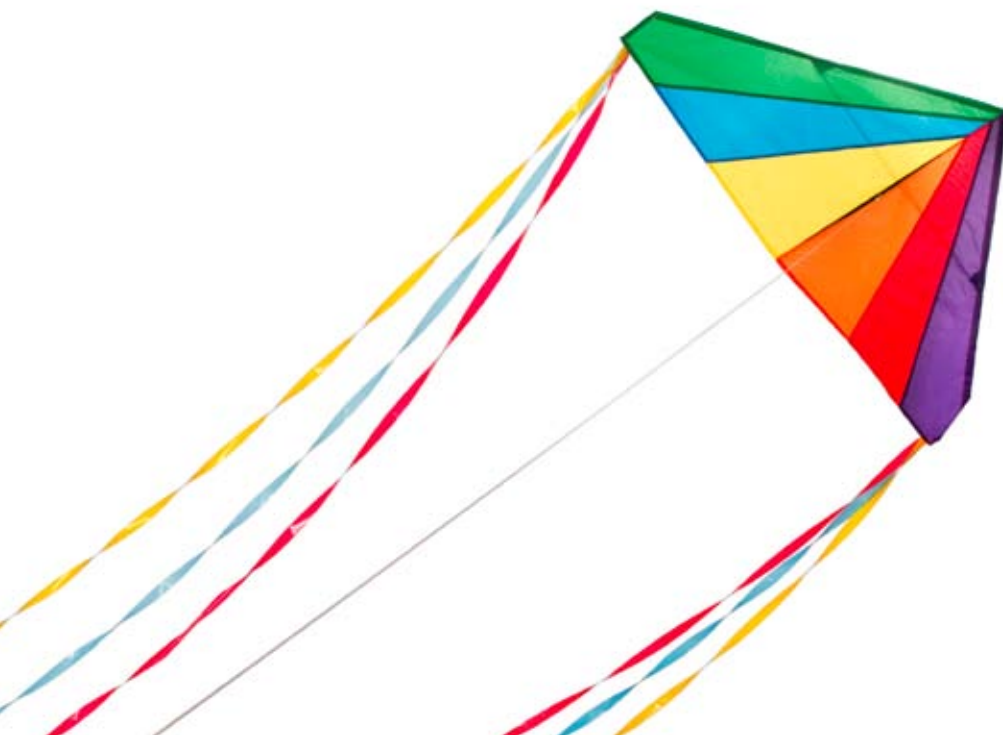
Amendments to standards issued

More changes to NZ IAS 1 regarding presentation of items of 'other comprehensive income'

The key change to NZ IAS 1 is to require items of other comprehensive income to be grouped into those that will and will not subsequently be reclassified to profit or loss, with tax on those items allocated on the same basis.

The choice to present either one or two statements of profit or loss and other comprehensive income remains. However the standard does introduce new terminology referring to these statements as either a 'statement of profit or loss and other comprehensive income' and a 'statement of profit or loss' but these terms are not mandatory.

The amendment is applicable to for-profit entities for annual periods beginning on or after 1 July 2012 with early adoption permitted.



The following example illustrates the key change to the presentation of other comprehensive income:

	Current year \$000	Prior year \$000
PROFIT FOR THE YEAR	53,360	49,600
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	10,000	(20,000)
Income tax relating to items not reclassified	(2,800)	5,600
Total items that will not be reclassified to profit or loss	7,200	(14,400)
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges*		
- Gains/(losses) arising during the period	12,000	(16,000)
- Reclassification adjustments for amounts recognised in profit or loss	(2,200)	2,500
- Income tax relating to items that may be reclassified	(2,744)	3,780
Total items that may be reclassified subsequently to profit or loss	7,056	(9,720)
Other comprehensive income/(loss) for the year, net of tax	14,256	(24,120)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	67,616	25,480

*This illustrates a gross presentation. Alternatively an aggregated presentation can be used where the current year gain or loss and reclassification adjustment is presented in the notes.

The standard has been recently approved and should be available soon on the [NZICA website](#) or [XRB website](#).

Corridor approach eliminated in NZ IAS 19

The key changes to NZ IAS 19: *Employee Benefits* are:

- the elimination of the corridor approach – immediate recognition of changes in the defined benefit plan obligation and in the plan assets is now required when they occur,
- the presentation of changes in the defined benefit obligation and plan assets is disaggregated into three components: service costs, net interest on the defined benefit liabilities (assets) and remeasurements of the net defined benefit liabilities (assets),
- additional disclosures for defined benefit plans, and
- additional guidance is provided to assist in distinguishing between benefits payable in exchange for termination of employment and those payable in exchange for service.

