

Accounting Alert

Analysis of the latest accounting developments

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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

ED-94 Transitional Arrangement for the Early Adoption of the New Zealand equivalent to IAS-19 *Employee Benefits*

New Zealand Standards Affected

No current reporting standard.

Overview

Currently New Zealand does not have an equivalent standard to IAS-19. The exposure draft proposes to **allow** early adoption of IAS-19 even if an entity has not adopted NZ IFRS. It also proposes to override the FRS-7 requirement to record all revenue and expense items arising from voluntary changes in accounting policy in the statement of financial performance. It will allow an adjustment to opening equity on initial adoption. It will also allow the transitional provision permitted under NZ IFRS-1 in relation to employee benefits. All cumulative actuarial gains and losses can be recognised by a first-time adopter of NZ IAS-19 even if the corridor approach for later actuarial gains and losses will be taken by the first-time adopter. When all cumulative actuarial gains and losses are recognised, they must be recognised for all plans.

ED-95 Application of NZ IFRS-2 *Share-based Payment* prior to the Adoption of NZ IFRS-1 *First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards*

New Zealand Standards Affected

No current reporting standard.

Overview

The exposure draft proposes to **require** the application of the New Zealand equivalent to IFRS-2 *Share-based Payment* (NZ IFRS-2) for all entities for annual reporting periods beginning on or after 1 January 2005. Consequently, all entities will be required to comply with NZ IFRS-2 even if they don't adopt the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) until 2006 or 2007.

On transition:

- an initial accounting entry needs to be made to give retrospective effect to the changed policy. Any resulting revenue or expense is adjusted directly against equity at the beginning of the period when the change is made. Comparatives are not required to be adjusted.
- The standard will apply to equity-settled share-based payment transactions, grants of shares, share options or other equity instruments that were granted after 7 November 2002 and which had not yet vested at the effective date of the standard.

- If the fair value of other grants of equity instruments determined at the measurement date has been disclosed publicly in the past, entities are encouraged to apply NZ IFRS-2 to those equity instruments.
- For all grants of equity instruments where the Standard has not been applied (e.g. equity instruments granted on or before 7 November 2002), certain information is required to be disclosed.
- After the Standard becomes effective, if an entity changes the terms or conditions of a grant of equity instruments to which NZ IFRS-2 has not been applied, entities are required to apply the Standard to account for these modifications.

IASB Exposure Draft 7 Financial Instruments: Disclosures

New Zealand Standards Affected

Current Standards:

FRS-31: *Disclosure of Information about Financial Instruments*

FRS-33: *Disclosure of Information by Financial Institutions*

Pending Standards:

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

NZ IAS-32: *Financial Instruments: Disclosure and Presentation*

Proposed Standard:

NZ IASB ED-5: *Insurance Contracts*

Overview

This exposure draft has been issued by the IASB to update the disclosure requirements in relation to financial instruments. When finalised it is proposed to replace NZ IAS-30 and the disclosure requirements of NZ IAS-32. All the disclosure requirements for banks and other entities will be located in this one standard.

It is likely to have an application date after 31 December 2005 but it is also likely that entities will be able to early adopt.

Some of the proposals include:

- Simplifications to the disclosures about concentrations of risk, credit risk, liquidity risk and market risk in IAS-32
- Enhanced balance sheet and income statement disclosures
- Disclosures about an allowance account
- Disclosure of qualitative information (i.e. the entity's objectives, policies and processes for managing capital) and quantitative data (i.e. capital, capital targets, capital requirements)

IFRIC Draft Amendment D7 Scope of SIC-12 Consolidation — Special Purpose Entities

New Zealand Standards Affected

Current Standard:

FRS-37: *Consolidating Investments in Subsidiaries*

Pending Standard:

NZ SIC-12: *Consolidation-Special Purpose Entities*

Overview

This draft amendment addresses two issues.

- To remove the scope exclusion in SIC-12 for equity compensation plans. This amendment will require an entity that controls an employee benefit trust (or similar entity) that relates to a share-based payment arrangement to be consolidated.
- The scope exclusion for post-employment benefit plans is amended to clarify its application to defined benefit plans and include other long-term employee benefit plans that are similar to defined benefit plans. These are covered by IAS-19: *Employee Benefits*.

