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Issue 7
June 2012

Deloitte Financial Reporting Survey Series

Reflections on financial reporting
Surveying financial statements in annual reports – 2011

Introduction

Reflecting on 2011 financial statements, it was mostly "steady as she goes" with few changes in reporting practice. With no significant changes in accounting standards, the average length of financial statements remained stable at 42 pages for the 100 companies surveyed. Only six companies early adopted future changes to standards, most were property funds taking advantage of the tax amendment that introduced a rebuttable presumption that the carrying value of investment property will be recovered through sale rather than use.

While the average length of financial statements remained stable, 52% of companies surveyed increased the length of their financial statements, driven mostly by significant events such as the Christchurch earthquake, business combinations, group restructurings, and discontinued activities. Other companies either reduced the length of their financial statements (27%) or remained the same.

The Christchurch earthquake was the topic of annual report commentary for many companies. Actual earthquake costs incurred (mostly asset impairments) were disclosed as $33m net of recoveries. The real cost, taking into account other indirect costs and asset revaluations, will have been higher. We also expect that further insurance recoveries will be recorded in 2012 or later once negotiations are finalised with insurance companies.

While we have had a period of stability, this won't last. The next significant suite of standards (for interests in other entities and fair value measurement) becomes applicable for periods beginning on or after 1 January 2013. These standards introduce new and modified disclosure requirements for implementation.

The International Accounting Standards Board (IASB) has been consulting on its agenda for projects going forward. We note that the topic of disclosure overload continues to draw international attention with a number of submissions on the agenda consultation paper commenting that there needed to be a focus on improving disclosures. We also note that the IASB has received a report prepared by the Institute of Chartered Accountants of Scotland (ICAS) and the New Zealand Institute of Chartered Accountants (NZICA) titled "*Losing the Excess Baggage – Reducing Disclosures in Financial Statements to What's Important*" which suggests that a focus on the key principles for financial reporting, including materiality, could reduce financial statements by around 30%.

The IASB is currently reviewing its agenda and it is likely that a review of disclosures/principles for disclosure will be added in some form. At this stage the IASB is proposing to host a public forum to assess strategies for improving the quality of financial reporting disclosures within the existing disclosure requirements and in the long term to incorporate disclosure principles in the Conceptual Framework project.

We will continue to follow the companies in our sample to see how reporting practices evolve as accounting standards develop.

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Survey details:
The Deloitte Financial Reporting Survey Series has been following the financial reporting practices of New Zealand companies since 2009. Our focus is on the annual reports of a sample of 100 companies complying with NZ IFRS and IFRS, with a separate sample of 30 companies taking advantage of differential reporting concessions. The sampling methodology is outlined in the Appendix. The objective of the survey is to build an understanding of how entities apply the financial reporting requirements in practice, and we will continue to follow these companies to see how financial reporting changes over time due to the changing influences of rules, recommendations, regulators and industry practice.

Contents

Survey results for 100 companies complying with NZ IFRS and IFRS

Sections 1 - 9 provide an overview of the 2011 annual reports of a random sample of 100 companies complying with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Information on the full survey population, from which the sample of 100 was selected, is set out in the Appendix.

1. Overview of financial statements

Highlights:

- Annual reports increased on average from 76 to 78 pages, although the financial statement component remained stable at 42 pages on average.
- The number of modified audit reports, primarily due to fundamental uncertainties regarding going concern, increased from four companies in 2010 to ten companies in 2011 (10% of the total population).

Of our 100 companies, 79 are listed on the NZSX, six are listed on the NZDX and the remaining 15 are other entity types (such as state owned enterprises, co-operatives and non-listed issuers) that are in the top 200 companies (by revenue) in New Zealand from the Deloitte / Management magazine article reported in December 2010.

Industry representation

The industries shown in Figure 1 are as determined by the NZX sector groupings. We have allocated industries to those companies that did not have an NZX industry allocation based on similarity to existing sector constituents. Some sectors have been combined as shown below. The "Other" category includes entities in the following industries:

- Building Materials & Construction
- Food & Beverages
- Leisure & Tourism
- Media & Telecommunications, and
- Mining.

Figure 1: What industries are represented?

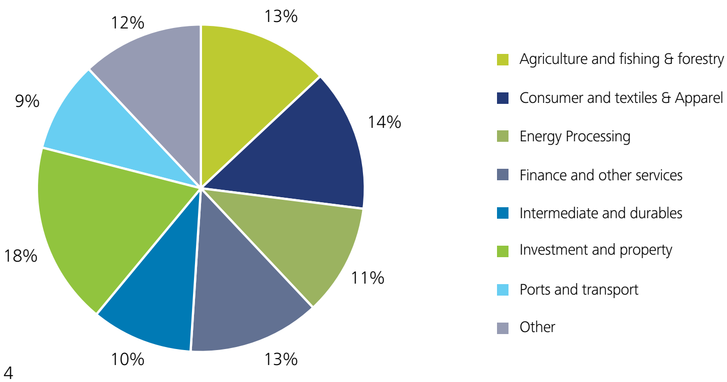
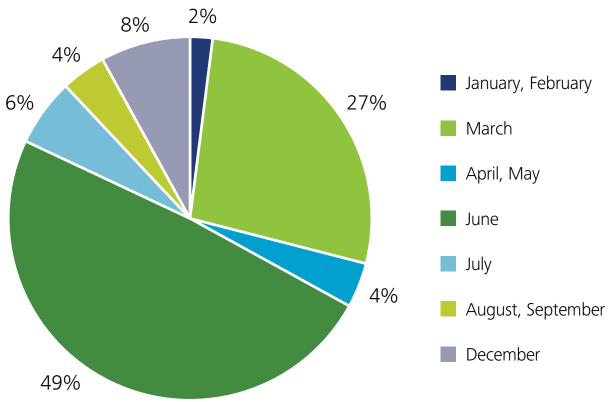


Figure 2: What is the balance date for entities in the sample?



Balance dates

As shown in Figure 2, June is the most common balance date (49%) for companies in the sample followed by March (27%) and December (8%). As noted in the Appendix, we had to change some of the companies in our sample due to their financial information no longer being publicly available. This led to small changes in the profile of the population compared to last year's survey.