The amendments are effective for for-profit entities for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

The standard has been recently approved and should be available soon on the [NZICA website](#) or [XRB website](#).

Amendments to FRS 43 Summary Financial Statements

FRS 43: *Summary Financial Statements* has been amended to clarify the application of the standard to summary financial statements prepared in accordance with the Securities Regulations 2009 and particularly multi-period summaries.

The amendments are applicable for annual periods beginning on or after 1 January 2012. Early application is permitted.

The standard is available on the [XRB website](#) or [NZICA website](#).

Trans Tasman harmonisation

The trans Tasman harmonisation project between the Australian Accounting Standards Board and the New Zealand Financial Reporting Standards Board has been completed for for-profit entities with the release of amendments to standards on both sides of the Tasman to remove the specific jurisdiction requirements. The remaining additional New Zealand disclosures have been aligned with the corresponding Australian requirements and are now located in FRS 44: *New Zealand Additional Disclosures*.

Key changes include the removal of:

- the requirement for investment properties to be accounted for using the revaluation model (but note it will be difficult for entities with existing investment properties to revert to the cost model given the requirements of NZ IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors*),
- the requirement for an independent valuer for property valuations, and
- a number of disclosure requirements.

FRS 44 is available on the [XRB website](#) or the [NZICA website](#).

Current Exposure Drafts

Exposure draft		Comments due
Exposure Draft ED/2011/2 Improvements to IFRSs	This ED proposes amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. For more information read our IFRS in Focus: IASB issues exposure draft on Improvements to IFRSs 2011	NZASB: 21 September 2011 IASB: 21 October 2011
Request for Views Agenda Consultation 2011	The IASB is seeking views on its work plan over the next three years. For more information read our IFRS in Focus: IASB issues request for views on agenda consultation	NZASB: 31 October 2011 IASB: 30 November 2011
Mandatory Effective Date of IFRS 9	As noted above, the IASB plans to defer the mandatory adoption of IFRS 9 to periods beginning on or after 1 January 2015.	NZASB: 1 October 2011 IASB: 21 October 2011
ED – Key Characteristics of the Public Sector with Potential Implications for Financial Reporting	This exposure draft provides background information on the issues being considered in developing a conceptual framework for financial reporting by public sector entities.	IPSASB: 31 August 2011

Call to cut financial statement disclosures by 30%

A joint working party made up of members from the New Zealand Institute of Chartered Accountants and the Institute of Chartered Accountants of Scotland (ICAS) have at the request of the previous chair of the IASB carried out a review of the disclosures required by IFRS.

The report of the working party titled “**Losing the excess baggage – reducing disclosures in financial statements to what’s important**” recommends the disclosure principle that should be in each standard and the disclosures that should be amended or deleted from current standards in order for financial statements to focus on the important information.

The joint working group estimates that disclosures could be reduced by approximately 30% if their recommendations are accepted. The report is available on the NZICA website [here](#).

New Publications



Deloitte Financial Reporting Survey Series – Survey of 2010 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 5: Surveying financial statements in annual reports – 2010

This issue provides an overview of financial reporting practices applied in the 2010 annual reports of a sample of 100 companies complying with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS and IFRS). Consideration is also given to a smaller sample of 30 entities taking advantage of differential reporting concessions.



Issue 6: Underlying profit revisited

Underlying profit – useful or misleading? This issue considers the practice of providing alternative measures of financial performance in the 2010 annual reports of 100 companies as a follow up to our 2009 survey (Issue 2), as well as an overview of press commentary and regulator activity in the past year on this topic.

Navigating annual reporting: Financial reporting checklist for directors



Navigating annual reporting

For directors to be successful in meeting their financial reporting obligations they need the support of management and need to ask the right questions. This publication includes questions across ten key areas for directors to ask regarding the annual report.

New Zealand Directory

Auckland Private Bag 115-033, Shortland Street, Auckland 1140, Ph +64 (0) 9 309 4944, Fax +64 (0) 9 309 4947

Hamilton PO Box 17, Hamilton 3240, Ph +64 (0) 7 838 4800, Fax +64 (0) 7 838 4810

Wellington PO Box 1990, Wellington 6140, Ph +64 (0) 4 472 1677, Fax +64 (0) 4 472 8023

Christchurch PO Box 248, Christchurch 8140, Ph +64 (0) 3 379 7010, Fax +64 (0) 3 366 6539

Dunedin PO Box 1245, Dunedin 9054, Ph +64 (0) 3 474 8630, Fax +64 (0) 3 474 8650

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

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