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Issue 23, June 2004

Audit and Assurance

Accounting Alert

Analysis of the latest financial reporting developments

In this issue:

For more information visit:

- *IASplus.com* – a Deloitte website detailing IFRS "as it happens" as well as reporting on the current and proposed output of the IASB.
- *deloitte.co.nz* for New Zealand based publications including this Accounting Alert.

Recent Exposure Drafts

The Financial Reporting Standards Board (FRSB) continues to issue exposure drafts as part of the convergence process with International Financial Reporting Standards (IFRS). The following exposure drafts have been recently issued for comment:

ED NZ IAS-30: *Disclosures in Financial Statements of Banks and Similar Financial Institutions*

New Zealand Standard Affected

FRS-33: Disclosure of Information by Financial Institutions

Overview

The purpose of IAS-30 is to provide additional presentation and disclosure standards for banks and similar institutions, over and above those required by other standards. The aim is to provide users with information to assist them in evaluating the financial position and performance of banks and to allow them to obtain a better understanding of the special characteristics of the operations of banks. The term "bank" includes all financial institutions who take deposits and borrow with the objective of lending and investing.

The IASB is currently undertaking a project relating to risk disclosures arising from financial instruments. This project encompasses all entities not just financial institutions and is expected to amend IAS-32: *Financial Instruments: Disclosure and Presentation,* in respect of financial risk disclosures and result in the withdrawal of IAS-30. An exposure draft is expected shortly but the resulting standard is not expected to be applicable until 2007.

Review of Changes against Current Practice

- ED NZ IAS-30 refers to the term "bank" to include all financial institutions unlike FRS-33. The scope of both pronouncements is similar, however FRS-33 requires several additional disclosures not required in ED NZ IAS-30 as they are either required in NZ IAS-32 or not required at all. The FRSB propose to include additional disclosures in ED NZ IAS-30 if not required by other IFRSs in order to maintain the same level of disclosure as the current FRS-33.
- FRS-33 requires disclosure where general provisions exist, however IFRS (specifically IAS-39 and IAS-30) does not allow general provisions to be recognised.

A SIC is an Interpretation issued by the former Standing Interpretations Committee.

ED NZ IAS-31: *Financial Reporting of Interests in Joint Ventures* and NZ SIC-13: *Jointly Controlled Entities – Non-Monetary Contributions by Venturers.*

New Zealand Standard Affected

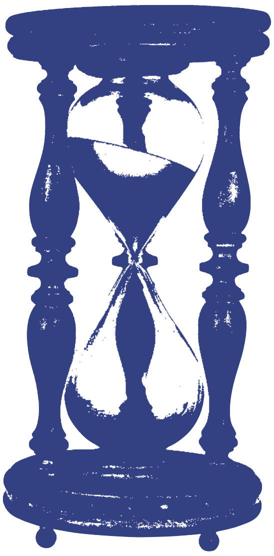
SSAP-25: Accounting for Interests in Joint Ventures and Partnerships

Overview

IAS-31 applies to accounting for all interests in joint ventures and the reporting of joint venture assets, liabilities, income, and expenses in the financial statements of venturers. The standard identifies three broad types of structure which are commonly described as joint ventures – jointly controlled operations, jointly controlled assets and jointly controlled entities.

Review of Changes against Current Practice

- ED NZ IAS-31 appears to have a wider scope than SSAP-25.
- ED NZ IAS-31 definition of a joint venture is "a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control". The SSAP-25 definition concentrates on an unincorporated joint arrangement where the venturers have several liability and share the resulting outputs. It specifically excludes partnerships.
- ED NZ IAS-31 allows a venturer to recognise its interest in a jointly controlled entity using either proportionate consolidation or the equity method, whereas NZ GAAP would require the investor's interests to be accounted for as an associate where it has significant influence and therefore equity accounted. Where it doesn't have significant influence the investor would account for its interest at cost or valuation. SSAP-25 requires an interest in an unincorporated joint venture to be accounted for by proportionate consolidation. This is akin to a jointly controlled operation under ED NZ-IAS 31.
- There are several exceptions where proportionate consolidation or the equity method are not required under ED NZ IAS-31 e.g. an investment in a jointly controlled entity that is classified as held for sale in accordance with NZ IFRS-5: *Non Current Assets Held for Sale and Discontinued Operations.*
- Additional disclosures required by ED NZ IAS-31 in comparison of SSAP-25 are as follows:
    - Contingent liabilities that arise due to the venturer being contingently liable for the liabilities of the other venturers of a joint venture.
    - The aggregate amount of any capital commitments in respect to the venturer's interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers.
    - The aggregate amounts for each of these categories: current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to the venturer's interests in joint ventures. SSAP-25 only required this information to be disclosed if material to the venturer.



