

# Financial reporting update

Christchurch Update, June 2017

**AUDIT NEW ZEALAND**  
Mana Arotake Aotearoa

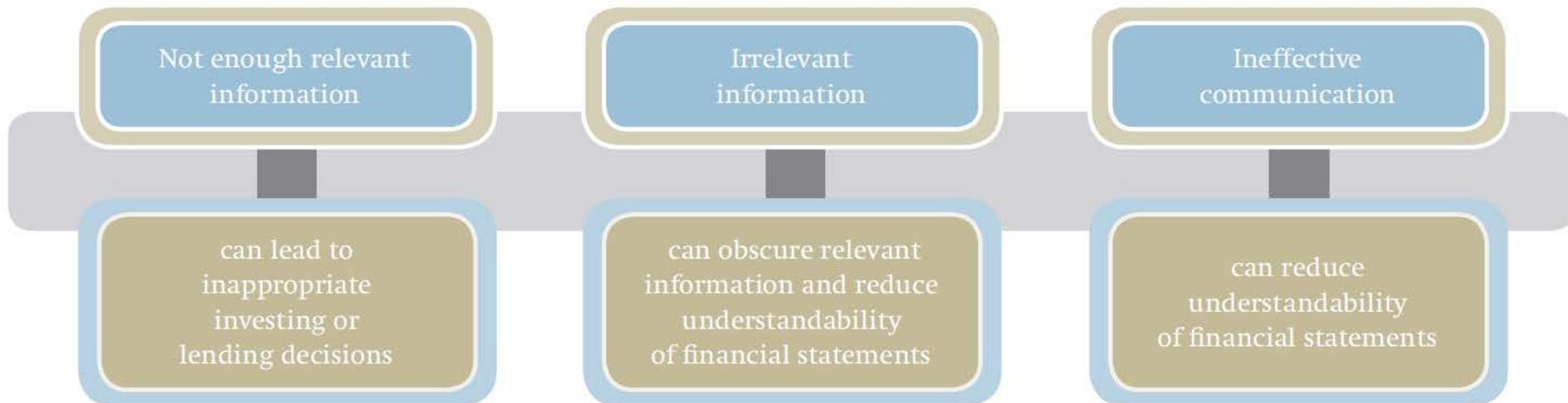
# Agenda

- What's new for 2017
  - Disclosure initiative
  - Minor accounting standard changes
    - PBEs
    - For-Profits
- Major changes on the horizon

# Disclosure Initiative

# The disclosure problem

The IASB has identified three main concerns about disclosures in the financial statements, collectively termed the “disclosure problem”



# Standard setters' response

## IASB disclosure initiative projects:

- IAS 1 amendments (aggregation and sub-totals, materiality, accounting policies, order of notes) – applied from 1 Jan 2016
- IAS 7 additional disclosures
- In progress:
  - Materiality practice statement and clarified materiality definition
  - Principles of disclosure
  - Standards level disclosure review

## NZ ASB

- Extension of IAS 1 **amendments to PBE IPSAS 1 (applies from 1 Jan 2016)**
- Explanatory Guide: Materiality for Public Benefit Entities

# Materiality

	Materiality	Primary users
PBE Conceptual framework	Information is material if its omission or misstatement could influence <b>the discharge of accountability</b> by the entity, or the <b>decisions that users make</b>	Service recipients and their representatives and resource providers and their representatives
IASB definition of materiality project	Information is material if omitting, misstating or <b>obscuring</b> it could reasonably be expected to <b>influence decisions</b> primary users make	Existing and potential investors, lenders and other creditors

# Evolving good practice

- Accounting policies
  - Integration with notes
  - Considering understandability
  - Which policies are significant?
- Indexes, headings, graphics, colour
- Improving and expanding important disclosures
  - Judgements, estimates, assumptions, sensitivities
- Reducing and removing immaterial disclosures
- Considering order of notes
- Significant matters, exec summary or or key developments note

# Good examples in NZ public sector

- Meridian Energy Ltd
- Air New Zealand
- Christchurch City Holdings Ltd
- Otakaro Ltd
- Enable Services Ltd
- Port Otago Ltd

