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Accounting Alert

Staying on top of developments

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This Accounting Alert provides you with an update on the proposed changes to New Zealand's Accounting Standards Framework. While draft legislation has not yet been issued by the Government, the Minister of Commerce has approved the External Reporting Board's proposals for the accounting standards that will apply to different classes of reporting entities.

We also report on a number of recent developments in financial reporting.

We will continue to keep you apprised of developments as they occur, so watch this space …

Minister of Commerce approves the External Reporting Board's proposals for the New Zealand Accounting Standards Framework

The Minister of Commerce has approved the External Reporting Board's (XRB) proposals for the New Zealand Accounting Standards Framework (the Framework). While the Framework is largely consistent with previous consultation papers, there were some changes made as a result of submissions received by the XRB.

The Framework is a two sector, multi-tiered Framework as set out in Figure 1. This approach has been adopted in order to meet the differing information needs of each sector's users of financial statements. The for-profit entity framework is based on International Financial Reporting Standards (IFRS), whereas the framework for public benefit entities (PBEs) is based on International Public Sector Accounting Standards (IPSAS).

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We have updated our publications clarifying the criteria of each tier, applicable accounting standards for each tier and other matters of interest. We note that the PBE requirements are further split into those applicable to public sector entities (entities as defined by the Public Audit Act 2001 that are PBEs and all Offices of Parliament) and not-for-profit entities. These documents are available on our website at:

http://www.deloitte.com/view/en_NZ/nz/services/audit/index.htm

Implications for for-profit entities
Implications for public benefit entities in the public sector
Implications for not-for-profit entities

We note that the proposed applicable dates for the new Framework have been delayed with the current proposal as follows:

For-profit entities	The interim framework relating to for-profit entities will apply from **1 November 2012** with early adoption permitted for periods beginning before that date. The revised framework will apply for financial years beginning on or after twelve months of legislation coming into force.
Public sector PBEs	The Framework will apply for periods beginning on or after **1 July 2014** with early adoption not permitted.
Not-for-profit PBEs	The Framework will apply for periods beginning on or after **1 March 2015** or such later date as the legislative amendments come into force. Early adoption will be allowed from the date the standards are issued.

The XRB's **Proposals for the New Zealand Accounting Standards Framework** is available at **www.xrb.govt.nz**

Figure 1: Overview of the Accounting Standards Framework

Is the entity a public benefit entity (PBE)?

"A reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to shareholders"

NO

FOR-PROFIT ENTITIES

Tier	Who captured	Applicable Accounting Standards
Tier 1	Publicly accountable entities (1) Large for-profit public sector entities (expenses > $30 million)	NZ IFRS
Tier 2	Non-publicly accountable entities Non-large for-profit public sector entities Elects to be in tier 2	NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR)
Tier 3 (transitional tier)	Non-publicly accountable and either all of its owners are members of the entity's governing body, or it is not large Large is any two of revenue > $20 million, assets > $10 million or > 50 employees Elects to be in tier 3	NZ IFRS Differential Reporting
Tier 4 (transitional tier)	Non-publicly accountable, not required to file financial statements, and not large (as defined in tier 3) Elects to be in tier 4	Old GAAP

YES

PUBLIC BENEFIT ENTITIES

Tier	Who captured	Applicable Accounting Standards
Tier 1	Publicly accountable entities (1) Large (expenses > $30 million)	PBE Accounting Standards (PAS)
Tier 2	Non publicly accountable and non-large entities Elects to be in tier 2	PBE Accounting Standards Reduced Disclosure Regime (PAS RDR)
Tier 3	Non-publicly accountable entities with expenses ≤ $2 million Elects to be in tier 3	PBE Simple Format Reporting Standard – Accrual (PSFR-A)
Tier 4	Entities allowed by law to use cash accounting Elects to be in tier 4	PBE Simple Format Reporting Standard – Cash (PSFR-C)

(1) Definition of "publicly accountable":

- Entities that meet the International Accounting Standards Board's (IASB) definition of public accountability:
  - o entities that have debt or equity instruments that are traded, or to be traded, in a public market,
  - o entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
- Entities deemed to be publicly accountable. For example, the following entity types would be captured unless exempted by statute or regulation: issuers as defined by the Securities Act 1978 or any other Act, registered banks, deposit takers and registered superannuation schemes.