Length of reports

Financial statements (including the audit report but excluding trend statements or five year summaries) make up approximately 54% of the average length of an annual report, compared to 55% in the prior year. The average number of pages for the annual report increased by two pages going from 76 to 78 pages. However, the average number of pages for the financial statement component of the annual report (including the audit report) remained stable at 42 pages as shown in Figure 3, with a range of 10 to 94 pages as shown in Figure 4. Despite the average number of pages remaining stable, 52% of companies increased the number of pages in their financial statements. While some of these increases can be explained by specific events requiring additional disclosure such as business acquisitions or disposals, most companies had an increase by one or two pages due to formatting changes.

Conversely, 27% of companies decreased the number of pages in their financial statements. We identified several companies who appear to have gone through an exercise

Figure 3: What is the average number of pages in an annual report?

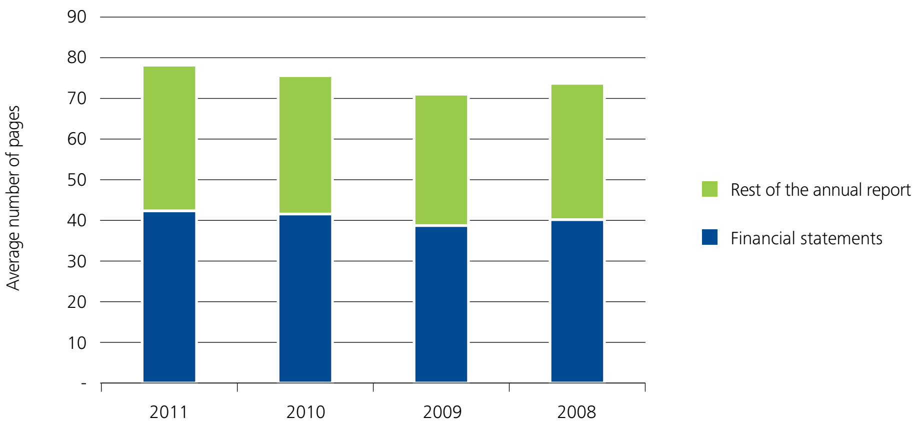
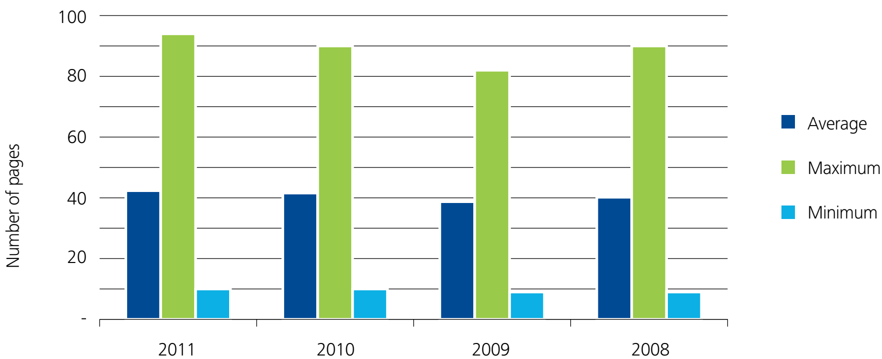


Figure 4: What is the average, maximum and minimum number of pages in the financial statements?



to simplify their financial statements by reducing disclosures throughout the financial statements (with one company reducing disclosure by 32%). For example, accounting policies were removed where there were no items and less disclosure provided for items which were identified as not material.

Speed of reporting

Listed companies

Listed companies are required to make their annual report available within three months of the end of the financial year. On average listed companies reported within 59 days of the financial year end. Other than one company with a simple balance sheet (where the financial statements were approved within 14 days of balance date), the quickest listed companies managed to approve financial statements 36 days after balance date.

Unlisted companies

Only 15 companies in the sample were not listed entities. The Companies Act 1993 requires companies to prepare an annual report within five months of balance date. Only three companies took advantage of this later deadline. We note that the Minister of Commerce is proposing that the preparation deadline for financial statements of private sector for-profit reporting entities be reduced from five to three months, with an additional 20 days for filing. This would require a change for the three companies in our sample currently taking advantage of the later filing requirement. Any change would be part of the Government's update to the Financial Reporting Act 1993. Draft legislation has not yet been issued.

Nature of Audit Reports

In 2011, ten companies had a modified audit report. One was qualified, seven made reference to fundamental uncertainties due to going concern and the remaining two included an emphasis of matter that was not for going concern. This is the highest level of modified audit reports since our survey started in 2009. In 2009 there were eight modified audit reports and in 2010 there were four.

Statement of compliance

Companies in our sample should provide a statement of compliance that the financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP), together with a description of the financial reporting standards applied by the company (which is NZ IFRS for our sample). If the company's financial statements also comply with International Financial Reporting Standards (IFRS) an explicit and unreserved statement should also be made. The majority of companies (98%) provided the required description of compliance with NZ GAAP, NZ IFRS and IFRS.

2. The financial year in perspective

Highlights:

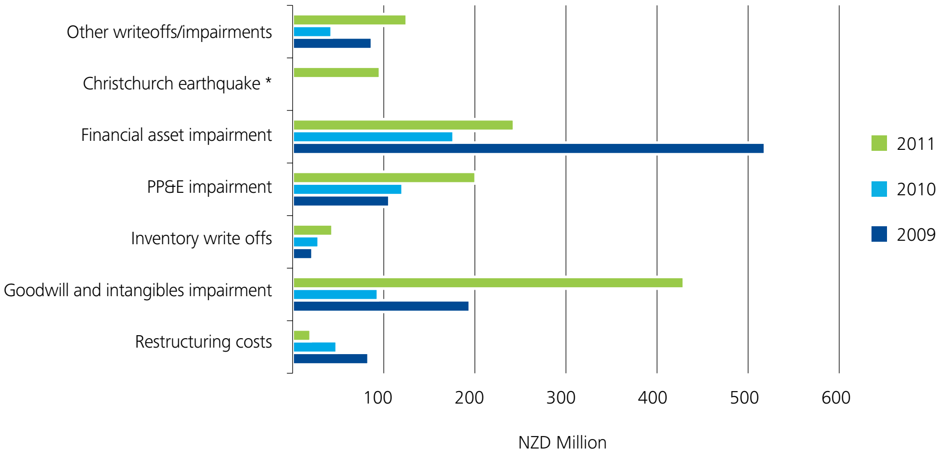
- 52% of companies saw an improvement in profit before tax (2010: 70%)
- The level of impairments, onerous contracts and restructuring costs increased significantly compared to the prior year relating particularly to the impairment of goodwill and intangibles
- $41 million of impairments recorded in prior years were reversed in 2011 (2010: $101m)

The economic environment continues to be challenging for some companies with the Christchurch earthquake a significant event discussed in annual report commentary. Actual earthquake impairments incurred by the companies in our sample were disclosed as $33m net of recoveries (excluding revaluations). As these costs were asset impairments, we expect that there are other indirect costs not able to be identified. We also expect that further insurance recoveries will be recorded in 2012 or later once negotiations are finalised with insurance companies.

