

Financial reporting update

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

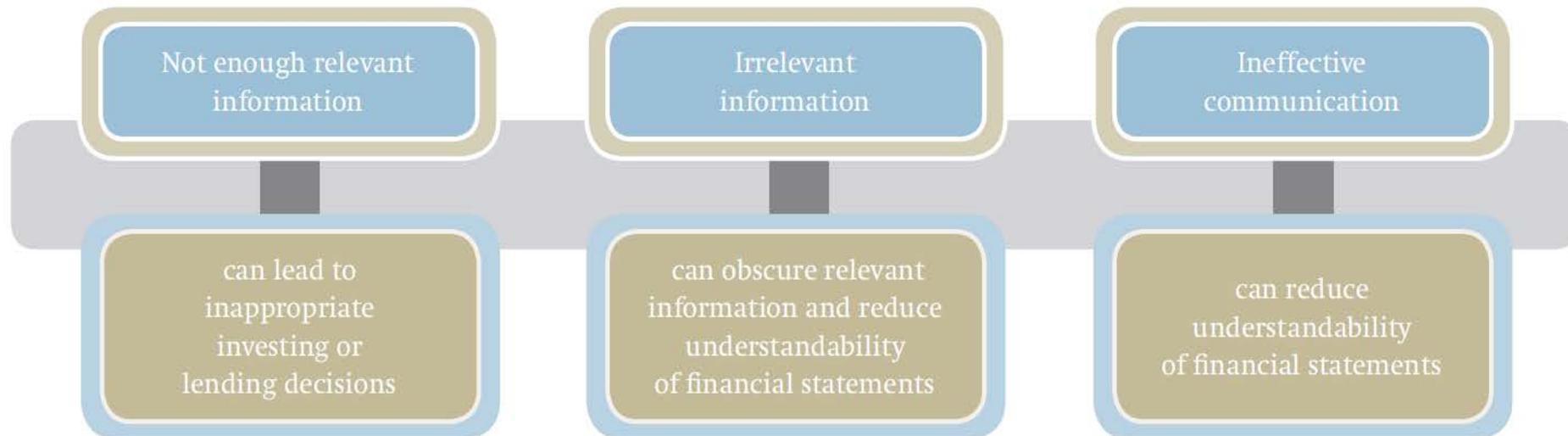
Disclosure Initiative

Objectives of financial reports

	Objective of financial reports	Primary users
PBE Conceptual framework	To provide information useful to users for accountability and decision-making	Service recipients and their representatives and resource providers and their representatives
IASB definition of materiality (exposure draft)	Information is material if omitting, misstating or obscuring it would reasonably be expected to influence decisions primary users make	Existing and potential investors, lenders and other creditors

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
- 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

Definitions of materiality

- Information is material if its omission or misstatement could influence **the discharge of accountability** by the entity, or the **decisions that users make** on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. (PBE conceptual framework)
- Information is material if omitting, misstating or **obscuring** it could reasonably be expected to **influence decisions** primary users of general purpose financial statements make on the basis of financial information about a specific reporting entity.
(IASB Definition of materiality project)

Concluding comments

- Focus on user needs and accountability
- Shift from compliance to communication
- Transparency remains key
- Unfortunately, complex transactions are likely to require complex disclosures
- Not a focus on reducing information, but on providing better quality and more relevant information



Accounting Standards Changes for 2017

Changes to Standards for 2017 reporting

Amended	Effective	Description of change
PBE IPSAS 1 (also NZ IAS 1)	1 Jan 2016	Disclosure initiative – as discussed earlier.
PBE IPSAS 17 (already applies to FPs in NZ IAS 16)	1 Jan 2016	Clarifies the 2 options for treatment of accumulated depreciation when an item of PPE is revalued.
PBE IPSAS 17 (and NZ IAS 16)	1 Jan 2016	Clarifies depreciation methods based on revenue are not appropriate.

Changes to Standards for 2017 reporting

Amended	Effective	Description of change
PBE IPSAS 20 (already applies to FPs 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 KMP services.
PBE IPSAS 23 (not applicable to FPs)	1 Jan 2016	Permits an entity not to recognise donated goods that meet the definition of inventories if impracticable (cost exceeds benefits) to reliably measure the fair value of those goods at the date of acquisition.
PBE IFRS 3 (already applies to FPs 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.

Changes to Standards for 2017 reporting

Amended	Effective	Description of change
NZ IAS 27 (already available to PBE's in IPSAS 6)	1 Jan 2016	In parent financial statements account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IFRS 9 <i>Financial Instruments (IAS 39)</i> or using the equity method. Same approach for each category of investments.