# Putting it into practice

- Preparers:
  - Consider what's important for users and for accountability
  - Shift from compliance to communication
  - Big Bang or incremental change
  - Engage with stakeholders
    - Audit committee
    - auditors
- Auditors:
  - Acceptance of new approaches
  - Model financial statements

# Accounting Standards changes for 2017

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# Changes to Standards applying for March/June 2017 reporting (1)

Amended	Effective date	Description of change
PBE IPSAS 1 (also NZ IAS 1)	1 Jan 2016	Disclosure initiative – as discussed earlier.
PBE IPSAS 17 (already applies to for-profits in NZ IAS 16)	1 Jan 2016	Clarifies the two options for treatment of accumulated depreciation when an item of PPE is revalued.
PBE IPSAS 17 (and NZ IAS 16)	1 Jan 2016	Depreciation methods based on revenue are not appropriate.
PBE IPSAS 20 (already applies to for-profits in NZ IAS 24)	1 Jan 2016	Clarifies that an entity providing KMP services is a related party of the reporting entity. Requires disclosure of the compensation to the management entity for the provision of key management personnel services.
PBE IPSAS 23 (not applicable to for-profits)	1 Jan 2016	Permits an entity not to recognise donated goods that meet the definition of inventories if it is not practicable (cost exceeds benefits) to reliably measure the fair value of those goods at the date of acquisition.

# Changes to Standards applying for March/June 2017 reporting (2)

Amended	Effective date	Description of change
PBE IFRS 3 (already applies to for-profits in NZ IFRS 3)	1 Jan 2016	Contingent consideration for a business combination that is classified as an asset or liability to be measured at fair value at each reporting date with changes through surplus/deficit.
<b>Changes applicable to For-Profits only:</b>		
NZ IAS 27 (already available to PBEs in PBE IPSAS 6)	1 Jan 2016	In parent financial statements account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with NZ IFRS 9 <i>Financial Instruments</i> (IAS 39) or using the equity method. Same approach for each category of investments.

# Changes to Standards applying from Dec 2017

Amended	Effective date	Description of change
PBE IPSAS 32 (not applicable to for-profits)	1 Jan 2017	Clarifies that service concession assets should be grouped with similar assets as a class of assets for the purpose of subsequent measurement and disclosure, consistent with PBE IPSAS 17, and that dissimilar service concession assets cannot be accounted for as a class of assets.
<b>Changes applicable to For-Profits only:</b>		
NZ IAS 7	1 Jan 2017	Requires disclosures that enable users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. For example opening to closing reconciliation.

# Future changes – possible early adoption

Amended	Effective date	Description of change
PBE IPSAS 17 (also NZ IAS 16, but effective 1 Jan 2016)	1 Jan 2018 (early adoption permitted)	Changes the scope of PBE IPSAS 17 to include biological assets that meet the definition of bearer plants (e.g. fruit trees, grape vines). Previously were agricultural assets under PBE IPSAS 27. Amendment means can change to accounting using cost model.
PBE IPSAS 21 and PBE IPSAS 26 (Revalued PPE already in scope of NZ IAS 36)	1 Jan 2019 (early adoption permitted)	Revalued PPE scoped into PBE impairment accounting standards. PPE that is impaired (for example, earthquake damage) can be impairment tested without revaluing entire asset class.

# Financial Reporting – the Future

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# Financial Reporting – the Future