Overall, 52 companies in our sample saw an improvement in profit before tax, although this increased to 57 companies when considering profit after tax. The amendment to the tax standard allowing companies with investment properties held at fair value to use a rebuttable presumption that the carrying amount will be recovered through sale rather than use meant that some of the deferred tax losses taken through the income statement in the prior year were reversed. While 43 companies saw a reduced profit after tax, only 22 companies made a loss after tax compared with 24 companies in the prior year.

Figure 5 sets out the costs recorded for impairment,restructuring and other related costs in 2011, 2010 and 2009 financial statements for the 100 companies in our sample. In total, these costs increased again to $1.1 billion from only $510 million in 2010 (2009 was also high at just over $1 billion). The main source of impairments was from goodwill and intangible asset impairments. Partially offsetting these costs were earthquake recoveries of $63 million and other recoveries of $41 million (compared to $101 million in 2010).

Figure 5: What impairment and other related costs were incurred?



* Some companies offset their earthquake recoveries against their impairments so this number will be less than the actual costs incurred. Separately disclosed earthquake recoveries were $63 million so the net cost to companies in 2011 was $33m.

3. Presentation of the primary statements

Highlights:

- 60 companies present subtotals on the face of the income statement that are not required by NZ IAS 1
- Eight companies had discontinued operations
- The most common order of the primary statements is statement of comprehensive income (as one or two statements), statement of changes in equity, balance sheet and cash flow statement (other statement names may be used)
- Six companies presented three balance sheets as a result of changes in accounting policies

Total Comprehensive Income

Half of the companies in our sample present all items of income and expense (including those accounted for directly in equity) as a single statement (a 'statement of comprehensive income') with the other half presenting two statements (a separate 'income statement' and a 'statement of comprehensive income'). We would not expect this presentation choice to change year to year.

Presenting items of income or expense (the 'income statement')

The level of detail provided about items of income and expense on the face of the primary statement continues to vary between companies. The number of lines from the top of the statement to the profit after tax total, ranged from six to 32 lines with an average of 18 lines, showing that most companies provide more information than the minimum six lines prescribed by NZ IAS 1: *Presentation of Financial Statements.*

NZ IAS 1 allows companies to present expenses by function or by nature either on the face of the income statement or in the notes. The most common presentation on the face of the income statement was classification by nature (62%), such as changes in inventories of finished goods, employee benefits expense, depreciation, or impairment costs. However, presentation by function (such as cost of sales or administrative activities) was used by 33% of companies. 5% of companies provided a mixed presentation.

A New Zealand specific requirement is to disclose the fees paid to auditors as well as the nature of fees paid for non-audit services. 24 companies either did not provide detail or used phrases such as *"other assurance services"* instead of detailing the nature of the non-audit work undertaken. The harmonisation amendments to NZ IFRS included in FRS 44: *New Zealand Additional Disclosures* has dropped the number of categories for fees paid to auditors to just fees for the audit or review and other fees. Information about the nature of other fees is still required.

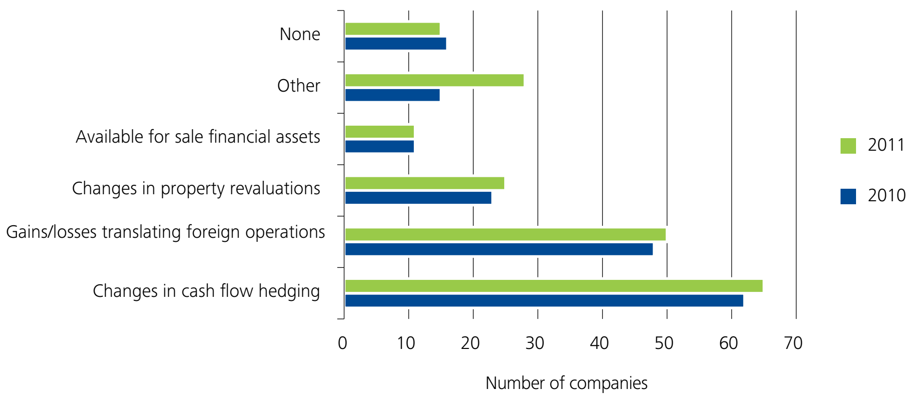
Issue 8 of our survey series, *Understanding performance – Underlying profit*, has looked at the ways companies provide alternative profit measures. While alternative measures are sprinkled through the annual report, 60% of companies provided sub totals on the face of the income statement that are not required by NZ IAS 1. For example, earnings before interest, tax, depreciation and amortisation (EBITDA), or operating profit before gains and losses, finance costs and tax. For more information and guidance on reporting underlying profit measures refer to Issue 8 in the Deloitte Financial Reporting Survey Series.

In the current year eight companies surveyed had discontinued operations. NZ IFRS 5: *Non-current assets held for sale and discontinued operations* requires discontinued operations to be separately disclosed in order to enable users to evaluate the financial effects of discontinued operations from continuing operations. These companies presented results from discontinued operations as a single amount on the face of the income statement with additional detail in the notes.

Presenting items of other comprehensive income

The most common items that companies classify as other comprehensive income are cash flow hedges followed by translations of foreign operations as shown in Figure 6 below. We identified six companies which included movements in their share based payment reserve as part of other comprehensive income. As NZ IFRS 2: *Share based payments* requires the expense to be recorded in profit or loss, this does not appear to be in accordance with the standard.

Figure 6: What items of other comprehensive income do companies have?