Changes to Standards applying from Dec 2017

Amended	Effective	Description of change
PBE IPSAS 32 (not applicable to FPs)	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.
NZ IAS 7 (not applicable to PBEs)	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 an opening to closing reconciliation.

Future changes – possible early adoption

Amended	Effective	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 using cost model.
PBE IPSAS 21 and PBE IPSAS 26 (already applies to FPs in NZ IAS 36)	1 Jan 2019 (Early adoption permitted)	Revalued PPE scoped into PBE impairment accounting standards PPE that is impaired (e.g. 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

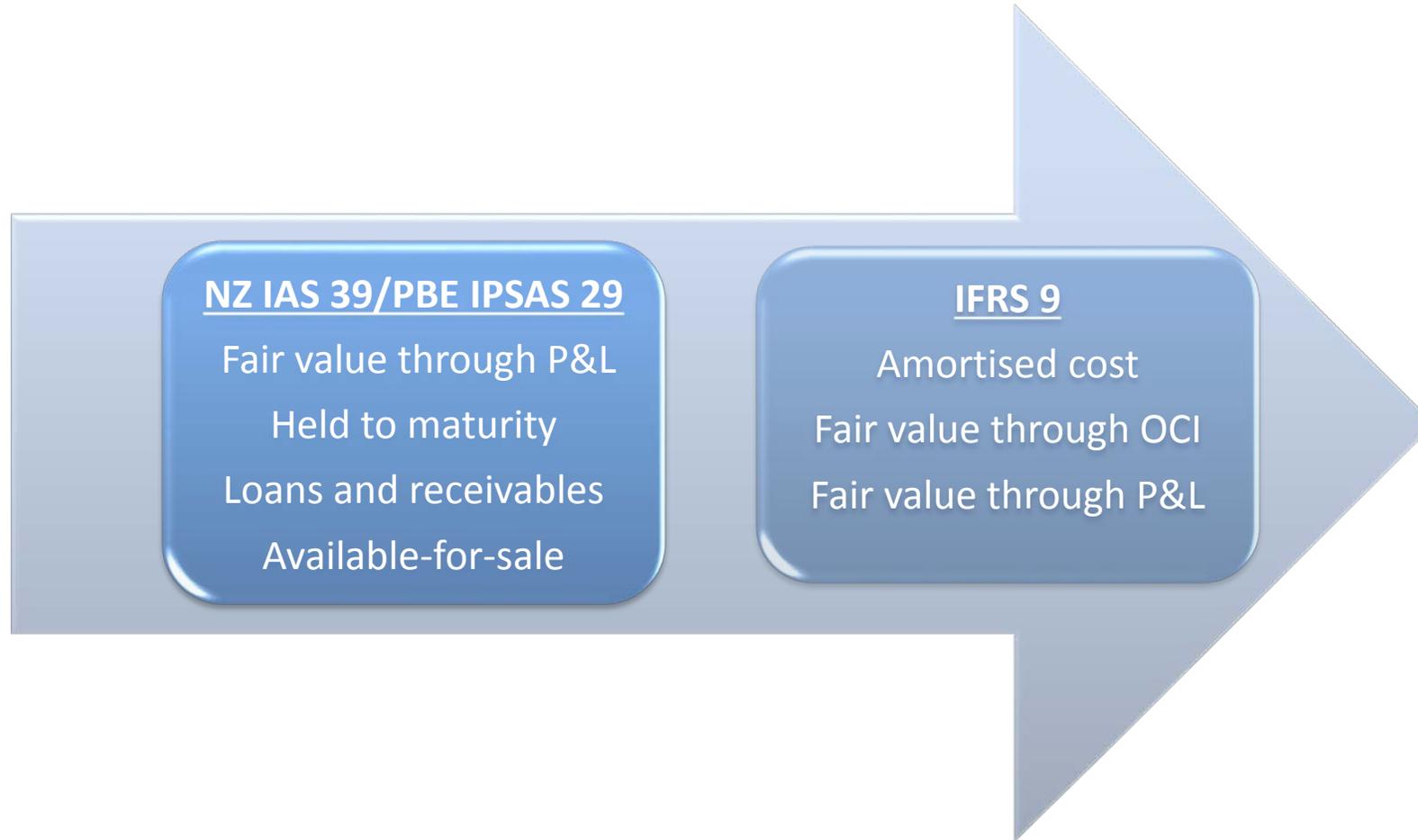
Financial Reporting – the Future

	For Profits	PBEs
PBE IPSAS 34 - Separate Financial Statements;	IFRS 10,11,12, IAS 27,28 already effective	Periods beginning on or after 1 January 2019
PBE IPSAS 35 - Consolidated Financial Statements;		(replaces PBE IPSAS 6,7,8)
PBE IPSAS 36 - Investments in Associates and Joint Ventures;		Requires broader and more comprehensive disclosures.
PBE IPSAS 37 - Joint Arrangements;		
PBE IPSAS 38 - Disclosure of Interests in Other Entities.		