XRB Issues the First Exposure Drafts to Operationalise the New Accounting Standards Framework

The XRB has issued the following exposure drafts in order to operationalise the new accounting standards framework. More exposure drafts regarding public benefit entities are due later this year.

<table>
<tr><th>Exposure Draft</th><th>Subject of amendment</th></tr>
<tr><td>ED External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update)
(ED XRB A1)</td><td>This ED revises the existing XRB A1. It establishes the reporting requirements for for-profit entities such as the new tier structure, criteria for the tiers and the applicable accounting standards.

ED XRB A1 also establishes the requirements for moving between tiers if an entity has a change in circumstances. In summary:
• If an entity becomes publicly accountable – must apply tier 1 reporting standards in the period it meets the public accountability criterion
• If a for-profit public sector tier 2 entity becomes large – can continue to report as a tier 2 entity for the current period, and thereafter as a tier 1 entity
• If a tier 3 or 4 entity becomes large – can continue to report as a tier 3 or 4 entity for the current period and the next period, then must apply tier 1 or 2 as applicable
• If an entity ceases to be large and is eligible for tier 3 – cannot adopt tier 3 until it ceases to be large for two consecutive annual reporting periods
• If an entity in any tier meets the tier 2 criteria it may elect to apply tier 2 in the reporting period it meets the criteria.</td></tr>
<tr><td>ED 2012-1 Framework: Tier 1 and Tier 2 For-profit Entities (NZ IFRSs)
(ED 2012-1)</td><td>ED 2012-1 sets out the accounting standards requirements for tier 1 and tier 2 entities under the new framework (NZ IFRS and NZ IFRS RDR respectively).

Tier 1 entities will apply NZ IFRS (no change to current suite) and tier two entities will apply a Reduced Disclosure Regime (RDR) which has the same measurement and recognition requirements as tier 1 but with significant disclosure concessions.

ED 2012-1 also proposes:
• generic amendments to NZ IFRSs to introduce the new tier framework for 1 and 2 for-profit entities
• a concession allowing some tier 2 intermediate parent entities to not prepare consolidated financial statements, and not apply the equity method to investments in associates and joint ventures
• new RDR concessions for standards not covered in the previous ED, and
• amendments to RDR concessions proposed in the September 2011 RDR ED.</td></tr>
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Exposure Draft	Subject of amendment
ED 2012-2 Framework: Tier 3 For-profit Entities (NZ IFRS Diff Rep) (ED 2012-2)	This represents the current NZ IFRS differential reporting requirements which will only apply to tier 3 entities going forward. While this is a new suite of standards, no substantive changes are being made. The standards will be frozen but an entity can voluntarily adopt new standards. Standards and guidance not applicable to for-profit entities in tier 3 will be removed such as: • Guidance relating to public benefit entities, • NZ IFRS 8: *Segment Reporting*, • NZ IAS 33: *Earnings per Share*, • Appendix C of NZ IFRS 4: *Insurance Contracts*, • Appendix E of NZ IFRS 7: *Financial Instruments: Disclosures*.
ED 2012-3 Framework: Public Benefit Entities (NZ IFRS PBE) (ED 2012-3)	ED 2012-3 contains proposals for the accounting standards that will apply to PBEs applying NZ IFRS in the interim period until the new PBE Accounting Standard Framework becomes effective. Standards that are not applicable to PBEs will not be included such as NZ IFRS 8 and NZ IAS 33. New and amended NZ IFRSs approved in, and subsequent to, June 2011 are also not included as NZ IFRS is frozen for PBEs until the new reporting framework is established (discussed above).

All the exposure drafts will be effective for periods beginning on or after **1 November 2012**, with early application permitted.

Comments are due to the XRB by **3 August 2012**. The exposure drafts are available on the XRB's website at: **http://www.xrb.govt.nz/Site/Accounting_Standards/Exposure_Drafts/Current_Exposure_Drafts.aspx**

ED Annual Improvements to IFRSs 2010 – 2012 Cycle

The International Accounting Standards Board (IASB) has published an exposure draft proposing necessary but non urgent changes to several standards as part of its annual improvements project.

