

Accounting Alert Quarterly update – What's new in financial reporting for March 2011?



The analysis below provides a high level overview of new and revised financial reporting requirements that need to be considered for annual and interim financial reporting periods ending on 31 March 2011. Entities can use this listing to perform a check that the new requirements have been considered as part of their close process.

The information below was updated on 23 March 2011 for developments to that date.

What are the big picture issues for March 2011?

1. Application of new and revised Standards and Interpretations

There are a number of new or revised pronouncements which are mandatory for the first time for March 2011 annual reports, most notably relating to business combinations and consolidated financial statements (NZ IFRS 3 and NZ IAS 27).

Most entities with March 2011 interim periods however have relatively few new areas to consider when preparing their interim report.

2. Christchurch earthquake

Many Deloitte clients and their staff have been impacted with personal loss, damage to homes, premises, loss of stock and so on. No doubt more pressing things are on people's minds in the immediate aftermath; however there may be some accounting issues for businesses to consider in the process of preparing their financial reports in the coming months, these may include the financial impact of damaged property, plant and equipment or other assets, and accounting for compensation.

We have prepared a special Alert, **Christchurch Earthquake: Financial Reporting Considerations**, which entities may wish to use as a high level summary of areas to be considered.

3. Global financial crisis and financial reporting

With the global financial crisis, the focus in recent times has been on such areas as impairment, fair values, debt classifications and disclosure. Although the global economy has begun to emerge from the crisis, we are mindful that many businesses are continuing to face difficult times.

Key financial reporting considerations continue to include:

- **Impairment** – reassessment of cash flow forecasts and key variables, and considering further impairment or whether previous impairment losses may need to be reversed (other than for goodwill and available for sale equity investments). The need for enhanced disclosure (including in interim reports if necessary) also needs to be considered
- **Financial instrument disclosures** – risk management strategies, sensitivity analysis, changes in fair values and other disclosures will need to be revisited, including for half-year reports if movements or impacts are material
- **Earnings per share (EPS)** – EPS may be affected by significant profit change, capital raisings, or even options and other convertible instruments potentially coming ‘into the money’ as share prices increase
- **Discount and exchange rates** – continued volatility in key economic variables, combined with the Reserve Bank’s actions in relation to official interest rates, will continue to present challenges in the determination of discount and exchange rates used in impairment, provisions, employee benefits and other areas
- **Deferred tax assets** – consideration of whether these can be recognised, given expected taxable profits in the future
- **Restructurings** – revised or cancelled plans in relation to restructurings may impact provisions recognised, impairment calculations and the classification of items as held for sale
- **Fair value measurement** – disclosure of uncertainties and sensitivities to change in key variables continues to be important
- **IASB response** – the IASB continues to make rapid changes in many areas and finalised part of its project to replace IAS 39 Financial Instruments: Recognition and Measurement to allow for early adoption, which may be beneficial in some limited circumstances. Urgent changes to the classification of rights issues were also made. Other global financial crisis projects may also come to fruition in time for early adoption - including fair value measurement, impairment, consolidation and other projects.

More information can be found on our dedicated ‘[credit crunch](#)’ and ‘[IASB Project agenda and timetable](#)’ pages on our [IAS Plus website](#).

4. Other considerations

Additional considerations for March 2011 include:

- **Other IASB projects** – the IASB continues to actively pursue a number of projects proposing significant changes. Careful consideration of these impacts now can avoid challenges and maximise opportunities going forward, e.g. lease accounting (consider in lease negotiations), tax accounting (uncertainty in current year’s tax returns), revenue recognition (impact on current accounting policies)
- **Emissions Trading Scheme** – there may be financial reporting impacts in areas such as impairment, disclosure of uncertainties, and provisions and contingent liabilities. Each entity should consider the potential impact on their financial report including the need to consider and adopt appropriate accounting policies.

What are the new and revised accounting pronouncements for March 2011?