IFRIC Draft Interpretation D8 Members' Shares in Co-operative Entities

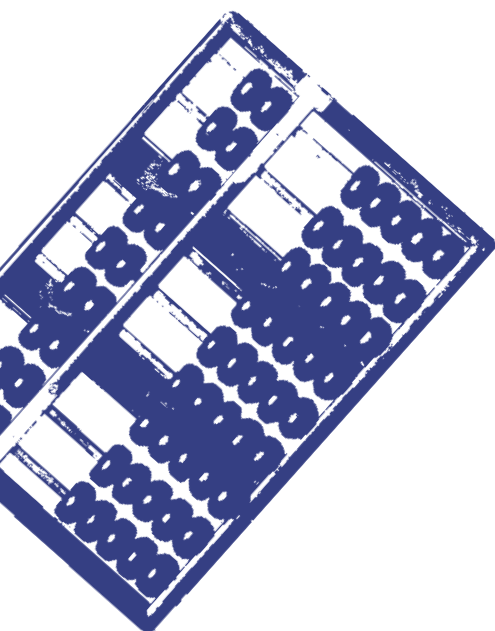
New Zealand Standards Affected

Current Standard:

No current reporting standard.

Pending Standard:

NZ IAS-32: *Financial Instruments: Disclosure and Presentation*



Interpretations are part of the IASB's authoritative literature and hence financial statements may not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable Standard and each applicable Interpretation issued by the International Financial Reporting Interpretations Committee.

Overview

In response to significant concerns raised around the world by co-operative companies, the draft interpretation attempts to explain how to apply the concept of classifying financial instruments as liabilities or equity in IAS-32 to financial instruments issued by co-operatives and other entities that give the holders the right to request redemption.

In the absence of the members' rights to request redemption, members' shares are equity when either:

- the entity has an unconditional right to refuse redemption of the members' shares, or
- local law, regulation, or the entity's governing charter unconditionally prohibits the redemption of members shares.

Accordingly, the IFRIC notes that the shares are reported as financial liabilities if the above conditions are not met. For a number of co-operative companies in New Zealand this would appear to be the case.

IFRIC Draft Interpretation D9 Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions

New Zealand Standards Affected

Current Standard:

No current reporting standard.

Pending Standard:

NZ IAS-19: *Employee Benefits*

Overview

D9 provides guidance on how the requirements of IAS-19 are applied in relation to an employee benefit plan with a promised return on actual or notional contributions.

A promised return is either:

- a guaranteed return of a fixed amount (or rate), or
- promise of a variable return based on specified assets or indices.

The draft interpretation proposes guidance on the treatment of the following benefits:

- i) a guarantee of a fixed return
- ii) a benefit that depends on future asset returns, and
- iii) a combination of i) and ii)

The liability for a benefit of a guarantee of a fixed return should be determined by projecting forward the contributions at the guaranteed fixed return to estimate the amount that will ultimately be paid. That amount should be discounted back to a present value using the high-quality corporate bond rate required by IAS-19. In contrast, for benefits that depend on future asset returns, D9 proposes that an estimate of the amount that will ultimately be paid should not be made. Instead, the liability should be determined by the value of the assets at the balance sheet date. Lastly, D9 proposes that the liability for a benefit that combines a guaranteed fixed return and the returns on future assets should be the higher of the liabilities for each separate element.

Proposed Amendments to IAS-39 Financial Instruments: Recognition and Measurement — Cash Flow Hedge Accounting of Forecast Intra-group Transactions

New Zealand Standards Affected

Current Standard:

No current reporting standard.

Pending Standard:

NZ IAS-39: *Financial Instruments: Recognition and Measurements*

Overview

The proposed amendments clarify the circumstances where a forecast intragroup transaction is allowed to be designated as a hedged item in a foreign currency cash flow hedge under IAS-39. The circumstances are where:

- A related highly probable forecast external transaction is denominated in the functional currency of the entity (e.g. subsidiary) concerned, and
- The transaction gives rise to an exposure that has an effect on the consolidated profit or loss (i.e. is denominated in a currency other than the group's presentation currency).

Proposed Amendments to IAS-39 Financial Instruments: *Recognition and Measurement* — *Transition and Initial Recognition of Financial Assets and Financial Liabilities*

New Zealand Standards Affected

Current Standard:

No current reporting standard.

