

Accounting Alert

Staying on top of developments

Proposed PBE Accounting Standards Framework exposed



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Our May 2012 Accounting Alert set out the External Reporting Board's (XRB's) proposal for a two sector, multi-tier framework for financial reporting by New Zealand entities, and summarised the exposure drafts issued to operationalise the framework for for-profit entities. The XRB has now issued its second package of exposure drafts which covers the accounting standards to be used by public benefit entities (PBEs) in the public sector that fall in tier 1 or 2. Still to come are exposure drafts revising these standards for not-for-profit PBEs (in tiers 1 or 2) and the simple format reporting standards that will apply to tier 3 and 4 PBEs (public sector and not-for-profit).

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...

XRB issues exposure drafts setting out the proposed accounting standards for public benefit entities in the public sector

Our previous Accounting Alert set out the XRB's proposal for a two sector, multi-tier framework for financial reporting by New Zealand entities. The External Reporting Board (XRB) has now issued the standards that will apply to public benefit entities (PBEs) that fall in tier 1 and tier 2:

- Tier 1 entities: Publicly accountable or large PBEs (expenditure over \$30 million)
- Tier 2 entities: Not publicly accountable and not large and don't meet tiers 3 or 4 (effectively expenditure between \$2 million and \$30 million)

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The exposure drafts are currently drafted for PBEs that are in the public sector and the draft standards are referred to as the PBE Standards. The XRB intends to issue an exposure draft to revise these standards for PBEs that are not in the public sector (i.e. not-for-profit entities) next year (anticipated September 2013).

The standards that will apply to for-profit entities were discussed in our May 2012 Accounting Alert, available at www.deloitte.co.nz

ED XRB A1: Accounting Standards Framework (For-Profit Entities Plus Public Sector PBEs Update)

The framework will be operationalised by ED XRB A1 which covers the tier structure, criteria for the tiers and standards that will apply to the tiers. It was previously released for for-profit entities and has been updated to incorporate PBEs.

Tier 1 entities will apply the full requirements of the PBE Standards. There are no recognition and measurement exemptions for Tier 2 entities. Disclosure exemptions follow similar principles to the for-profit reduced disclosure regime. A cash flow statement will be required.

PBE Standards for Public Sector PBEs

In addition to ED XRB A1, the proposed PBE Standards are comprised as follows:

PBE Framework (based on the IASB conceptual framework)	29 standards based on International Public Sector Accounting Standards (IPSAS)	Five standards carried over from IFRS to cover topics not yet addressed in IPSAS
One interpretation (IFRIC 12) carried over as ED PBE 45: <i>Service Concession Arrangements: Operator</i>	Two standards covering first time adoption - for entities transitioning from NZ IFRS and those not transitioning from NZ IFRS	FRS-42: <i>Prospective Financial Statements</i> and FRS-43: <i>Summary Financial Statements</i> have also been carried over

While some entities will need to make adjustments transitioning from NZ IFRS to the PBE Standards, there are not that many substantive differences to the current recognition and measurement requirements of current NZ IFRS. The key differences are summarised below. A more detailed impact assessment by standard is included in the ED: **PBE Standards For Public Sector PBEs – Invitation to Comment.**

A return to the past

As IPSAS standards are not up to date with IFRS, some of the differences represent a return to past practice in NZ IFRS. For example:

- Back to one statement of financial performance ending at net surplus or deficit. The concept of 'other comprehensive income' and a statement of other comprehensive income is not currently included in IPSAS. These items are only shown in the statement of changes in equity.
- Back to the previous guidance around the accounting for partial acquisitions and disposals of investments in subsidiaries, associates and joint ventures. This could change measurement of such assets as well as gains or losses on disposal and the recognition of minority interest.

- Dividends go back to being deducted from the cost of investment if they are declared from pre-acquisition net surpluses.
- Independent valuers and related disclosures (as previously required by NZ IFRS) will be required for investment property and property, plant and equipment.

New requirements

IPSAS includes the following new standards which may lead to changes to recognition and measurement by some entities:

- **Revenue from non-exchange transactions**
The key concept is that revenue from a non-exchange transaction (such as a grant, gift, donation, bequest etc.) must be recognised as revenue on receipt if there is no return obligation. This means that even if the funds received are tagged for a specific purpose (for example, a bequest specifying that funds are to be spent on a particular project), they can only be held as income in advance if the funds must be returned if they are not spent for that purpose. This can create variability in surplus/deficit as the revenue is recognised immediately but the project (and therefore the expense) might not take place until a later year.
- **Impairment for non-cash generating assets**
There is a separate standard for assessing the impairment of non-cash generating assets. It is possible that the assessment of impairment could change, and PBEs will need to determine criteria for which assets are cash generating and which are not.
- **Accounting for service concession arrangements (also referred to as public private partnerships) by the grantor (NZ IFRS only covers accounting by the operator to such an arrangement)**
Depending on a PBE's current accounting treatment there may be significant differences in recognition and measurement. As a result there are transitional provisions for first time adoption.