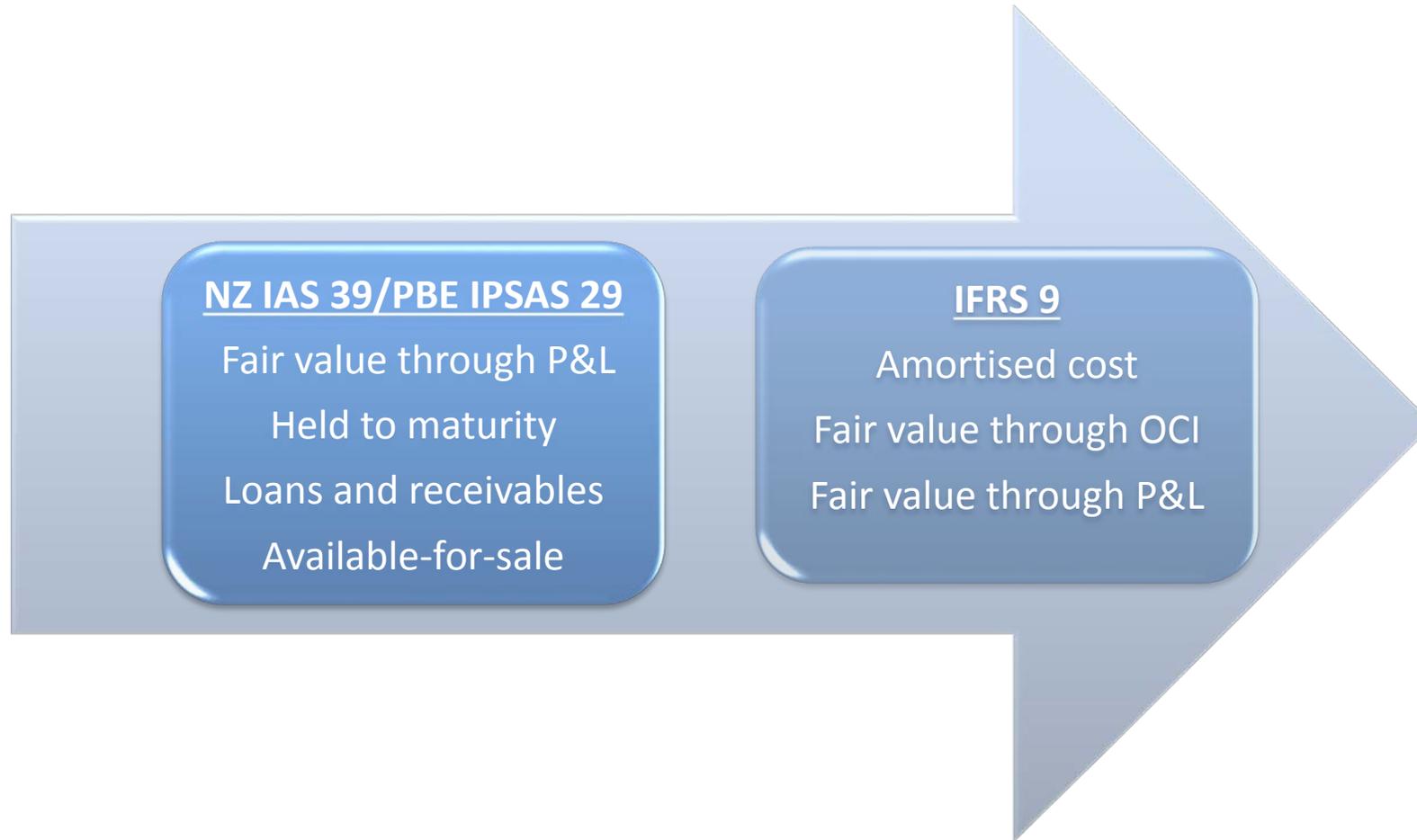
	For Profits	PBEs
NZ IFRS 9 Financial instruments PBE IFRS 9	Periods beginning on or after 1 January 2018	Periods beginning on or after 1 January 2021 Early adoption?
NZ IFRS 15 Revenue from Contracts with Customers	Periods beginning on or after 1 January 2018	IPSAS project on revenue and non-exchange expenditure in progress
NZ IFRS 16 Leases	Periods beginning on or after 1 January 2019	IPSAS Leases project in progress
PBE IPSAS 34 Separate Financial Statements; PBE IPSAS 35 Consolidated Financial Statements; PBE IPSAS 36 Investments in Associates and Joint Ventures; PBE IPSAS 37 Joint Arrangements; PBE IPSAS 38 Disclosure of Interests in Other Entities.	IFRS 10 -12, IAS 27, 28 already effective	Periods beginning on or after 1 January 2019