NZ IAS 1 allows items of other comprehensive income to be presented either gross or net of tax. If a net presentation is selected, the tax on each item of other comprehensive income should be disclosed in the notes. The most common approach (56%) is to show items gross with tax shown for each item, either on the face of the statement or in the notes.

Reporting changes in equity

Following various amendments to NZ IAS 1, the most recent version of the standard requires the statement of changes in equity to include *"for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period"* with separate presentation of changes resulting from profit or loss, other comprehensive income, and transactions with owners in their capacity as owners (contributions, distributions and changes in ownership interests should all be shown separately). An analysis of other comprehensive income by item can be presented either in the statement or in the notes. We noted that:

- 65 companies disclosed all required items separately with profit or loss, other comprehensive income, and transactions with owners shown by reserve, although 13 companies combined reserves together into one 'reserves' column,
- 21 companies disclosed each reserve, but combined profit or loss with other comprehensive income to show one line as total comprehensive income, and
- 14 companies disclosed movements in equity in total with movements in each component (share capital, retained earnings and reserves where applicable) disclosed in the notes to the financial statements.

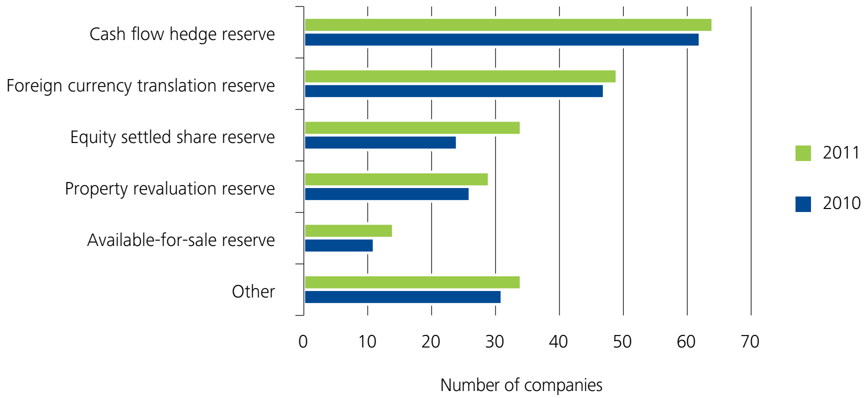
Reporting dividends per share

NZ IAS 1 requires the presentation of dividends recognised as distributions to owners, and the related amount of dividends per share, either in the statement of changes in equity or in the notes. The Basis for Conclusions to NZ IAS 1 provides further clarification that *"the Board concluded that an entity should not present dividends in the statement of comprehensive income because that statement presents non-owner changes in equity"*. While dividends are shown in the appropriate statement, we identified eight companies that disclose dividends per share along with earnings per share in the statement of comprehensive income.

Balance sheet

The average equity and total assets of the companies in our sample was $497 million and $1.8 billion respectively. However as a result of the impairments discussed in section 2, this was a decline from the prior year average net equity of $531 million and total assets of $2 billion. 92% of companies presented a balance

Figure 7: What reserves do companies have?



sheet with current and non-current subtotals and 8% presented it in order of liquidity.

As shown in Figure 7, the most common reserve presented, other than share capital and retained earnings, was a cash flow hedge reserve (64%). NZ IAS 1 requires a description of the nature and purpose of each reserve within equity. 3% of companies did not explain the nature and purpose of their reserves and 13% only explained some of their reserves in the summary of accounting policies.

34 companies had a share based payment reserve to track the value of equity settled share based payments accruing for employees, an increase on 24 companies in the prior year survey. We note that the use of a separate reserve is not mandated (instead amounts could be reflected in retained earnings or share capital) and a reserve is not required for cash settled schemes.

Three balance sheets?

Six companies provided a third balance sheet in their 2010 financial statements, as required by NZ IAS 1 when *"an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements"*. The objective of this requirement is to enhance comparability. These companies all had changes in accounting policies, one due to the adoption of NZ IFRS 9: *Financial*

Instruments and five due to the adoption of the amendment to NZ IAS 12: *Income Taxes* (mostly property funds looking to take advantage of the rebuttable presumption that the carrying value of investment property will be recovered through sale rather than use). Ten companies disclosed reclassifications of items but did not provide a third balance sheet, however these reclassifications were mostly to provide additional detail in the notes (such as reclassifying inventory classes) or due to changing segments with no impact on net assets.

Cash flow statement

As part of New Zealand's harmonisation project with Australia, a recent amendment to NZ IAS 7: *Statement of Cash Flows*, changes the current requirement to present a cash flow statement using both the direct and indirect method. For reporting periods commencing on or after 1 July 2011 (with early adoption allowed), entities can choose which method to present. If the direct method is used, a reconciliation of cash flows using the indirect method is still required under FRS-44: *New Zealand Additional Disclosures*, but if the indirect method is used a further presentation is not required. In addition, the requirement to provide reasons why cash flows are net off is no longer required.

No entities early adopted the harmonisation amendments so at this stage, all companies in the sample continue to provide a cash flow statement using the direct method. 81% showed the reconciliation in the notes to the financial statements and 19% provided the reconciliation immediately after the cash flow statement.

Order of statements and notes

The most common order to present the primary statements is to start with the statement of comprehensive income (as either one or two statements) followed by the statement of changes in equity, balance sheet and cash flow statement (or other naming conventions used as appropriate). This order was presented by 60 companies. 27 companies modified this order by swapping the balance sheet and statement of changes in equity. Only five companies presented the balance sheet first. Seven companies presented different ordering such as presenting the cash flow statement as the second or third primary statement.

In regards to the order of notes, NZ IAS 1 asks for notes to be presented *"in a systematic manner"* which is typically an order that follows how items are presented in the primary statements. The Securities Commission (now replaced with the Financial Markets Authority) considers that issuers should *"prioritise notes in financial statements and emphasise key areas of judgement and disclosures that reflect how the entity is actually managed"* [1]. Some companies have achieved this by putting key notes such as going concern, critical estimates

[1] *New Zealand Securities Commission Financial Reporting Surveillance Programme - Review of Financial Reporting by Issuers Cycle 12*, October 2010.

and judgements, segment reporting, financial risk management and capital risk management up front after the accounting policies followed by notes on items as presented in the primary statements. For example, a financial institution had the financial risk management as the first note after the accounting policies to explain how it managed its most significant risk and some property funds put their investment property note up front.