IFRS	Subject of amendment	Applicable date – periods beginning on or after…
IFRS 2: *Share-based Payment*	Provides separate definitions for a 'service condition' and a 'performance condition'. This distinction was previously included in the definition of 'vesting conditions'.	1 January 2014
IFRS 3: *Business Combinations* (including consequential amendments to IFRS 9)	Clarifies the accounting for contingent consideration in a business combination.	1 January 2015
IFRS 8: *Operating Segments*	The amendment clarifies the disclosure requirements of IFRS 8: • New requirement to disclose the judgements made by management in aggregating operating segments. In particular, this would include a description of the operating segments that have been aggregated and the economic factors that have been assessed in determining that the segments share similar economic characteristics. • Clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets is only required where segment assets are reported.	1 January 2014
IFRS 13: *Fair Value Measurement*	Clarifies that entities can still measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of discounting would not be material.	1 January 2014
IAS 1: *Presentation of Financial Statements*	If an entity expects, and has discretion, to refinance or roll over an obligation for at least twelve months after the reporting date under an existing loan facility, the loan can be classified as non-current. The proposed amendment clarifies that the ability to refinance or rollover must be with the same lender and on the same or similar terms.	1 January 2014
IAS 7: *Statement of Cash Flows*	Clarifies that interest paid that is capitalised would be included in the cash flow statement with the underlying asset.	1 January 2014
IAS 12: *Income Taxes*	Provides clarification regarding the assessment of whether to recognise a deferred tax asset for a deductible temporary difference.	1 January 2014

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IFRS	Subject of amendment	Applicable date – periods beginning on or after…
IAS 16: *Property, Plant and Equipment* and IAS 38: *Intangible Assets*	The proposed amendment clarifies that accumulated depreciation is computed as the difference between the gross and net carrying amounts of an asset. Therefore, when the residual value, useful life, or depreciation method are re-estimated between revaluations, restatement of accumulated depreciation is not proportionate to the change in the gross carrying amount of the asset.	1 January 2014
IAS 24: *Related Party Disclosures*	The definition of a related party is extended to include management entities. As a result, transactions for the provision of key management personnel services is required, however the compensation provided by a management entity to its own employees is excluded from the disclosure requirements to prevent duplication.	1 January 2014
IAS 36: *Impairment of Assets*	Disclosure requirements have been harmonised for value in use and fair value less costs of disposal where there has been a material impairment loss or impairment reversal in the period.	1 January 2014

Entities are permitted to early adopt all the amendments once finalised.

The **IASB's release** is available on **www.ifrs.org** and the IASB is seeking comments by **5 September 2012**. The XRB has not yet issued a New Zealand equivalent exposure draft for comment.

Other Topics of Interest

International public sector activity

The International Public Sector Accounting Standards Board (IPSASB) has issued an exposure draft (ED) on financial statement discussion and analysis for the public sector. The ED sets out the principles for preparing financial statement discussion and analysis and the minimum content to include such as:

- an overview of the entity,
- information about the entity's objectives and strategies,
- an analysis of the entity's financial statements, and
- information about the entity's risks and uncertainties.

Implementation guidance and examples are also provided.

Comments are due to the New Zealand Accounting Standards Board (NZASB) by **25 June 2012** and to the IPSASB by **31 July 2012**. IPSASB ED 47: **Financial Statement Discussion and Analysis** is available on the XRB's website **www.xrb.govt.nz**.

The Revenue Recognition Project – An update for industry

The IASB is continuing its work on replacing existing revenue standards (IAS 11 *Construction Contracts* and IAS 18 *Revenue* and related interpretations) with a new standard on *Revenue from Contracts with Customers*.

The following Deloitte global publications have been released over the past few months providing an update on the potential impact of the revenue recognition project for particular industries:

- **IFRS industry insights: IASB issues revised exposure draft on revenue recognition — insights for the insurance industry**
- **IFRS industry insights: The Revenue Recognition Project — An update for the financial services industry**
- **The Revenue Recognition Project — An update for the media industry**

Deloitte industry publications are available at:
http://www.iasplus.com/en/tag-types/global-publications/ifrs-industry-insights-1

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