The tables below outline the new and revised pronouncements that are either to be applied for the first time for a 31 March 2011 annual reporting period, or which may be early adopted at that date¹. The tables also demonstrate whether the pronouncement is mandatory or optional for a 31 March 2011 interim reporting period. Where a pronouncement is shown as mandatory for **both** the interim and annual reporting period, this indicates that it is mandatory for the first time for a 31 March 2011 annual reporting period and also mandatory for a 31 March 2011 interim reporting period, however it may have been implemented for the first time in the previous interim reporting period and we have footnoted this in the tables below.

As occurs so often with changes in accounting standards and financial reporting requirements, some of the new or revised pronouncements may have a substantial impact on particular entities. Therefore, it is important that the pronouncements listed below are carefully reviewed for any potential impacts or opportunities.

There are a number of significant new mandatory recognition and measurement, and disclosure requirements for annual financial reports at 31 March 2011. In the majority of cases, the disclosure requirements of the individual pronouncements listed in the tables below would not be applicable to half-year financial reports however, the recognition and measurement requirements would be applied where those pronouncements have been adopted by the entity.

In addition, **disclosure** of the application of new and revised accounting pronouncements needs to be carefully considered (outlined in Appendix A).

The information below is organised as follows:

- New or revised standards
- Amendments
- Interpretations

¹Amendments to NZ IFRS 1 *First-time Adoption of NZ IFRS* have not been considered in this publication. First time adopters should consult the latest version of NZ IFRS 1 when preparing their first financial statements in compliance with NZ IFRS.



New or Revised Standards	Effective for annual reporting periods beginning on or after	Applicability at 31 March 2011 to	
		Annual reporting periods	Interim reporting periods
NZ IFRS 3 <i>Business Combinations</i> (2008) and NZ IAS 27 <i>Consolidated and Separate Financial Statements</i>			
The revised NZ IFRS 3 <i>Business Combinations</i> and NZ IAS 27 <i>Consolidated and Separate Financial Statements</i> , issued as a result of the joint IASB-FASB Business Combinations Phase II project, alters the manner in which business combinations and changes in ownership interests in subsidiaries are accounted for. There are also consequential amendments to other Standards affected, most notably NZ IAS 28 <i>Investments in Associates</i> and NZ IAS 31 <i>Interests in Joint Ventures</i> .	NZ IFRS 3 (business combinations occurring after the beginning of annual reporting periods beginning) 1 July 2009	Mandatory	Mandatory ²
<i>Some disclosure exemptions for Qualifying Entities and additional definitions specific to Public Benefit Entities have been included.</i>	NZ IAS 27 1 July 2009		
NZ IAS 24 <i>Related Party Disclosures</i> (2009)			
This Standard, on adoption, supersedes NZ IAS 24 <i>Related Party Disclosures</i> (2004).	1 January 2011	Optional	Optional
The revised Standard simplifies some of the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government in relation to transactions with that government or its subsidiaries, jointly controlled entities or associates.			
NZ IAS 24 (2004) provided a similar concession, but only for Public Benefit Entities , and only for transactions that would occur within a normal supplier type relationship and which are at arms-length terms and conditions. Accordingly, the NZ IAS 24 (2009) simplification will be relevant to more entities.			
The revised Standard also clarifies the definition of a related party, for example:			
<ul style="list-style-type: none">• common investment in two associates is not sufficient to conclude that the two associates are related parties of each other• references to “an associate” include subsidiaries of the associate, therefore an investor in an associate is also related to any subsidiaries of that associate• references to “a joint venture” include subsidiaries of the joint venture, therefore an investor in a joint venture is also related to any subsidiaries of that joint venture• an entity is related to entities which it’s key management personnel control or jointly control, and vice versa.			
Commitments involving related parties are also required to be disclosed.			
<i>Some disclosure exemptions for Qualifying Entities and Public Benefit Entities.</i>			

²Mandatory for first time application in the previous interim period (and the corresponding September annual reporting period).