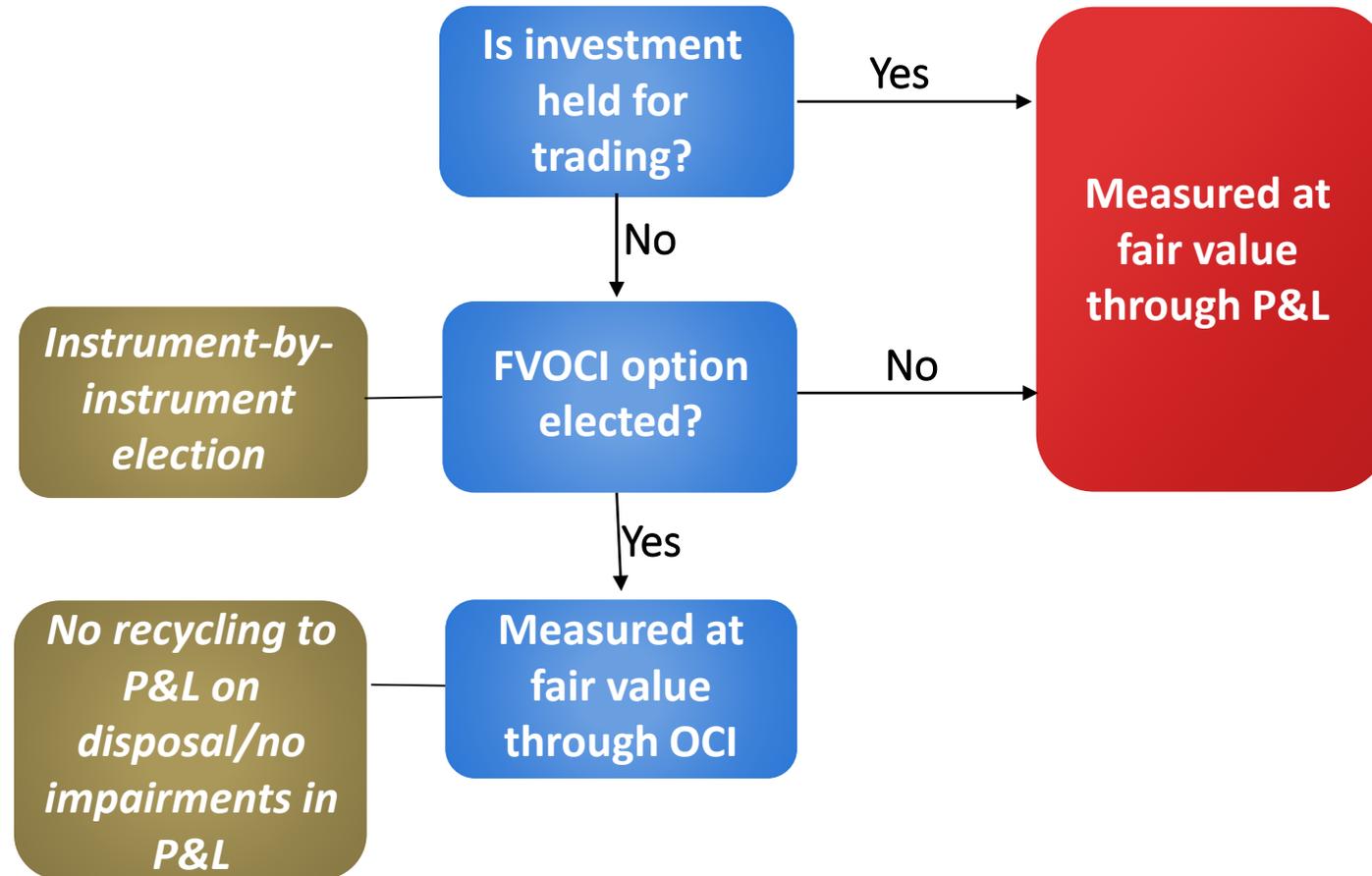
Future changes that could be significant – IFRS 9 *Financial Instruments*