# NZ IFRS 9 *Financial Instruments* (PBE IFRS 9)

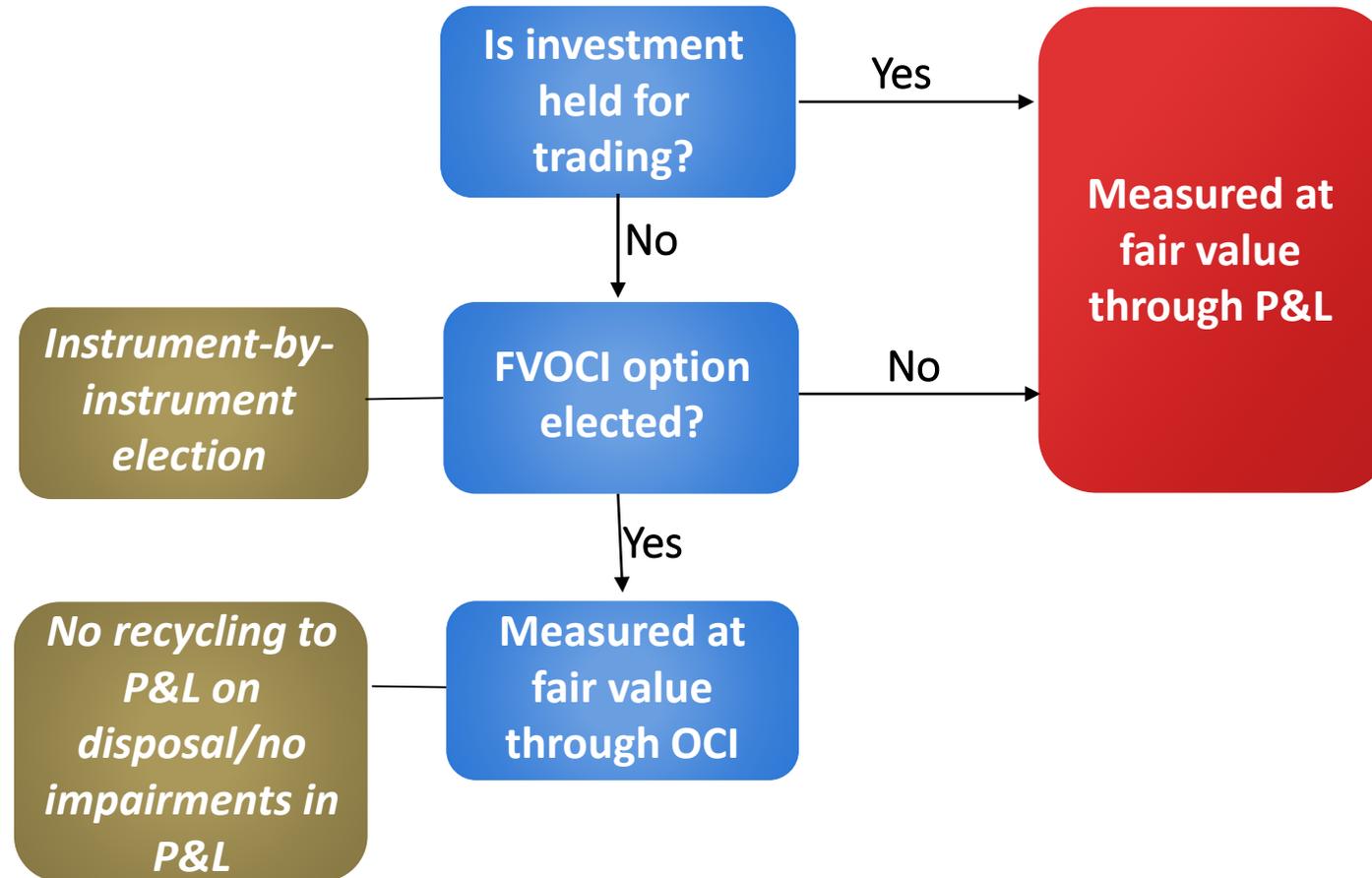
New:

- Classification requirements for financial assets
- Impairment model
- Hedge accounting requirements

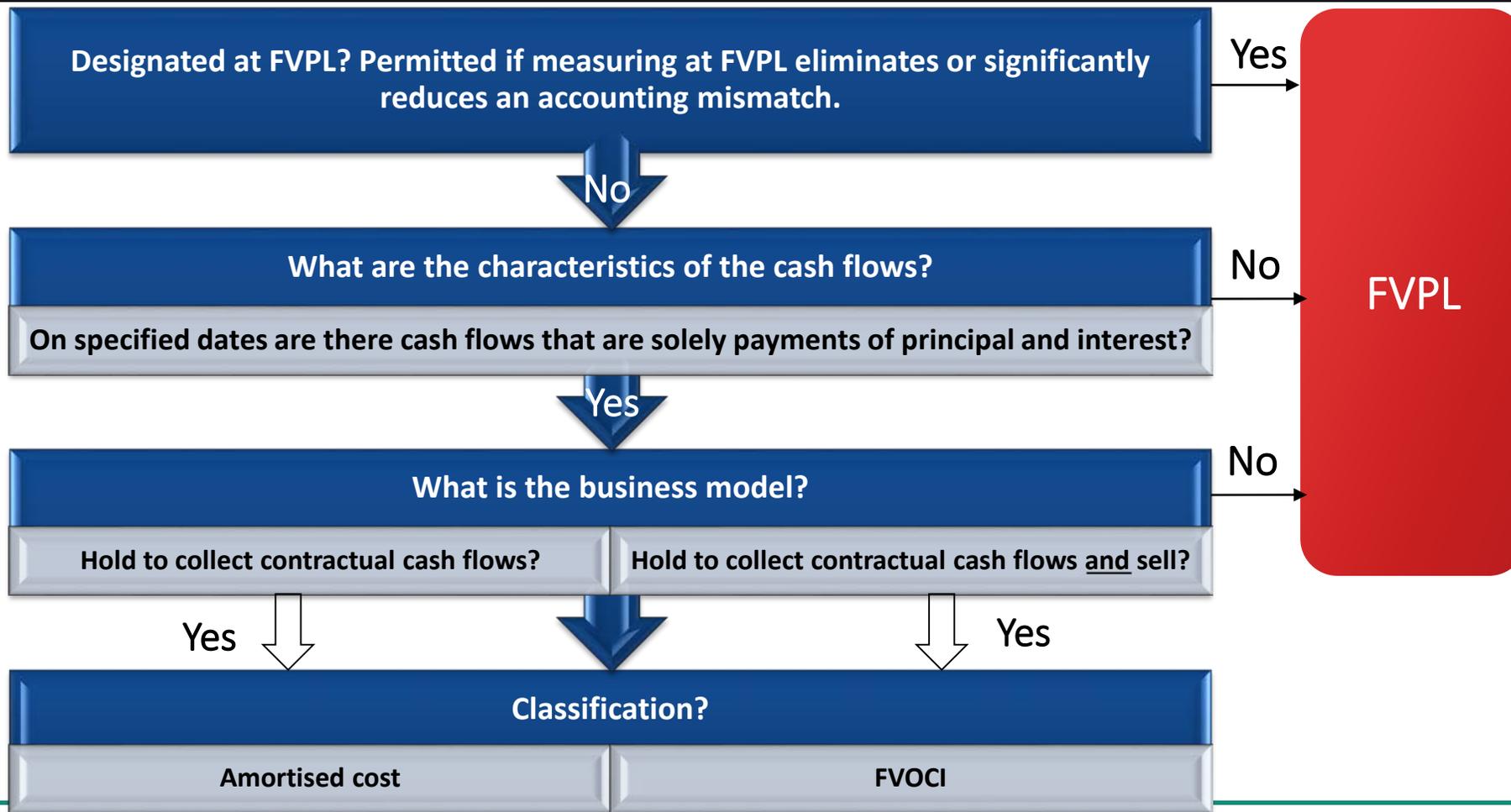
# Classification of financial assets



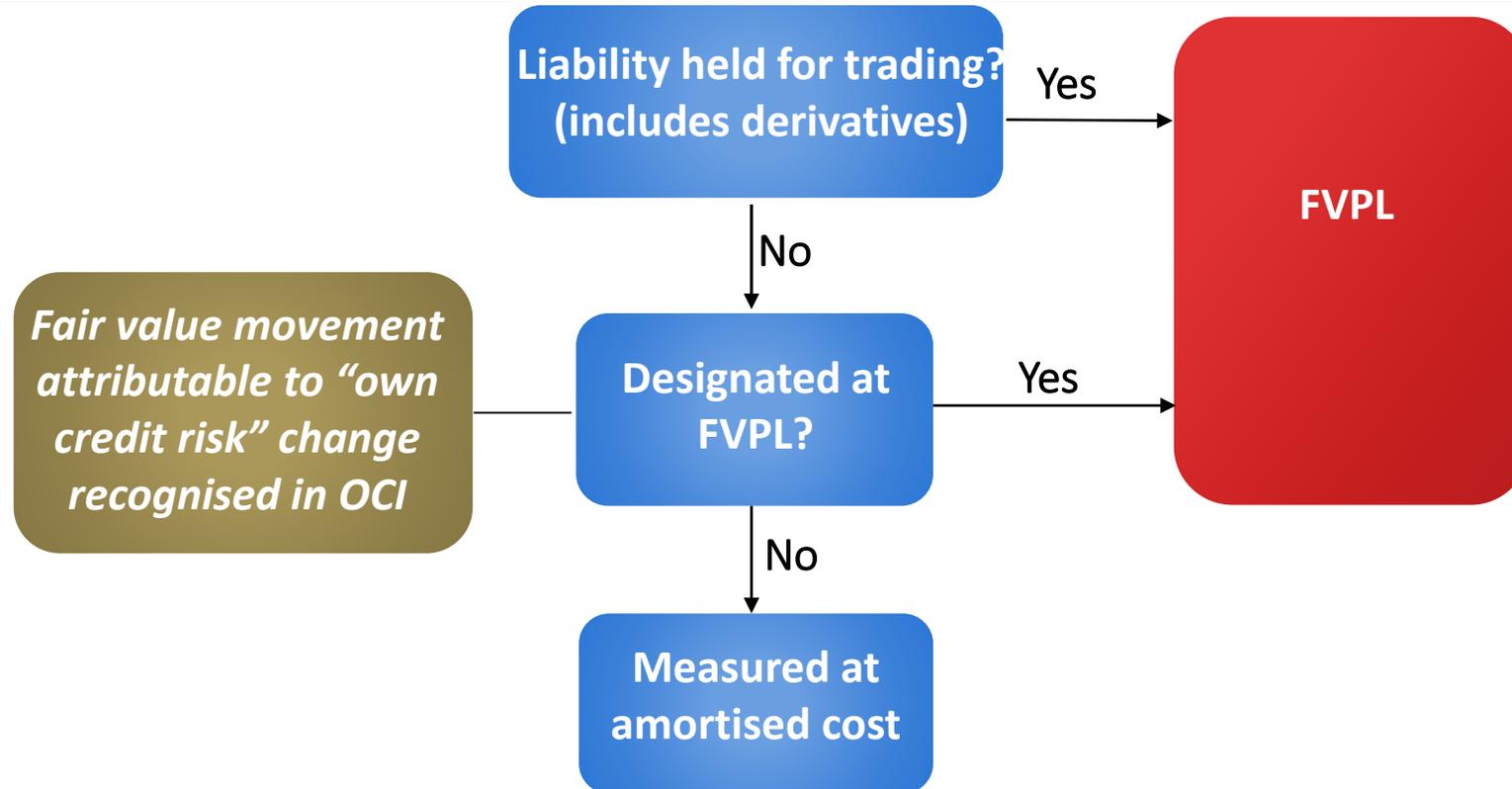
# Equity instruments



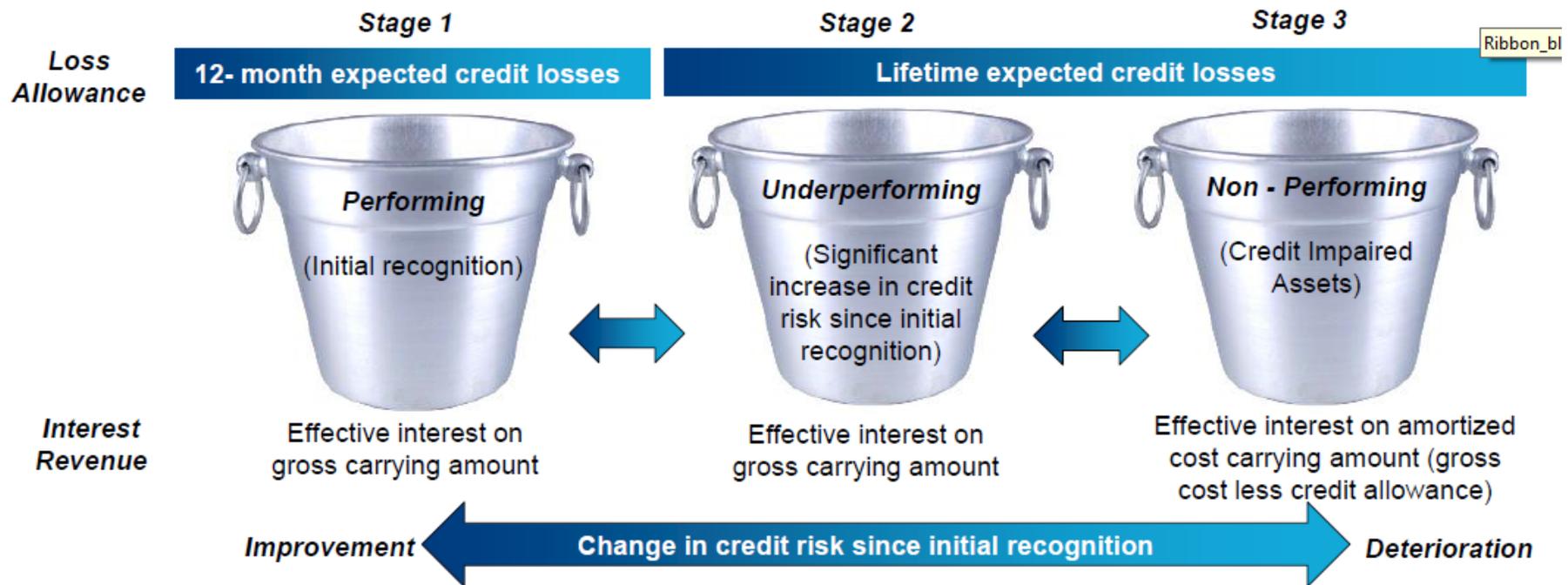
# Debt instruments



# Financial liabilities



# Impairment model



*Instruments that are credit impaired at initial recognition always remain in stage 3*

# Revenue

- For-profits must apply a new revenue standard, NZ IFRS 15, from 31 December 2018 year ends. 5 step revenue recognition model:
  - Identify contract(s) with customer
  - Identify performance obligation(s)
  - Determine the transaction price
  - Allocate transaction price to performance obligations
  - Recognise revenue when (or as) the entity satisfies performance obligations
- No IFRS 15 PBE equivalent under development in NZ, but...
  - IPSASB is developing a consultation paper on:
    - Revenue accounting by PBEs
    - Accounting for non-exchange expenses, for example, grants

# Leases

- For-profits must apply a new lease standard, NZ IFRS 16, from 31 December 2019 year ends
- Requires lessees to recognise most leases on the balance sheet
- Lessor accounting largely unchanged from NZ IAS 17 *Leases*
- No NZ IFRS 16 PBE equivalent under development in NZ, but..
  - IPSASB is developing an exposure draft on leases:
    - Looking likely to bring lessees leases on balance sheet
    - Project is also considering “concessionary leases”
      - For example, peppercorn or nominal rental payments