New or Revised Standards	Effective for annual reporting periods beginning on or after	Applicability at 31 March 2011 to	
		Annual reporting periods	Interim reporting periods

NZ IFRS 9 *Financial Instruments*

NZ IFRS 9 introduces a new classification and measurement regime for financial assets and will need to be carefully considered by each entity. Some key changes include:

- debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances)
- investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss
- all other instruments (including all derivatives) are measured at fair value with changes recognised in the profit or loss
- the concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines
- all equity investments measured at fair value (including unquoted equity investments).

The classification and measurement regime for financial liabilities has also been issued:

- NZ IAS 39 classification categories of amortised cost and fair value through profit or loss are retained
- changes in credit risk on liabilities measured at fair value through profit or loss is recognised in other comprehensive income, unless it creates or increases an accounting mismatch, and is not recycled to profit or loss
- the meaning of credit risk is clarified to distinguish between asset-specific and performance credit risk
- the cost exemption in NZ IAS 39 for derivative liabilities to be settled by delivery of unquoted equity instruments is eliminated.

An early adopter of NZ IFRS 9 will continue to apply NZ IAS 39 for other accounting requirements for financial instruments not covered by NZ IFRS 9.

Qualifying Entities and Public Benefit Entities must comply with all the provisions of NZ IFRS 9.



Other New Amendments	Effective for annual reporting periods beginning on or after	Applicability at 31 March 2011 to	
		Annual reporting periods	Interim reporting periods
Annual Improvements Process – 2009			
Amendments to <u>over</u> 10 Standards. They clarify the required accounting treatment where previous practice had varied, although some new or changed requirements are introduced.	Various – consult the amendments		
A list of the topics covered is included in Appendix B. Entities will need to review each individual amendment to identify if any are relevant.	Generally: 1 July 2009 or 1 January 2010	Mandatory Mandatory	Mandatory ³ Mandatory
<i>Some disclosure exemptions for Qualifying Entities.</i>			
NZ Specific Omnibus Amendments (2009-01)			
A number of minor NZ specific amendments correct and clarify requirements across a number of Standards and Interpretations, including, for example:	1 July 2009	Mandatory	Mandatory ²
<ul style="list-style-type: none">granting a number of additional disclosure exemptions to Qualifying Entitiesrequiring additional solvency reserve disclosure under NZ IFRS 4 <i>Insurance Contracts</i>providing additional guidance on the IFRS compliance statement in prospective financial statements under FRS 42 <i>Prospective Financial Statements</i>.			
Annual Improvements Process – 2008 – Loss of Control of a Subsidiary			
Makes amendments to NZ IFRS 1 <i>First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards</i> and NZ IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> to include requirements relating to a sale plan involving the loss of control of a subsidiary. The amendments require all the assets and liabilities of such a subsidiary to be classified as held for sale and clarify the disclosures required when the subsidiary is part of a disposal group that meets the definition of a discontinued operation.	1 July 2009	Mandatory	Mandatory ²
Eligible Hedged Items			
Clarifies the hedge accounting provisions of NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i> to address:	1 July 2009	Mandatory	Mandatory ²
<ul style="list-style-type: none">inflation in a financial hedged item – inflation may only be hedged if changes in inflation are a contractually specified portion of cash flows of a recognised financial instrumenta one-sided risk in a hedged item – the amendments make clear that the intrinsic value, not the time value, of an option reflects a one-sided risk and, therefore, an option designated in its entirety cannot be perfectly effective.			
NZ IFRS 2 Share-based Payment: Group Cash-Settled Share-based Payment Transactions			
Clarifies the accounting in the individual financial statements of an entity that enters into a share-based payment arrangement that will be settled by another entity within the consolidated group:	1 January 2010	Mandatory	Mandatory
<ul style="list-style-type: none">an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cashthe entity receiving the goods or services will account for the transaction as an equity-settled share-based payment if it has no obligation to settle the transaction or if the arrangement will be settled by issuing its own equity instrumentsthe entity required to settle the transaction will recognise it as a cash-settled share-based payment unless the transaction will be settled by issuing its own equity instruments.			
The amendments also incorporate guidance previously included in NZ IFRIC 8 <i>Scope of NZ IFRS 2</i> and NZ IFRIC 11 <i>NZ IFRS 2-Group and Treasury Share Transactions</i> . As a result, these Interpretations have been withdrawn by the IASB.			