Pending Standard:

NZ IAS-39: *Financial Instruments: Recognition and Measurements*

Overview of proposed amendments

IAS-39 requires entities to recognise financial assets or financial liabilities on initial recognition at fair value. A gain or loss on initial recognition can only be recognised where there is observable market data to evidence the fair value. To reduce the compliance cost for entities on initial adoption of IFRS, the IASB ED proposes to give entities an option of applying the 'day 1' gain or loss recognition requirements either:

- a) prospectively to transactions entered into subsequent to 25 October 2002, or
- b) Retrospectively as required by para 104 of IAS-39.

The proposed ED also clarifies the following in relation to recognising the gain or loss after day 1:

- the subsequent measurement of the financial asset or financial liability and the subsequent recognition of gains and losses should be consistent with the requirements in IAS-39; and
- accordingly, a gain or loss is to be recognised subsequent to initial recognition only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

Proposed Amendments to IAS-39 *Financial Instruments: Recognition and Measurement* and IFRS-4 *Insurance Contracts* — *Financial Guarantee Contracts and Credit Insurance*

New Zealand Standards Affected

Current Standards:

FRS-34: *Life Insurance Business*

FRS-35: *Financial Reporting of Insurance Activities*

Pending Standard:

NZ IAS-39: *Financial Instruments: Recognition and Measurement*

Proposed Standards:

NZ IASB ED-5: *Insurance Contracts*

ED FRS-34A: *Life Insurance Business*

ED FRS-35A: *Financial Reporting of Insurance Activities*

Overview

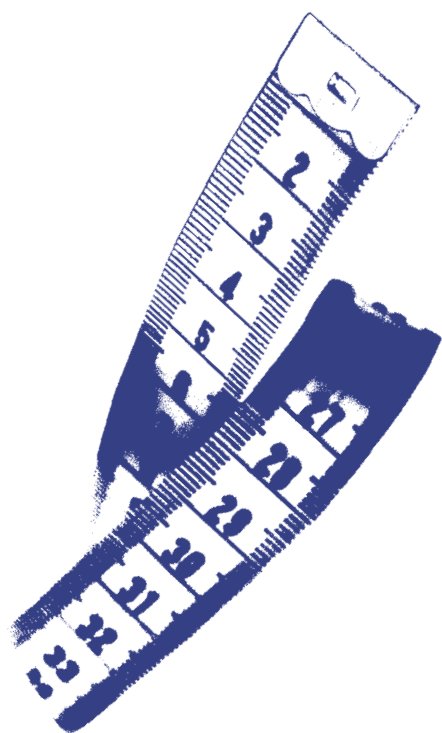
This exposure draft proposes to change the scope of IAS-39 to include financial guarantee contracts and IFRS-4 to exclude them. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

The proposals would require the issuer to measure the contract:

- initially at fair value; and
- subsequently at the higher of (i) the amount determined in accordance with IAS-37 *Provisions, Contingent Liabilities and Contingent Assets* and (ii) the amount initially recognised less when appropriate, cumulative amortisation recognised in accordance with IAS-18 *Revenue*.

Financial guarantee contracts that were entered into or retained on transferring financial assets or financial liabilities to another party are measured in accordance with the derecognition rules under IAS-39 or as a derivative.

The changes are proposed to apply from 1 January 2006 however earlier adoption would be encouraged.



Suitable differential reporting concessions are to be put in place for NZ IFRS. Entities which apply the differential reporting concessions under NZ IFRS will not be able to assert compliance with IFRS.

IASB Discussion Paper: *Preliminary Views on Accounting Standards for Small and Medium-sized Entities*

Overview

The IASB has published a discussion paper on the Board's Preliminary Views on Accounting Standards for Small and Medium-sized Entities (SMEs). The discussion paper focuses on issues relating to the Board's approach to the project and raises questions about these preliminary views. It does not include proposals for specific financial reporting standards for SMEs. These will follow later.

The Board is proposing to develop a separate set of standards for SMEs. These would be based on the IFRS standards and would have a mandatory fallback position that if the SME standard does not address a particular issue that the SME would look to the applicable IFRS standard. Optional reversion to the IFRS standard would also be permitted.

The IASB has developed a set of criteria to determine which entities the SME standards should apply to including public accountability. An entity has public accountability if:

- a) there is a high degree of outside interest in the entity from non-management investors or other stake holders and those stakeholders depend primarily on external financial reporting as their only means of obtaining financial information about the entity; or
- b) the entity has an essential public service responsibility because of the nature of its operations.