- For-profits must apply a new financial instruments (FI) standard, NZ IFRS 9, from 31 December 2018 year ends
- Potential for significant “mixed group” issues when for-profits and PBEs apply different FI standards
- PBE IFRS 9 is a new FI standard for PBEs, based on NZ IFRS 9
- Mandatory effective date of 30 June 2021 , this provides PBEs with flexibility to early adopt to minimise mixed group issues
- New:
 - Classification requirements for financial assets
 - Impairment model
 - Hedge accounting requirements

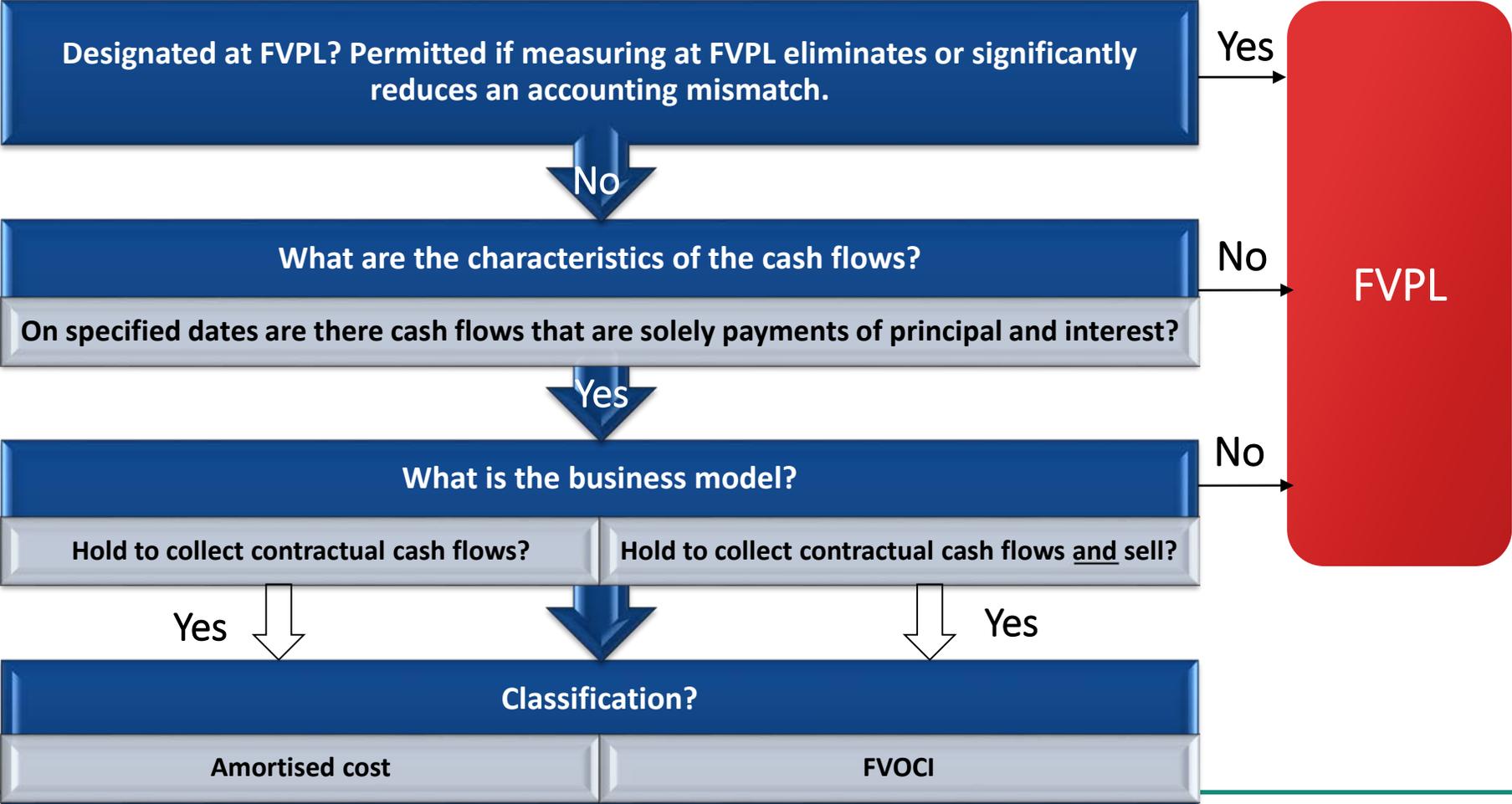
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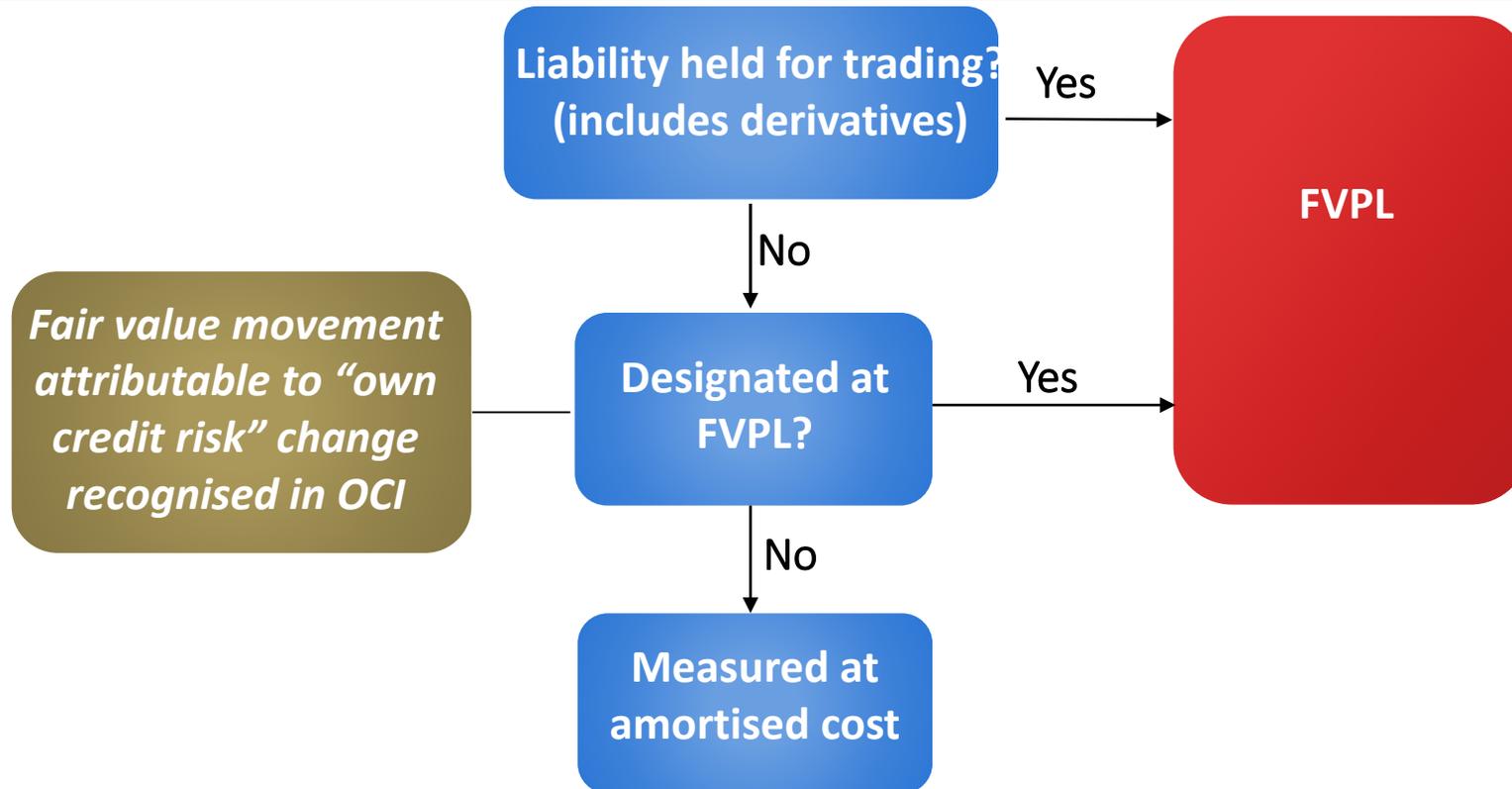
Equity instruments