³Improvements effective 1 July 2009 are mandatory for first time application in the previous interim, and the corresponding September annual reporting periods.

Other New Amendments	Effective for annual reporting periods beginning on or after	Applicability at 31 March 2011 to	
		Annual reporting periods	Interim reporting periods
Amendment to NZ IAS 32 <i>Financial Instruments – Presentation – Classification of Rights Issues</i>			
Rights, options and warrants otherwise meeting the definition of equity instruments, which are issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments provided the offer is made pro-rata to all existing owners of the same class of the entity's own non-derivative equity instruments.	1 February 2010	Mandatory	Mandatory
Annual Improvements Process – 2010			
Includes amendments to a number of Standards, most of which are not expected to have a significant impact in practice. However, the amendment to the measurement of non-controlling interests (NZ IFRS 3) could result in significant changes in specific circumstances.	Various – consult the amendments		
A list of the topics covered is included in Appendix B. Entities will need to review each individual amendment to identify if any are relevant.	Generally: 1 July 2010 or 1 January 2011	Optional Optional	Mandatory Optional
Amendment to NZ IAS 26 <i>Accounting and Reporting by Retirement Benefit Plans</i>			
The amendment:	1 April 2011	Optional	Optional
<ul style="list-style-type: none"> • closer aligns NZ IAS 26 to IAS 26 in order to enable entities to state compliance with IFRS, by amending the scope of NZ IAS 26 (which may mean less entities are likely to be captured) and by removing certain NZ interpretive comments • reinstates the option under IAS 26 for the actuarial present value of promised retirement benefits of defined benefit plans to be reported in an accompanying actuarial report. 			
NZ specific additional disclosures have been retained, as these do not impact an entity's ability to state compliance with IFRS.			
Amendment to NZ IFRS 7 <i>Financial Instruments: Disclosure – Transfers of Financial Assets</i>			
Introduces additional disclosures for transferred and derecognised financial assets.	1 July 2011	Optional	Optional
Amendment to NZ IAS 12 <i>Income Tax – Deferred Tax: Recovery of Underlying Assets</i>			
Introduces a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.	1 January 2012	Optional	Optional
This would allow reversal of significant deferred tax liabilities recognised with recent changes to NZ tax legislation.			
Entities may wish to early adopt this amendment.			
NZ IFRS 7 <i>Financial Instruments, Appendix E</i>			
The NZ specific disclosures of Appendix E will now only be required to be made by non-bank 'deposit takers', (as defined in the Reserve Bank of New Zealand Act 1989).	1 April 2011	Optional	Optional

New and Revised Interpretations	Effective for annual reporting periods beginning on or after	Applicability at 31 March 2011 to	
		Annual reporting periods	Interim reporting periods
NZ IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i>			
Clarifies that:	1 January 2009	Mandatory	Mandatory ²
<ul style="list-style-type: none">• a dividend payable should be recognised when it is appropriately authorised and is no longer at the discretion of the entity• an entity should measure the dividend payable at the fair value of the net assets to be distributed• an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss when the distribution is made• an entity should provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.			
NZ IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions.			
<i>Some disclosure exemptions for Qualifying Entities.</i>			
NZ IFRIC 18 <i>Transfers of Assets from Customers</i>			
This Interpretation is of particular relevance for the utility sector as it clarifies the accounting for agreements where an entity receives an item of PP&E (or cash to construct such an item) from a customer and this equipment in turn is used to connect a customer to the network or to provide ongoing access to supply of goods/services.	1 July 2009	Mandatory	Mandatory ²
The key requirements of the Interpretation include:			
<ul style="list-style-type: none">• an asset is only recognised where it meets the definition of an asset in the Framework• transferred assets that meet the definition of an asset are initially recognised at fair value• revenue arising from the recognition of the transferred assets is recognised in accordance with the requirements of NZ IAS 18 <i>Revenue</i>. Revenue may involve one or more services in exchange for the transferred item, such as connecting the customer to a network, providing the customer with ongoing access to a supply of goods or services, or both.			
NZ IFRIC 19 <i>Extinguishing Liabilities with Equity Instruments</i>			
Addresses divergent accounting by entities issuing equity instruments in order to extinguish all or part of a financial liability (often referred to as “debt for equity swaps”). The IFRIC concluded that this scenario consists of two transactions:	1 July 2010	Optional	Mandatory
<ul style="list-style-type: none">• the issue of equity instruments for cash (the amount being the fair value of the liability)• acceptance by the creditor of that amount of cash to extinguish the financial liability.			
Any difference between the carrying amount of the liability extinguished and the fair value of the equity instruments granted is recognised in profit or loss.			
The Interpretation also includes additional guidance for when the financial liability is only partly extinguished.			
Amendment to NZ IFRIC 14 – <i>Prepayments of a Minimum Funding Requirement</i>			
The amendments remedy an unintended consequence of IFRIC 14 where entities were in some cases not permitted to recognise as an asset prepayments of minimum funding contributions.	1 January 2011	Optional	Optional