Overview of ED NZ SIC-13: *Jointly Controlled Entities – Non-Monetary Contributions by Venturers.*

The SIC provides guidance on circumstances in which the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity should be recognised by the venturer in the income statement.

Gains or losses on contributions of non-monetary assets are unrealised and not recognised in the income statement where one of the following circumstances exists:

- the significant risks and rewards related to the non-monetary asset are not transferred to the jointly controlled entity; or
- the gain or loss cannot be measured reliably; or
- similar assets are contributed by the other venturers.

IASB Exposure Draft of Proposed Amendments to IAS-19: *Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures.*

Overview

The proposed exposure draft amendments will be effective for annual periods beginning on or after 1 January 2006. The key amendments are listed as follows:

- An entity can now recognise actuarial gains and losses in full as they arise, outside the income statement, in a statement of changes of equity that shows total recognised gains and losses if they choose to take advantage of this option. IAS-19 still continues to allow recognition of actuarial gains and losses in the income statement, either in the period in which they occur or spread over the service lives of the employees.
- Extension of the application of multi-employer plan accounting to entities within a consolidated group that meet certain criteria.
- Additional disclosures in order to:
    - Provide information about trends in the assets and liabilities in a defined benefit plan and the assumptions underlying the components of the defined benefit cost.
    - Bring the disclosures in IAS-19 closer to those required by the US standard SFAS-132: *Employers' Disclosures about Pensions and Other Post-Retirement Benefits.*

IASB Exposure Draft of Proposed Amendments to IFRS-3: *Business Combinations – Combinations by Contract Alone or Involving Mutual Entities.*

Overview

The proposed amendments will effectively broaden the scope of IFRS-3 and would require the following to be accounted for in accordance with IFRS-3:

1. Combinations in which separate entities are brought together to form a reporting entity by contract alone without obtaining an ownership interest (for example dual listed entities and stapled securities); and
2. Business combinations involving mutual entities.

The above amendments would require an acquirer to be identified and the acquirer to account for the combination using the purchase method. The result of the proposed amendment to IFRS-3 is that for '1' above no goodwill will arise on these business combinations and for '2' above, goodwill will only arise to the extent of any consideration provided by the acquirer for control of the acquiree.

The proposal is to apply to business combinations where the agreement date is on or after 31 March 2004.

IFRIC Draft Interpretation D6: *Multi-Employer Plans*

IFRIC-D6 proposes guidance for multi-employer plans in IAS-19: *Employee Benefits.* The guidance provided covers the following areas:

- when a plan meets the definition of a multi-employer plan;
- how defined benefit plan accounting should be applied to such plans; and,
- what to do when the necessary information might not be available.

A key proposal of IFRIC-D6, is that the multi-employer plan is to be measured on the basis of assumptions appropriate for the plan as a whole, rather than for a specific participating entity if possible. The plan is then allocated across the participants so that a participating entity recognises an asset or liability that reflects the extent to which the surplus or deficit in the plan will affect its future contributions.

Interpretations of IFRSs are prepared by the International Financial Reporting Interpretations Committee (IFRIC) to give authoritative guidance on issues that are likely to receive divergent or unacceptable treatment, in the absence of such guidance.

ED New Zealand Preface

New Zealand Guidance Affected

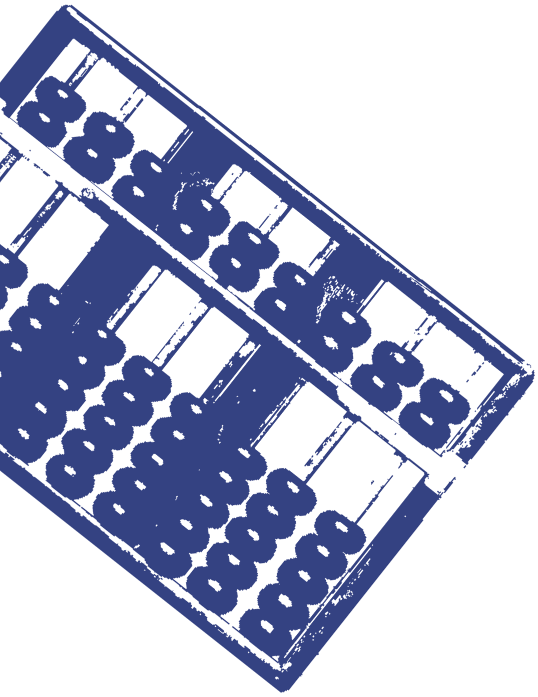
Explanatory Foreword to General Purpose Financial Reporting