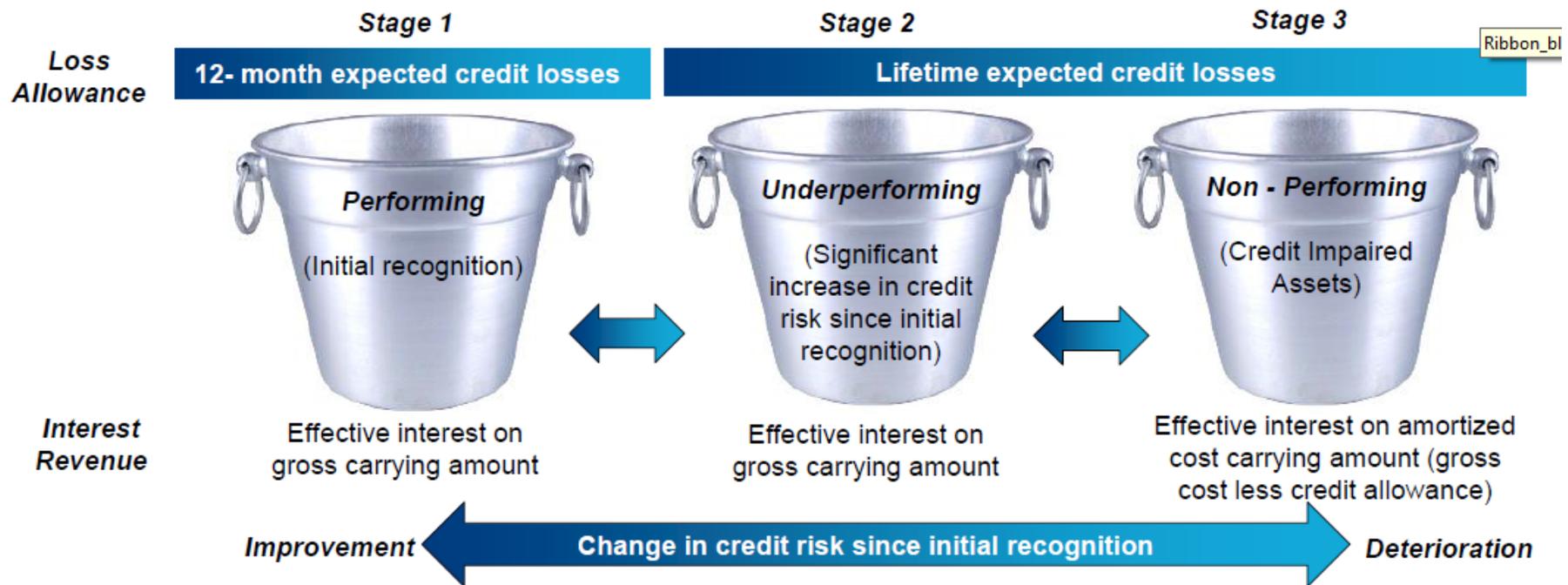
Debt instruments



Financial liabilities

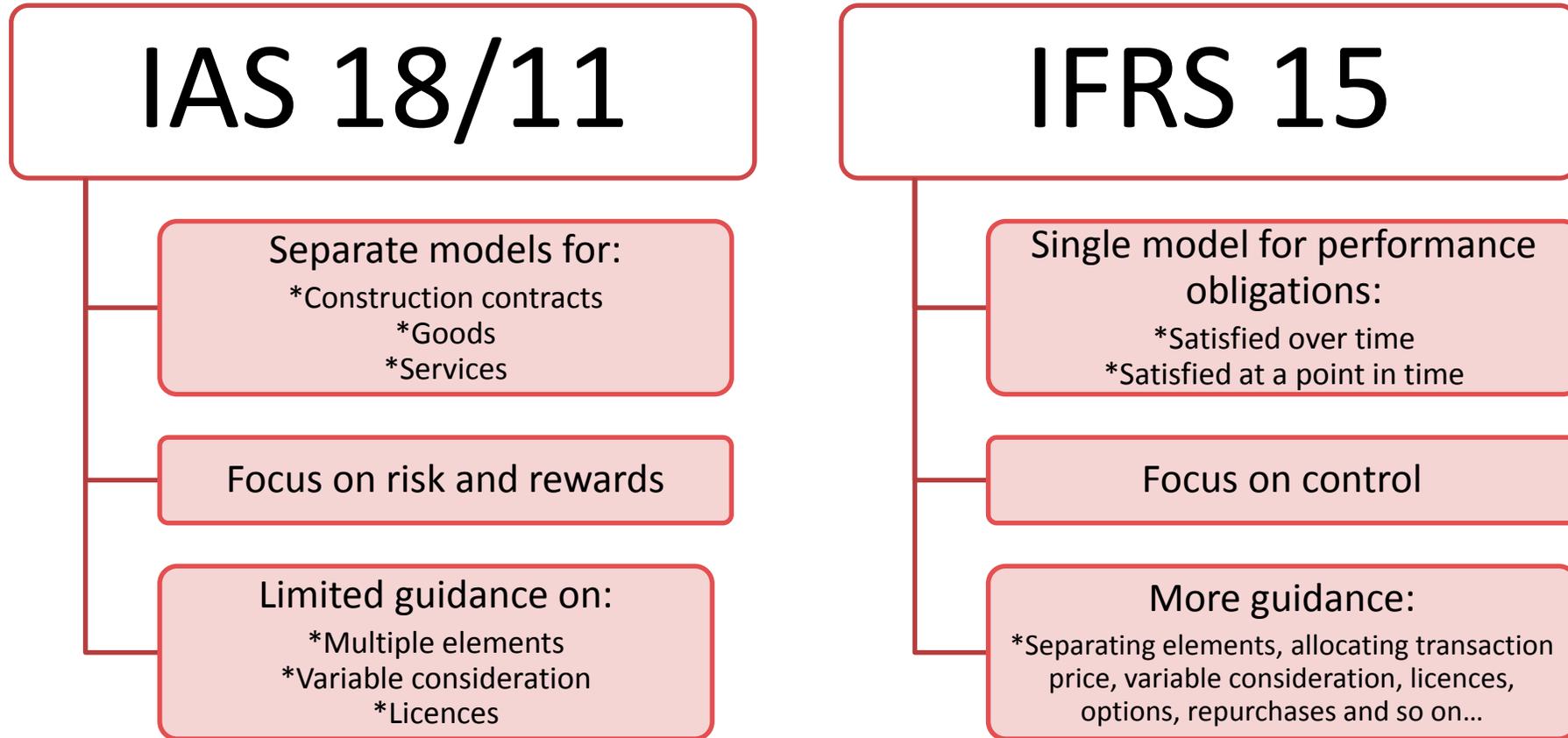