4. Accounting policies

Highlights:

- Accounting policies make up on average 13% of the financial statements
- 84% of companies disclose the impact of all relevant standards on issue but not yet effective
- Six companies adopted new standards early disclosing the impact of the change on the primary statements

NZ IAS 1 requires a summary of significant accounting policies and other explanatory notes to be included with the primary financial statements. Accounting policies often take up a significant proportion of the statements. Excluding items that are not strictly accounting policies (critical judgements and estimates, reporting standards in issue but not yet effective, basis of preparation, statement of compliance and company information) on average 13% of financial statements are accounting policies with nine companies giving more than 20% of their financial statements to explaining their accounting policies.

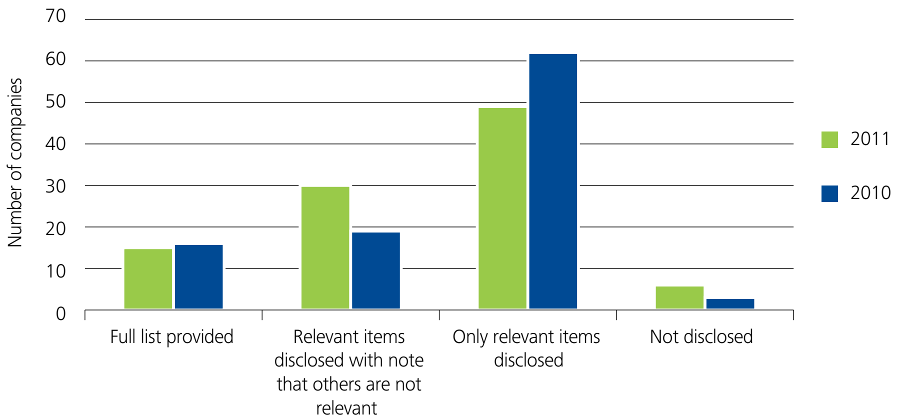
Accounting policies help users understand what accounting policy choices have been made by the company, and otherwise summarise the measurement and recognition requirements of the standards for each key balance. We noted that one company cut their accounting policies back quite significantly by stripping out unnecessary information. One of the areas where policies can be cut back, without losing clarity for the user, is to remove accounting policies for items that have no underlying economic activity (in the current or prior year). For example, we noted 21 companies that had an accounting policy for fair value hedging, yet had no evidence of such hedging in the financial statements. We also noted three companies which had policies for cash flow hedging where there was no underlying activity. With the number of pages for accounting policies ranging from 1.9 to 14 pages, those companies with a higher number of pages may wish to reconsider whether there is some "clutter" that could be cut.

Standards and interpretations in issue but not yet effective

NZ IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of a listing of standards and interpretations in issue but not yet effective, as well as the anticipated impact on the financial statements of each of these. How this information is disclosed varies as shown in Figure 8.

84% of companies provided detail on the impact that standards and interpretations on issue but not yet effective would have on the company, with 5% providing some detail but not covering all items raised. The remaining companies did not provide any information on the possible impact of the change.

Figure 8: How are standards and interpretations in issue but not yet disclosed presented?



Changes in accounting policies and reclassifications

In last year's survey one company chose to early adopt NZ IFRS 9, with another company early adopting in the current year. As noted on page 14 there were also five companies that early adopted the amendment to NZ IAS 12. When accounting policies are changed, NZ IAS 8 requires information on the impact of the change on the current or any prior period. All companies provided this information. A further company made reference to the amendment to NZ IAS 12 but treated the change in their deferred tax liability as a change in estimate in the current year and did not restate comparatives. It was not clear whether the change was due to the amendment, or due to a change in intention about the property's use.

Five companies early adopted NZ IAS 24: *Related Party Disclosures* impacting only the level of disclosure provided.

Reclassifications

In addition to the 16 companies that discussed reclassifications to comparative figures as discussed on page 14, there were 17 companies that included a generic sentence in the financial statements to the effect that *"certain comparatives have been restated to ensure consistency of disclosure with the current period"*.

5. Risk management disclosures

Highlights:

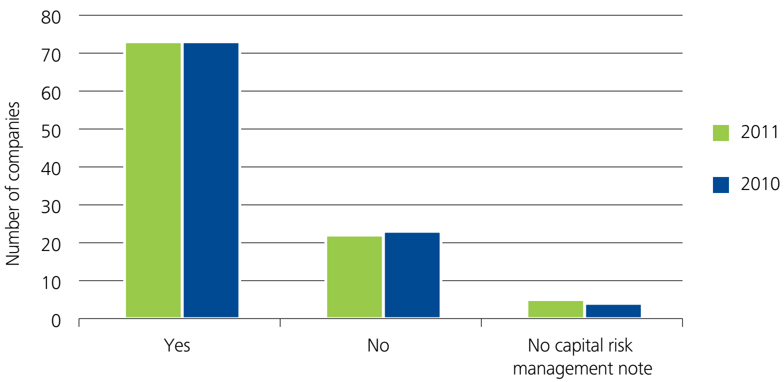
- 69 companies provide information about capital risk management objectives and policies
- The most commonly used market price sensitivity variation used is 1% for interest rate exposures and 10% for foreign exchange exposures

Capital risk management disclosures

Capital risk management disclosures continue to vary between the generic and the informative. Informative capital risk management disclosures should provide users with information on the entity's risk profile and its ability to withstand unexpected adverse events and may also indicate whether an entity is able to pay dividends.

NZ IFRS requires the disclosure of information for users on an entity's objectives, policies and processes for managing capital. Detailed disclosure requirements supporting these principles are not prescribed except to require disclosure of what the entity manages as capital, whether there are any external capital requirements and how those requirements are managed. This information should be consistent with disclosure provided in the annual report. In considering the below questions, we noted several instances where the commentary in the annual report provided better analysis of changes in capital management during the year or achievement of gearing and other

Figure 9: Does the company explain what balances are considered to be capital?



ratios which were not included in the financial statements.

Does the note outline what balances are considered to be capital? Can these be reconciled to the balance sheet?
Consistent with last year's survey, most companies outline what items on balance sheet are considered to be capital either through a table or commentary which could be reconciled back to the balance sheet as shown in Figure 9.