Appendix A – Shedding light on the disclosures required

NZ IFRS requires disclosures in relation to all the new or revised Standards and Interpretations that have had or may have a material impact on the annual financial report of the entity, **whether they have been adopted or not**. The requirements for interim financial reports are less onerous but must still be considered.

The disclosure requirements surrounding new or revised accounting pronouncements are specified by:

- for annual reporting periods – NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- for interim reporting periods – NZ IAS 34 *Interim Financial Reporting*.

Public Benefit Entities are generally required to make these disclosures unless they are also **Qualifying Entities**. Entities which qualify for differential reporting (**Qualifying Entities**) are permitted exemptions from certain disclosures as noted below.

What disclosures are required?

Applicability of new or revised pronouncement	Summary of disclosures required	
	Annual financial report	Interim financial report
Initial mandatory or voluntary application of a new or revised pronouncement	The relevant pronouncement, the nature of the change in accounting policy, details of any transitional provisions, line-by-line analysis of the effect of the change in policy on the financial statements and the impacts on earnings per share. (NZ IAS 8.28)	The nature and effect of any change in accounting policy compared with the most recent annual financial report. (NZ IAS 34.16(a)) NZ IAS 34 does not specify the level of detail of the disclosures required, and accordingly the level of detail may be less than is presented in an annual financial report in accordance with NZ IAS 8. However, best practice might suggest that the requirements of NZ IAS 8 be used as a guide.
Pronouncement on issue but not adopted	The financial report must disclose which pronouncements have been issued but not adopted in the financial report, when the pronouncements have mandatory application, when those pronouncements are going to be applied by the entity and the possible impact on the entity's financial report (where known or reasonably estimable). The tables within the body of this update could be reviewed to identify such pronouncements for periods ending 31 March 2011 (updated to 23 March 2011). Qualifying Entities are exempt. (NZ IAS 8.30-31)	The impacts of new or revised accounting pronouncements that have not been early adopted are not explicitly required to be disclosed in interim financial reports. Entities should consider making additional disclosures where the effects of these pronouncements are expected to be material and those effects have not been previously been disclosed in the prior annual financial report. Qualifying Entities are exempt from these disclosures in an annual financial report, and accordingly would also be exempt at the interim period.

Example disclosures can be found in our model financial statements, at the following link: [Model financial statements](#)

Deciding on the early adoption of Interpretations

Interpretations that merely interpret the requirements of existing Standards are often considered best practice and so would ordinarily be adopted at an entity's next reporting date or at the mandatory adoption date.

Other Interpretations that effectively introduce new recognition and measurement requirements not explicitly covered under existing Standards might not ordinarily be early adopted, particularly where they change established industry practice and/or require substantial effort to implement.

Accordingly, where an Interpretation is on issue but is not yet mandatory, entities should carefully consider the requirements of each Interpretation and its potential impacts when making a decision whether early adoption is appropriate.