Impairment model



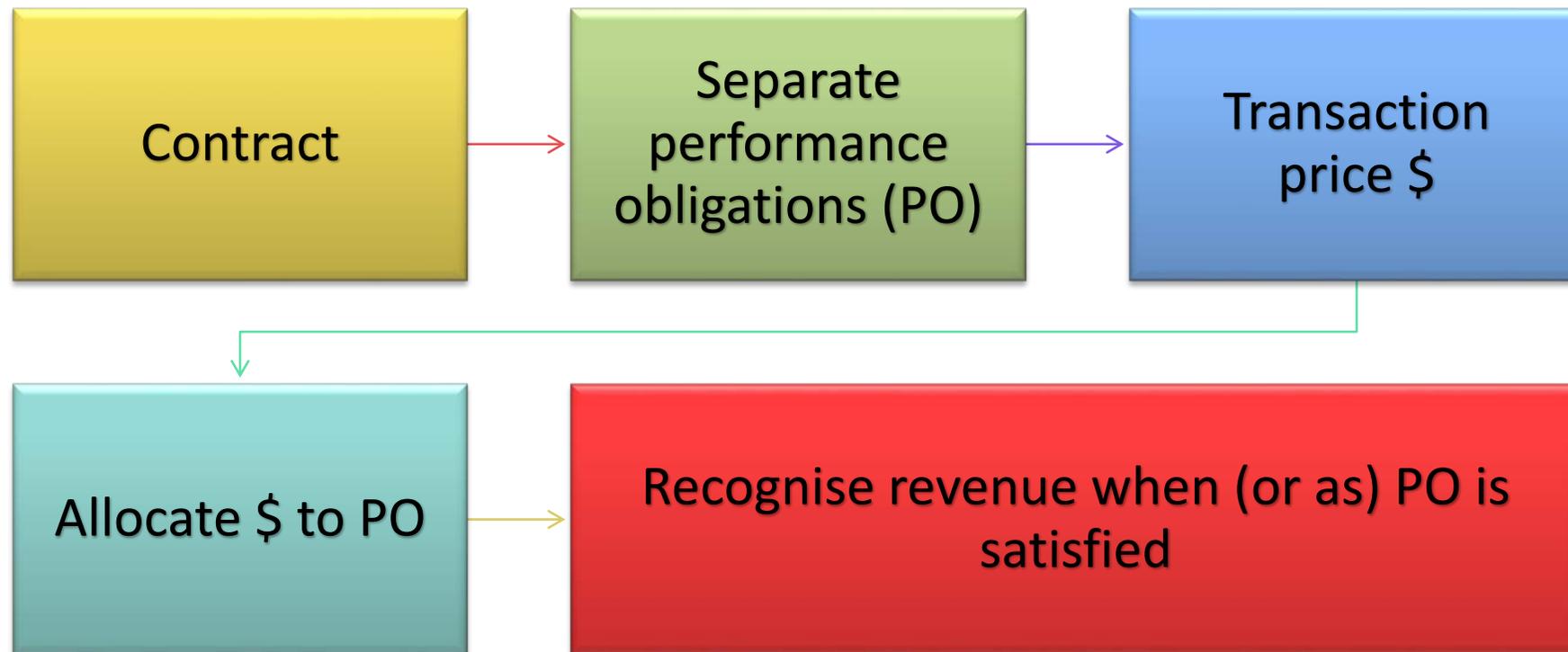
Instruments that are credit impaired at initial recognition always remain in stage 3