Are the key objectives and policies for capital management explained? Do these include quantified targets against which performance is measured? How often are policies reviewed?
69 companies provided some information about their capital risk management objectives and policies, although some disclosures are more informative than others. The most informative disclosures included key ratios used to evaluate capital such as gearing or leverage target ratios and performance against them. The types of targets disclosed by companies included:

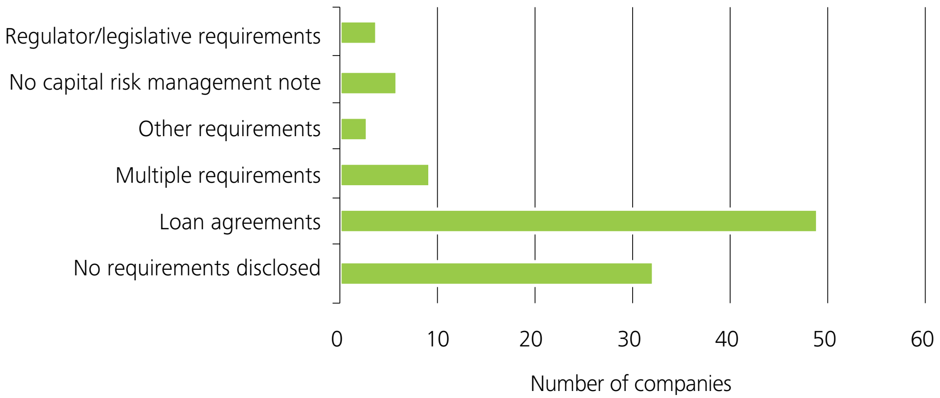
- gearing ratio (net debt divided by total capital plus net debt),
- total equity to total assets,
- level of capital required before dividends are paid out, and
- maintaining a certain level of credit rating.

We also noted that eleven companies clearly outlined their dividend policy (compared to nine in our prior year survey). Examples of policy disclosures which were particularly informative are included on page 21.

Despite these informative disclosures, generic commentary continues to dominate. Examples include:

- *"sufficient capital is maintained in order to remain a going concern"*, or
- *"capital is managed in order to continue as a going concern while maximising the return to shareholders through the appropriate balance of debt and equity"*, or
- *"the main objective of capital risk management is to ensure the Group operates as a going concern, meets debts as they fall due, maintains the best possible capital structure, and reduces the cost of capital."*

Figure 10: What types of externally imposed capital requirements are there?



Does the company have externally imposed capital requirements?

As shown in Figure 10, 63 companies noted that they had externally imposed capital requirements (compared to only 51 companies in our prior year survey), primarily from loan agreements. Common covenant requirements included gearing ratios (18 companies) and interest cover (16 companies), although while these were identified the numerical targets were not always disclosed.

Extracted examples of informative capital risk management policies

"The Group has established policies in capital management, including the specific requirements that interest cover is to be maintained at a minimum of X times and that the [debt/[debt + equity]] ratio is to be maintained at a X% maximum. It is also Group policy that the dividend payout is maintained between a level of between X% and Y% of surplus after tax."

"The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors... In response to the global financial crisis, ... undertook a number of capital management initiatives during the prior year. These included [e.g. asset sales, equity raisings and the dividend reinvestment plan]"

"The group monitors the capital structure on the basis of the gearing ratio and by considering the credit rating of the company. The gearing ratio is calculated as borrowings dividend by borrowings plus shareholder's equity. The gearing ratio as at [date] was X. The current credit rating is X"

"The group monitors capital on the basis of debt to debt plus equity and aims to maintain this ratio between X% and Y% in the long term"

"…target for dividend payments is to pay up to X% of operating profit (after tax) subject to ensuring that debt levels will be maintained at a level that ensures … meets all fiduciary and legal requirements including banking covenants"

"As a result of a review of the Group's capital structure in [date], the Directors are intending to continue to progressively increase shareholders' funds to ensure that the Group has capacity to continue to implement [ ]"

"the Directors consider that a dividend payout ratio of greater than X% will be appropriate to maintain target gearing.."

Market risk sensitivity

A sensitivity analysis is required for each type of market risk that the company is exposed to. This can be presented using a value-at-risk (VaR) analysis however this is not common with only two companies taking this approach. Most other companies in our sample provided a sensitivity analysis primarily for interest rate and foreign exchange volatilities, where applicable to their business. Companies must determine what a reasonably possible change in exposure could be and disclose the possible impact on profit and equity. The most common reasonably possible change is 100 basis points (bps) for interest rate risk sensitivity and a 10% variation for foreign currency sensitivity.

We identified 14 companies that did not provide foreign currency sensitivity and eight companies that did not provide interest rate sensitivity analysis, despite discussion in the financial statements about exposure to these risks. Four of these companies stated that their exposure was not material, it is possible that others made the same determination.

Sensitivity to other price risks, such as to equity prices, oil, electricity and other commodity prices was provided by 22 companies.

Liquidity risk

NZ IFRS 7 requires disclosure of how companies manage their liquidity risk (which is how they ensure they will meet their financial obligations). 63 companies disclosed the extent of unused credit facilities that they had access to in order to manage this risk although the liquidity risk note often just referred to facilities being available with the quantum disclosed in another note (such as the borrowings note). Others noted that they had sufficient cash flows to meet obligations, or made reference to facilities but did not disclose any.

In addition to outlining how liquidity is managed, companies must provide a maturity analysis that shows the remaining contractual maturities of their financial liabilities (and financial assets for financial institutions). Five companies did not provide a maturity analysis for their financial liabilities as required by NZ IFRS 7 even though they had non-current financial liabilities, and one company did not explain how they manage liquidity risk.

Credit risk

NZ IFRS 7 requires entities to provide information about financial assets that are more likely to become impaired so that users can estimate the level of future impairment losses. As a result entities must disclose financial assets that are past due but not impaired.

We identified 19 companies that did not provide this information for their trade receivables and 23 companies which provided disclosure gross with impaired items (an improvement from 27 companies and 11 companies respectively in our prior year survey). We also identified nine companies that did not provide an ageing of past due but not impaired items for their other financial assets. It is not possible to determine whether lack of disclosure was because there were no past due items.