An entity would be regarded as having public accountability and therefore would have to fully comply with IFRS if:

- a) it has filed or is in the process of filing its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market;
- b) it holds assets in a fiduciary capacity for a broad group of outsiders (e.g. bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity);
- c) it is a public utility or similar entity that provides essential public service; or
- d) it is economically significant in its home country on the basis of criteria such as total assets, total income, number of employees, degree of market dominance and nature and extent of external borrowings.

The IASB also proposes to require full IFRS compliance if any owners require this and where entities are subsidiaries, joint ventures, or associates of entities with public accountability, the IASB proposes that they will also have to fully comply with IFRS since they have had to provide the information anyway to the investor.

A number of entities which currently qualify for differential reporting under NZ GAAP would be required to provide full IFRS compliant financial statements under this proposal.

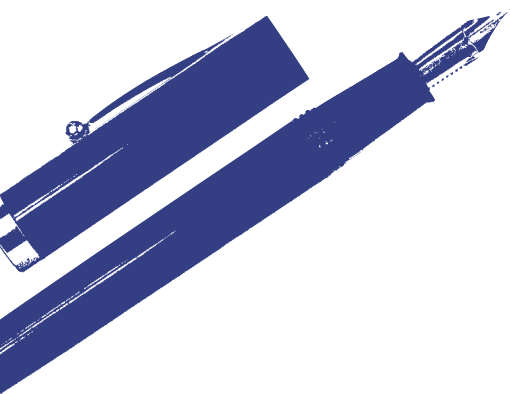
The Pending Accounting Standards are available from www.icanz.co.nz and www.asrb.co.nz websites

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 IFRS-1: *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*
- NZ IFRS-2: *Share-based Payment*
- NZ IFRS-5: *Non-current Assets Held for Sale and Discontinued Operations*
- NZ IAS-1: *Presentation of Financial Statements*
- NZ SIC-29: *Disclosure – Service Concession Arrangements*
- 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-12: *Income Taxes*
- NZ SIC-21: *Income Taxes – Recovery of Revalued Non-Depreciable Assets*
- NZ SIC-25: *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*
- 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-18: *Revenue*
- NZ SIC-31: *Revenue – Barter Transactions Involving Advertising Services*
- NZ SIC-10: *Government Assistance – No Specific Relation to Operating Activities*
- NZ IAS-19: *Employee Benefits*
- NZ IAS-20: *Accounting for Government Grants and Disclosure of Government Assistance*
- NZ IAS-21: *The Effects of Changes in Foreign Exchange Rates*
- NZ SIC-7: *Introduction of the Euro*
- NZ IAS-23: *Borrowing Costs*
- NZ IAS-26: *Accounting and Reporting by Retirement Benefit Plans*
- NZ IAS-27: *Consolidated and Separate Financial Statements*
- NZ SIC-12: *Consolidation – Special Purpose Entities*
- NZ IAS-28: *Investments in Associates*
- NZ IAS-29: *Financial Reporting in Hyperinflationary Economies*
- NZ IAS-31: *Interests in Joint Ventures*
- NZ SIC-13: *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*
- NZ IAS-33: *Earnings per Share*
- NZ IAS-34: *Interim Financial Reporting*
- NZ IAS-36: *Impairment of Assets*
- NZ IAS-37: *Provisions, Contingent Liabilities and Contingent Assets*
- NZ IAS-38: *Intangible Assets*
- NZ SIC-32: *Intangible Assets – Web Site Costs*
- 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 in September 2004:

- IFRIC Draft Interpretation D9 *Employee Benefit Plans with a Promised return on Contributions or Notional Contributions*
- Proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intra-group Transactions*
- Proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Transition and Initial Recognition of Financial Assets and Financial Liabilities*
- Proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts-Financial Guarantee Contracts and Credit Insurance*

- IASB Discussion Paper: *Preliminary Views on Accounting Standards for Small and Medium-sized Entities*

Comment Due in October 2004:

- IASB Exposure Draft 7 *Financial Instruments: Disclosures*

Comment Due in November 2004:

- ED-94 Transitional Arrangements for the New Zealand equivalent to IAS 19 *Employee Benefits*
- ED-95 Application of NZ IFRS 2 *Share-based Payment* prior to the Adoption of NZ IFRS 1 *First Time Adoption of New Zealand Equivalent to International Financial Reporting Standards*

All exposure drafts are available through the Institute's website: www.icanz.co.nz

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