Appendix A – Shedding light on the disclosures required

Do the annual disclosures extend to pronouncements issued by the IASB/IFRIC where an equivalent New Zealand pronouncement has not been approved at the date of signing the financial report?

Yes

Although not technically required by paragraph 30 of NZ IAS 8, “for-profit” entities should disclose the information required by that paragraph (where material) in relation to a Standard or Interpretation issued by the IASB/IFRIC where an equivalent New Zealand Standard or Interpretation has not been approved at the date of signing the financial report. This approach ensures that the entity can make an unreserved statement of compliance with IFRS as required by paragraph 14 of NZ IAS 1 *Presentation of Financial Statements*.

As at 23 March 2011, there are no pronouncements approved by IASB/IFRIC which had not been also approved in New Zealand.

Example disclosure:

The following wording, amended from the wording in our model financial statements, may be used in these circumstances:

‘At the date of authorisation of the financial report, the following Standards and Interpretations, including those Standards or Interpretations issued by the IASB/IFRIC where an equivalent New Zealand Standard or Interpretation has not been approved, were on issue but not yet effective.’

Where this wording is utilised, the relevant IASB/IFRIC Standards and Interpretations should be cited by their IASB or IFRIC references and names, e.g. IFRIC X, IFRS Y, etc. Any Standards and Interpretations already approved by the ASRB should be cited by their New Zealand references and names.



Appendix B – Annual Improvements

The IASB undertakes an annual project to pass necessary but non-urgent amendments to Standards and Interpretations. This appendix includes a list of the Standards affected and subject matters of the amendments passed in the IASB's annual improvement projects for 2009 and 2010.

Improvements to NZ IFRSs May 2009

NZ IFRS	Subject of amendment
<i>NZ IFRS 2 Share-based Payment</i>	Scope of NZ IFRS 2 and revised NZ IFRS 3
<i>NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</i>	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
<i>NZ IFRS 8 Operating Segments</i>	Disclosure of information about segment assets
<i>NZ IAS 1 Presentation of Financial Statements</i>	Current/non-current classification of convertible instruments
<i>NZ IAS 7 Statement of Cash Flows</i>	Classification of expenditures on unrecognised assets
<i>NZ IAS 17 Leases</i>	Classification of leases of land and buildings
<i>NZ IAS 36 Impairment of Assets</i>	Unit of accounting for goodwill impairment test
<i>NZ IAS 38 Intangible Assets</i>	Additional consequential amendments arising from revised NZ IFRS 3 Measuring the fair value of an intangible asset acquired in a business combination
<i>NZ IAS 39 Financial Instruments: Recognition and Measurement</i>	Treating loan prepayment penalties as closely related embedded derivatives Scope exemption for business combination contracts Cash flow hedge accounting
<i>NZ IFRIC 9 Reassessment of Embedded Derivatives</i>	Scope of NZ IFRIC 9 and revised NZ IFRS 3
<i>NZ IFRIC 16 Hedges of a Net Investment in a Foreign Operation</i>	Amendment to the restriction on the entity that can hold hedging instruments

Improvements to NZ IFRSs 2010

NZ IFRS	Subject of amendment
<i>NZ IFRS 3 Business Combinations</i>	Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS Measurement of non-controlling interests Un-replaced and voluntarily replaced share-based payment awards
<i>NZ IFRS 7 Financial Instruments: Disclosures</i>	Clarifications of disclosures
<i>NZ IAS 1 Presentation of Financial Statements</i>	Clarification of statement of changes in equity
<i>NZ IAS 27 Consolidated and Separate Financial Statements</i>	Transition requirements for amendments made as a result of NZ IAS 27 (as amended in 2008) to NZ IAS 21, NZ IAS 28 and NZ IAS 31
<i>NZ IAS 34 Interim Financial Reporting</i>	Significant events and transactions
<i>NZ IFRIC 13 Customer Loyalty Programmes</i>	Fair value of award credit

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>

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

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