6. Estimates and judgements

Highlights:

- 82 critical judgements and 335 sources of estimation uncertainty were disclosed
- 39% of the major sources of estimation uncertainty had disclosure of the impact of reasonably possible changes in estimates

Critical judgements and major sources of estimation uncertainty

In preparing financial statements, entities have to make decisions about outcomes that are subjective or uncertain. NZ IAS 1 requires disclosure of:

- the critical judgements, other than those involving estimations, made by management in the process of applying the entity's accounting policies. These are described as those judgements that have the most significant effect on the amounts recognised in the financial statements, and
- the major sources of estimation uncertainty (referred to as 'estimates') at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The purpose of these disclosure requirements is to enable stakeholders to understand the areas of the financial statements that are the most subjective, and which could have a material impact on the financial statements if different judgements or assumptions were made.

Where are critical judgements and major sources of estimation uncertainty disclosed?
Critical judgements and key sources of estimation uncertainty are typically disclosed in the accounting policies or basis of preparation (58%) with 37% providing a separate note (an increase from 29% in the prior year survey with companies separating disclosure from the accounting policies). Three companies provided this information throughout the financial statement notes and two did not disclose any critical judgements or major sources of estimation uncertainty.

Are critical judgements clearly distinguished from major sources of estimation uncertainty?
Most companies (73%) do not clearly distinguish between critical judgements and major sources of estimation uncertainty. Some companies just disclosed the topic of the judgement or estimate with a cross reference to a note, so it wasn't always clear what the source of judgement or estimation uncertainty was. For example, if the reference was "property, plant and equipment" (PP&E) it was not clear if the judgement or estimate was useful lives of assets, impairment, or capitalisation of costs, and if it was to tax it wasn't clear if this was an estimate around future profits to utilise tax losses, or to judgement on whether an item is deductible. To determine if an item

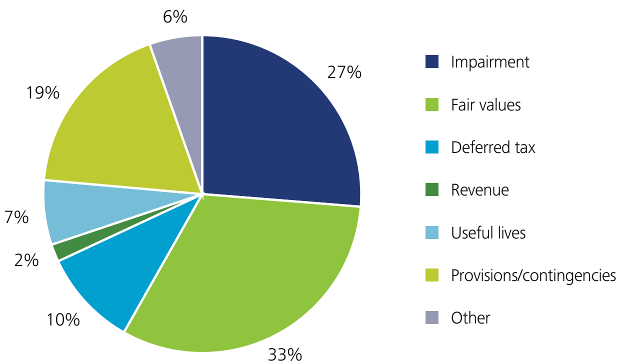
was a judgement or estimate, we have taken our cue from the extent of note disclosure provided although realise that this may not have been the company's intent.

What are the critical judgements?
The number of companies with judgements increased from 30 in last year's survey to 58 companies this year. Some of the new judgements disclosed related to whether there were any indicators of impairment and determining the initial asset carrying values in a business combination. Of the 82 critical judgements identified, the recognition of deferred tax (17) was the most common judgement (such as whether an item was deductible), followed by the timing of revenue recognition (14). Other types of judgements disclosed included:

- classification of financial instruments as debt or equity, or as held to maturity
- classification of leases as operating or finance leases
- determining whether there are any indications of impairment
- classification of owner occupied property as investment property or PP&E
- allocating asset values in a business combination, and
- whether the company is a going concern.

What are the major sources of estimation uncertainty?
Estimates are assumptions made *"about the future and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year"* (NZ IAS 1.125).

Figure 11: What topics do the major sources of estimation uncertainty disclosures cover?



There were 335 major sources of estimation uncertainty disclosed by 94 companies in the sample compared to 326 in last year's survey. Consistent with last year's survey, the most common sources of estimation uncertainty discussed were in relation to impairment and fair value measurement (mostly in relation to financial instruments, investment property and property, plant and equipment), as shown in Figure 11.

NZ IAS 1 notes that major sources of estimation uncertainty should be limited to only those items that have a significant risk of causing material adjustment to carrying amounts *"within the next financial year"*. The purpose behind limiting the disclosure of items is to ensure that the most relevant information is not obscured by information that relates to a longer period and is therefore less specific. We identified 13 items where it did not appear that the uncertainty identified could lead to a material adjustment if a different assumption was applied. For example:

- one company noted that share based payments were an area of estimation uncertainty yet there weren't any in the current or prior year
- several companies had included the valuation of derivatives as a major source of estimation uncertainty, yet the level of derivatives held at balance date was clearly not material and no explanation was provided as to why a valuation using observable market data might have a significant risk of causing a material adjustment to the carrying amount
- several companies included particular provisions which were not significant in the current or prior year. Sensitivity information may have assisted in determining the significance of the estimation uncertainty
- the value of a deferred tax asset was included as a major source of uncertainty by two companies where there wasn't an asset in the current year.

What is the extent of disclosure for major sources of estimation uncertainty?

NZ IAS 1 notes that the nature and extent of information provided will vary according to the nature of the assumption and other circumstances and provides the following examples of disclosure that should be made:

- the nature of the assumption or other estimation uncertainty
- the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including reasons for sensitivity
- the expected resolution of any uncertainty and the range of possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected
- an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

If it is impracticable to make this disclosure, companies should disclose that *"it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected"* in addition to outlining the nature and carrying amount of the asset or liability affected by the assumption.

While disclosure was generally provided of the nature of assumptions made, sensitivity information was provided for only 39% of the estimates (including commentary where disclosure was impracticable) – an increase from 18% in the prior year. The remaining 61% of estimates did not have sensitivity information provided. We noted an increase mostly in generic sensitivity commentary such as *"Management considers that any reasonable change in a key assumption used in the determination of the value in use would not cause the carrying amount of goodwill to exceed its recoverable amount"*, or *"there is considerable headroom"* in the value in use calculation.

We did note some particularly informative sensitivity disclosures, mostly in relation to goodwill impairments. Some examples of informative disclosures are provided overleaf.

Example 1: Impact of reasonably possible alternative assumptions on the key assumptions used in a value in use model

The assumptions used in the valuation were separately disclosed, followed by a table setting out the impact on the valuation within a range of reasonably possible alternative assumptions.