Future changes that could be significant – IFRS 15 *Revenue from contracts with customers*

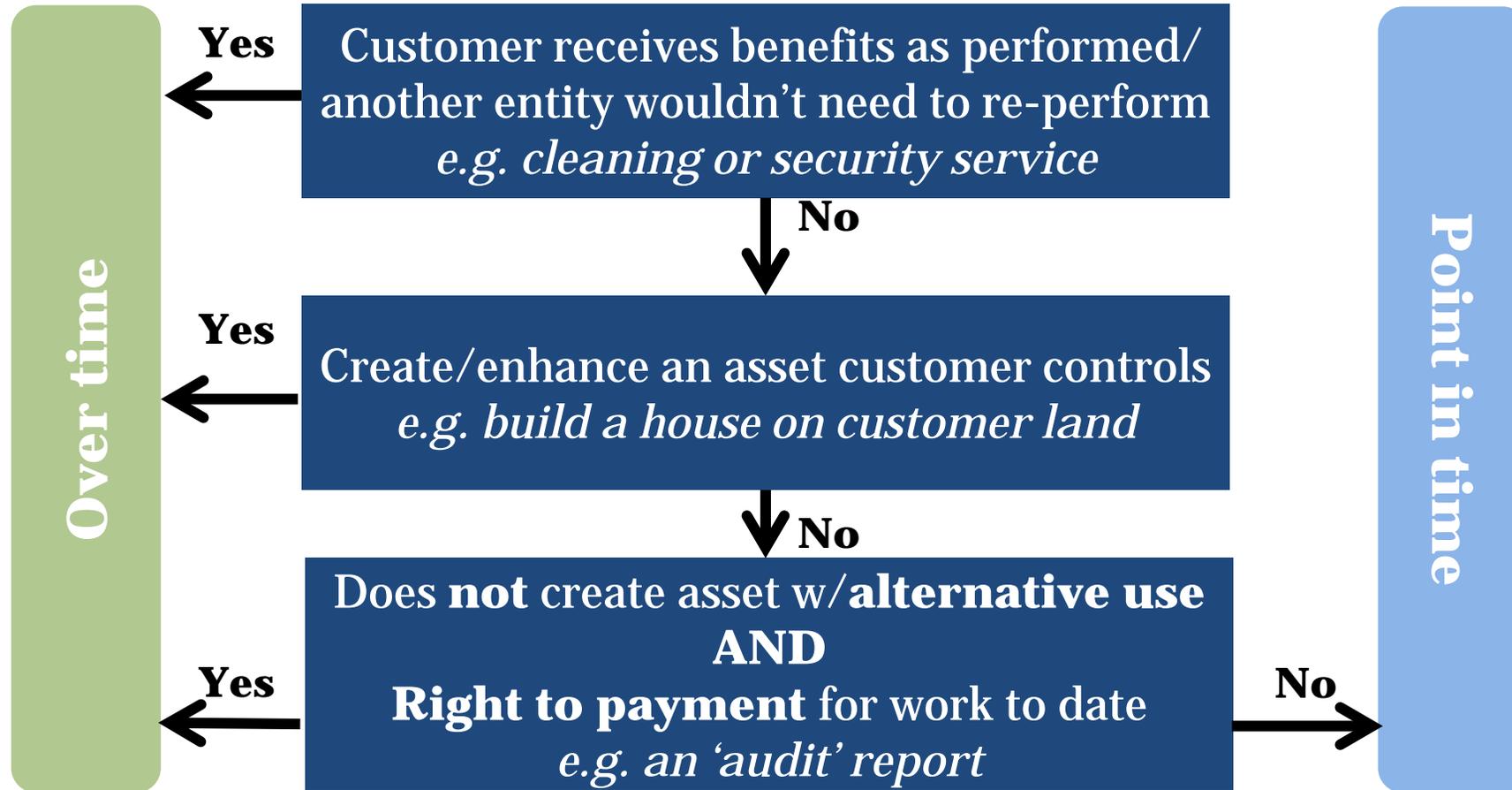


Future changes that could be significant – IFRS 15 *Revenue from contracts with customers*

5 step revenue recognition model:



Future changes that could be significant – IFRS 15 *Revenue from contracts with customers*



Future changes that could be significant – *IPSAS Revenue and Non-exchange expenses*

- 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

Future changes that could be significant – IFRS 16 *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