Overview

The standard setting process in New Zealand and the roles and responsibilities of the bodies involved in that process are addressed in the proposed New Zealand Preface. The preface to IFRS is also relevant for New Zealand entities as it describes the process followed by the International Accounting Standards Board (IASB) in developing the IFRSs on which the New Zealand equivalents are based. The IASB Preface is included in the NZ Preface as an appendix.

In the New Zealand Preface, the following areas are covered:

1. The objectives and roles of the Financial Reporting Standards Board (FRSB) which has as its key role a requirement to develop and maintain definitive statements and other guidance on all aspects of financial reporting.
2. Responsibilities of members of the Institute in relation to the preparation and presentation of general purpose financial statements, particularly in regards to compliance with the Code of Ethics.
3. What compliance with generally accepted accounting practice (GAAP) means (e.g. compliance with all New Zealand equivalents to IFRSs and FRSs applicable to the entity).
4. Guidelines for adopting IFRSs for issue as New Zealand pronouncements.
5. Scope and authority of New Zealand IFRSs and FRSs.
6. Elaboration on the term "Public Benefit Entities". The term is used to collectively describe entities whose primary objective is to provide goods or services for a community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for the financial return to equity shareholders. In a New Zealand context, most central government, local government and not-for profit entities are public benefit entities.
7. The fact that the Accounting Standards Review Board (ASRB) has the authority to give direction for entities within its jurisdiction on the accounting policies that have authoritative support within the accounting profession in New Zealand.
8. The due process required by the ASRB to be followed by the FRSB in respect of approval of New Zealand equivalents to IFRSs and FRSs.
9. The timing of application of standards.



ED New Zealand Framework

New Zealand Guidance Affected

Statement of Concepts for General Purpose Financial Reporting

Overview

The concepts that underlie the preparation and presentation of financial and non-financial statements for external users are set out in the proposed NZ Framework, which is based on the IASB framework.

The key objectives of the proposed framework are to assist:

- The FRSB in its liaison with the IASB in the development of IFRSs and in developing New Zealand equivalents to IFRSs.
- Preparers of financial statements in applying standards and in dealing with topics that have yet to form the subject of a standard.
- Auditors in forming an opinion as to whether financial statements conform with the standards.
- Users of financial statements in interpreting the information contained in financial statements.

Key Differences between the Proposed NZ Framework and the Statement of Concepts

Definition of Income and Expenses

- The proposed NZ Framework distinguishes between revenues and gains. This may have an impact on the disclosure headings in the income statement for some entities.
- The proposed NZ framework refers to contributions from equity participants as not meeting the definition of income, where the Statement of Concepts refers to contributions from owners. The potential impact is that in some cases the "owner" may not be an "equity participant" and therefore amounts treated as contributions under NZ GAAP may be treated as income under the New Zealand equivalents to IFRS.

Release 8 2004: The Role of the Accounting Standards Review Board and the Nature of Approved Financial Reporting Standards

New Zealand Guidance Affected

Release 6 issued by the ASRB in November 2000

Release 2: Australia-New Zealand Harmonisation Policy on Accounting Standards

Overview

The release is designed to assist with maintaining the quality of financial reporting in New Zealand in regards to standard setting and covers several key areas:

- The role of the ASRB, with its primary role being to approve financial reporting standards.
- The ability of the ASRB to specify the application of approved standards.
- The requirements for financial statements to comply with generally accepted accounting practice (GAAP).
- The application of approved standards and compliance with generally accepted accounting practice (GAAP).
- Certain procedures for the development of financial reporting standards for submission to the Board. These procedures have been followed by the FRSB in submitting financial reporting standards to the ASRB.
- The requirements for due process on exposure drafts and the consideration of the proposed standards by the Board.
- Guidelines for the adoption of IFRSs for issue as New Zealand equivalents to IFRS. The guidelines as per the release are as follows:
    1. the IFRS disclosure requirements cannot be reduced for profit-oriented entities;
    2. additional disclosure requirements can be added for all entities;
    3. recognition and measurement requirements in an IFRS cannot be amended for profit-oriented entities;
    4. recognition and measurement requirements can be amended for public benefit entities with a rebuttable presumption that amendments are based on existing International Public Sector Accounting Standards (IPSAS) or existing FRS, as applicable;
    5. guidance material may be added based on the same principles as applying to addition of recognition and measurement requirements as outlined in '4' above; and
    6. where an IFRS contains alternative permissible treatments the Board may determine that only one option can be applied to be able to comply with New Zealand GAAP. Where an IFRS permits options that are not allowed in existing FRS, a strong argument will need to be made for the Board to agree to such options in the New Zealand equivalents to IFRS.