New/changing disclosures

In addition to the changes noted above, there will also be changes to disclosure requirements. Some of the more notable ones include:

- Related party disclosures may reduce overall (as PBEs will not be required to disclose any transactions with related parties that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than in an arm's length transaction) but there are changes in the definitions of some related parties and more disclosures around transactions with key management personnel (and their close family members).
- Any heritage assets that are not recognised will need to be disclosed.



Less guidance

The PBE Standards do not carry over all the standards and interpretations that exist in NZ IFRS on the basis that some are not particularly relevant to PBEs. For example:

- The following NZ IFRS standards have not been included in the PBE Standards: NZ IFRS 2: *Share-based Payment*, NZ IFRS 6: *Exploration for and Evaluation of Mineral Resources*, NZ IFRS 8: *Operating Segments*, NZ IAS 26: *Accounting and Reporting by Retirement Benefit Plans*, and NZ IAS 33: *Earnings per Share*.
- Interpretations relating to revenue recognition have not been included in the PBE Standards covering the topics of customer loyalty programmes, transfers of assets from customers, barter transactions involving advertising services and agreements for the construction of real estate.

Where there is no guidance in the PBE Standards, an entity will need to consider the requirements of the PBE Standards for similar and related issues, including the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other PBE Standards, and the PBE Framework. Entities can also consider the recent pronouncements of other standard-setting bodies (such as the IASB) and accepted public or private sector practices (such as the for-profit NZ IFRS standards), so long as they do not conflict with the PBE Standards.

Transition

There are two standards setting out the transition requirements to the PBE Standards. They both require standards to be applied from the beginning of the earliest comparative period presented. For most PBEs in the public sector the first set of financial statements in accordance with the PBE Standards will be presented for the year ended 30 June 2015. This will require restatement of the comparatives (year ended 30 June 2014) and an opening balance sheet as at 1 July 2013.

For entities transitioning from NZ IFRS, the same accounting policies will apply as under NZ IFRS unless they do not comply with the PBE Standards. This assessment is made at the transition date (which is 1 July 2013 in the example above). This limits the ability of entities to change an option they have previously selected under NZ IFRS. For example if an entity has a policy to revalue property, plant and equipment, a change to the cost model is not allowed unless the principles of ED IPSAS 3: *Accounting Policies, Changes in Accounting Estimates and Errors* are met (this standard is comparable with NZ IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors*).

There are some transitional provisions in relation to the new standards where a change in recognition or measurement is likely (in particular, for revenue from non-exchange transactions and service concession arrangements for grantors). There are also transitional provisions in relation to recognition and measurement concessions that are available to entities that qualify for differential reporting which will no longer be available.

Other

There are a number of other differences, which are not covered here. A more detailed impact assessment by standard is provided by the XRB in the ED: **PBE Standards For Public Sector PBEs – Invitation to Comment** and the exposure drafts for each standard.

Comment period

Comments are due to the XRB by **14 December 2012**. Links to the various exposure drafts are available at: http://www.xrb.govt.nz/Site/Accounting_Standards/Exposure_Drafts/Public_Sector_PBE.aspx



FMA guidance

Guidance Note: Effective Disclosure

The FMA has finalised its Guidance Note on *Effective Disclosure*. The Guidance Note applies to investment statements and prospectuses and does not change current legal requirements for these documents. Instead it sets out the FMA's views on what good practice is and how it intends to review prospectuses and investment statements for compliance with the law.

The overriding principles are that information must be clear, concise and effective. All material information must be included and examples of material information are provided, such as the entity's business model, related party transactions, information about senior management and directors, and risks.

The FMA will start using the Guidance Note as part of its risk based assessment of offer documents for new issues from 9 July 2012, and for continuous issues from 1 January 2013.

The **Guidance Note** is available on the FMA's website at www.fma.govt.nz.

Draft Guidance Note: Disclosing non-GAAP Financial Information

The FMA has issued a draft Guidance Note on the use of alternative profit measures and other financial information presented that is not in accordance with generally accepted accounting practice (NZ GAAP) in investor communications other than financial statements, and in transaction documents (such as prospectuses, investment statements, advertisements, meeting notices etc).

The draft guidance is intended to assist issuers in ensuring that their communications with investors and other stakeholders are transparent and not misleading.

The Deloitte publication on *Understanding Performance: Underlying Profit* (refer overleaf) considers current practice in annual reports against the FMA's proposed principles for presenting non-GAAP financial information in investor communications. The results of this survey suggest that the disclosure of alternative profit measures in annual reports may need some revision to align with the FMA guidance if it is issued as proposed.

The FMA aims to finalise the Guidance Note in August 2012 and will use the guidance for its review of non-GAAP measures for documents published from 1 January 2013.