The Pending Accounting Standards are available on the www.icanz.co.nz and www.asrb.co.nz websites

New Zealand Pending Accounting Standards

The ASRB has resolved to make available pending accounting standards on both the ICANZ and ASRB web sites in order to assist users of the standards to identify the potential impacts on their financial statements and their financial reporting systems. The pending standards are still subject to final approval by the ASRB in accordance with the Financial Reporting Act 1993.

The following pending accounting standards are available:

- NZ IAS-2: *Inventories*
- NZ IAS-7: *Cash Flow Statements*
- NZ IAS-8: *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS-10: *Events After the Balance Sheet Date*
- NZ IAS-11: *Construction Contracts*
- NZ IAS-17: *Leases*
- NZ SIC-15: *Operating Leases-Incentives*
- NZ SIC-27: *Evaluating the Substance of Transactions in the Legal Form of a Lease*
- NZ IAS-23: *Borrowing Costs*
- NZ IAS-33: *Earnings per Share*
- NZ IAS-37: *Provisions, Contingent Liabilities and Contingent Assets*
- NZ IAS-40: *Investment Property*

Important Dates

The FRSB's timetable is aligned to that of the IASB. As the IASB issues standards, the FRSB will issue them as NZ IAS or NZ IFRS having made additions, where necessary, to ensure the standards are sector neutral. As a result the NZ agenda is subject to change as deliberations of the IASB proceed.

An up to date timetable is available at www.iasplus.com/agenda/timetabl.htm

Keep track of these important dates for responding on Exposure Drafts to the FRSB.

Comments Due June 2004:

- IFRIC Draft Interpretation D6: Multi-employer Plans
- ED NZ IAS- 27: *Consolidated & Separate Financial Statements.*
- ED NZ IAS-20: *Accounting for Government Grants and Disclosure of Government Assistance.*
- International Public Sector Committee: Invitations to Comment: *Accounting for Social Policies of Governments and Revenue from Non-Exchange Transactions (including Taxes and Transfers).*

Comments Due July 2004:

- ED Proposed Amendments to IAS-39: *The Fair Value Option.*
- IASB ED Proposed Amendments to IAS-19: *Employee Benefits: Actuarial Gains and Losses Group Plans and Disclosures.*
- ED NZ IAS-31: *Financial Reporting of Interests in Joint Ventures* and NZ SIC-13 *Jointly Controlled Entities- Non-Monetary Contributions by Venturers.*
- ED NZ IAS-30: *Disclosures in Financial Statements of Banks and Similar Financial Institutions.*
- ED New Zealand Framework
- ED New Zealand Preface
- Proposed Amendments to IFRS-3: *Business Combinations – Combinations by Contract Alone or Involving Mutual Entities*

Contact:

Denise Hodgkins
Partner
Ph: +64 9 303 0918
Email: dhodgkins@deloitte.co.nz

New Zealand Directory

Auckland PO Box 33, Ph +64 (9) 309 4944, Fax +64 (9) 309 4947
Hamilton PO Box 17, Ph +64 (7) 838 4800, Fax +64 (7) 838 4810
Wellington PO Box 1990, Ph +64 (4) 472 1677, Fax +64 (4) 472 8023
Christchurch PO Box 248, Ph +64 (3) 379 7010, Fax +64 (3) 366 6539
Dunedin PO Box 1245, Ph +64 (3) 477 7042, Fax +64 (3) 477 9433

Independent Associate Firm

Hastings Dent Robertson & Partners, Ph +64 (6) 878 7004

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

AAA1404-04

Those wishing to receive this publication regularly are asked to communicate with:
The Editor, PO Box 33, Auckland.
Email: nzinfo@deloitte.co.nz
Ph +64 (9) 309 4944. Fax +64 (9) 309 4947.

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Deloitte Touche Tohmatsu