The draft **Guidance Note** is available on the FMA's website at www.fma.govt.nz





New publications

Deloitte Financial Reporting Survey Series – Survey of 2011 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 7: Surveying financial statements in annual reports – 2011

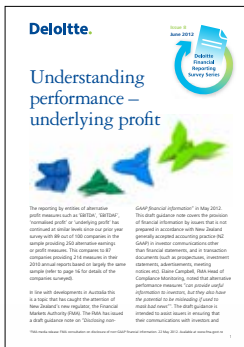
This issue provides an overview of financial reporting practices applied in the 2011 annual reports of a sample of 100 companies complying with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS and IFRS).

Consideration is also given to a smaller sample of 30 entities taking advantage of differential reporting concessions.

Issue 8: Understanding performance: Underlying profit

This issue considers the practice of providing alternative measures of financial performance in the 2011 annual reports of 100 companies as a follow up to our 2010 survey (Issue 6), as well as an overview of current practice compared against the FMA's draft guidance on this topic.

These publications are available at: www.deloitte.com/nz/financialreportingsurvey



Other topics of interest

IASB issues amendments to IFRS 10, IFRS 11 and IFRS 12 transition guidance

The amendments define the 'date of initial application' of IFRS 10 as the beginning of the annual reporting period in which IFRS 10 is applied for the first time and clarify that:

- an entity should assess whether the consolidation conclusion is different under IAS 27/SIC-12 and IFRS 10 as at that date; and
- if the consolidation conclusion reached at the date of initial application is different under IAS 27/SIC-12 and IFRS 10, an entity is required to adjust retrospectively its immediately preceding period as if the requirements of IFRS 10 had always been applied, with any adjustments recognised in opening equity (if practicable).

The amendments also clarify that when an investor concludes that it should consolidate an investee that was not previously consolidated, and control was obtained before the effective date of the 2008 revisions to IFRS 3 and IAS 27, an entity can apply either IFRS 3 (2008) or IFRS 3 (2004) and IAS 27 (2008) or IAS 27 (2003) in applying the transition requirements.

The amendments provide additional transitional relief to IFRS 10, IFRS 11 and IFRS 12:

- to limit the requirement to provide adjusted comparative information to the immediately preceding period; and
- to eliminate the requirement in IFRS 12 to present comparative information for the disclosures related to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied.

The effective date of the amendments is aligned with the effective dates of IFRS 10, IFRS 11 and IFRS 12.

The amendments are available on the IASB's website at www.iasb.co.uk. The XRB has not yet issued these for use in New Zealand.

IFRIC activity

The IFRS Interpretations Committee of the IASB (IFRIC) has issued two draft interpretations for comment:

- Draft IFRIC Interpretation DI/2012/1 *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*
This draft interpretation clarifies when a liability to pay a levy (other than income taxes) should be recognised in the financial statements.

Comments are due to the New Zealand Accounting Standards Board (NZASB) by 13 August 2012 and to the IASB by 5 September 2012. The **draft interpretation** is available on the XRB's website www.xrb.govt.nz.

- Draft Interpretation DI/2012/2 *Put Options Written on Non-controlling Interests*
If a parent entity is obliged to purchase the shares of its subsidiary for cash or for another financial asset, the parent must recognise a financial liability in its consolidated financial statements for the present value of the option exercise price. This draft interpretation proposes that subsequent changes in the measurement of that financial liability should be recorded in profit or loss (following either NZ IAS 39 or NZ IFRS 9).

Comments are due to the NZASB by **14 September 2012** and to the IASB by **1 October 2012**.

The **draft interpretation** is available on the XRB's website www.xrb.govt.nz.

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International public sector activity

The International Public Sector Accounting Standards Board (IPSASB) has issued a consultation paper on Public Sector Combinations. IPSAS currently does not have a standard for public sector combinations (referred to as business combinations in IFRS). The proposed PBE Standards outlined above intend to include NZ IFRS 3: *Business Combinations* for use by PBEs as an interim measure. The XRB notes that if the IPSASB were to develop and issue an IPSAS on this topic it would then be considered for inclusion in the PBE Standards.

The Consultation Paper starts discussion on the accounting principles for public sector combinations, covering the following areas:

Area being considered	Discussion
Acquisitions not under common control	Two possible approaches: 1. Acquisition is accounted for at fair value 2. Where nominal or no consideration is transferred the acquisition takes place using carrying values (no goodwill is recorded). If consideration is transferred the acquisition is accounted for at fair value.
Acquisitions under common control	Assets and liabilities transferred are recognised at their carrying amounts adjusted to align the acquired operation's accounting policies with those of the recipient.
Amalgamations	Modified pooling of interests method. This method combines items from the combining operations' financial statements with amounts adjusted to align accounting policies. The method is modified as the surplus/deficit for the combination is recognised from the date of the amalgamation and comparatives are not provided.

Comments are due to the NZASB by **1 October 2012** and to the IPSASB by **31 October 2012**. The **Consultation Paper** is available on the XRB's website www.xrb.govt.nz.



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