Assumption	Low	High	Valuation impact
Weighted average cost of capital	x%	x%	+ $x - $x
Other assumptions...			

Example 2: Combined impact of changes in discount rates and sales growth in a value in use calculation

If the discount rate of 14% and the sales growth rate of 6% (as used in the model) reduced or increased, the impact on the value in use calculation would be $x as shown:

Sales growth	Discount rates				
	12%	13%	14%	15%	16%
8%	$x	$x	$x	$x	$x
7%	$x	$x	$x	$x	$x
6%	$x	$x	$x	$x	$x
5%	$x	$x	$x	$x	$x
4%	$x	$x	$x	$x	$x

Example 3: Sensitivity of useful life assumptions for useful lives of assets for depreciation purposes

Depreciation expense

A significant amount of judgement is used when determining the useful lives of the Group's [nature of] assets for depreciation purposes. This is especially so for the Group's longer lived assets.

Sensitivity analysis:

If the estimated useful lives of the [nature of] assets was x% higher/lower, operating profit for the year would have increased/(decreased) by $x/($x) (PY $X/($X)).

Example 4: Sensitivity of investment property valuation

Management have determined that if there was a 10% decline in the…property market, then a further $X impairment would need to be booked…"

Example 5: Sensitivity of an investment valuation

Valuation techniques have been used to determine the fair value of [ ]'s shareholding in [ ]. Changes to key assumptions would have the following impact on other comprehensive income:

	Increase	Decrease
1% change in discount rate	$x	$x
0.5% change in terminal growth assumption	$x	$x
2% change in projected revenue growth	$x	$x

Goodwill impairment

NZ IAS 36: *Impairment of Assets* sets out the disclosure required when an entity has recorded an impairment loss or reversal (for most non-financial assets), with additional disclosure required for estimates used to measure recoverable amounts of cash-generating units (CGUs) containing goodwill or intangible assets with indefinite useful lives. 60 companies held goodwill on balance sheet totalling $8.2 billion with 50 companies determining the recoverable amount of the goodwill through a value in use calculation. Five companies used fair value and one company used both methods for different cash generating units. Others did not disclose the method used.

In determining the value in use of CGUs when testing for impairment of goodwill and indefinite life intangible assets, companies are required to disclose a description of the key assumptions used, management's approach to determining the value assigned to each key assumption, the period over which cash flows have been projected, the growth rate used to extrapolate cash flow projections and the discount rate used. Of the 60 companies with goodwill, 57 companies disclosed the period over which cash flows have been projected, 52 companies provided the growth rate used, and 55 disclosed the discount rate applied. Discount rates disclosed ranged between 8% and 20%.

If a reasonably possible change in a key assumption would lead to the carrying amount of a CGU (or asset) to exceed its recoverable amount then sensitivity analysis is required. No sensitivity information was provided by 22 companies with goodwill, although this may be because any reasonably possible change would not impact the carrying amount. 27 companies disclosed that any change in assumption would not lead to impairment, for example: *"Any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU."*

11 companies provided detailed sensitivity information such as the examples 1 and 2 on page 28 and the remaining 40 companies in our sample did not have goodwill.

7. Financial instruments

Highlights:

- 16 companies disclosed financial investments where fair value was derived from inputs that were not based on observable market data (level three in the fair value hierarchy)

All companies in our sample had a dedicated financial instruments note describing the company's financial risks, although many disclosures outlined in NZ IFRS 7: *Financial Instruments: Disclosures* are spread throughout the financial statements to align with the underlying balance such as in the trade receivables or borrowings notes. Despite spreading information throughout the accounts, the financial risk management note takes up on average 14% of the financial statements, although this is higher for financial institutions.

Risk management disclosures are often presented towards the end of the financial statements with 36% of our sample including this note as one of the last five notes in the financial statements. Only 21% provide the disclosure upfront in one of the first five notes. Where this note is presented should differ depending on the significance of financial instruments to the entity.

In addition to the risk disclosures required for financial assets discussed in section 5, there are a number of other quantitative disclosures required. We comment on two areas below.

Categories of financial instruments

All companies are required to disclose the categories of financial instruments held. 72% of companies provided the categories of financial instruments through discussion or the use of tables in the financial instruments note with 14% identifying the category of each financial instrument in the accounting policy for the item or in a note specific to the balance. The remaining 14% did not clearly disclose the category of all their financial instruments.

Fair value hierarchy

Financial instruments measured at fair value have to be grouped depending on the degree to which the fair value is observable. The fair value hierarchy represents:

- Level one – fair value is based on quoted prices in an active market for identical assets and liabilities
- Level two – fair value is derived from inputs that are observable, but are not quoted prices for the particular instrument
- Level three – fair value is primarily derived from inputs that are not based on observable market data.

For instruments in level two or three, detail on the method of valuation and assumptions used to determine fair value is required. A reconciliation from the beginning to ending balances disclosing gains/losses and other movements is also required for level three instruments. 16 companies had level three instruments (typically non-standard derivatives or unlisted equity instruments), although only 12 provided the reconciliation. 74 companies had level two instruments (largely derivatives such as interest rate swaps and forward foreign exchange contracts). The detail of valuation methodologies applied is largely generic given the nature of these instruments. 16 companies provided details of the actual assumptions used in the valuation of their financial instruments such as the interest rates and discount rates applied, generally in relation to level three instruments.

8. Other matters

Highlights:

- 19 companies disclose compensation for key management personnel (KMP) as a separate note to other related party transactions
- 71 companies disclosed who the 'chief operating decision maker' was for segment reporting

Related party transactions

Related party transactions (and disclosures) have been the subject of ongoing media discussion in New Zealand over the past year, particularly in relation to finance company cases going through the courts. The purpose of related party disclosures is to enable users to understand the possible impact of such relationships on the profit or loss and financial position of the entity, primarily because related parties may enter into transactions that unrelated parties may not. Of particular interest are transactions that do not take place on normal commercial terms.

The most common related party transaction types disclosed are loans to related entities, sales/purchases, fees and transactions with directors (other than directors fees but including fees to an entity that the director manages). 76% of companies made reference to such transactions taking place on an 'arms length basis' or on 'normal commercial terms'. NZ IAS 24: *Related Party Disclosures* notes that this statement should only be made if the terms can be substantiated.

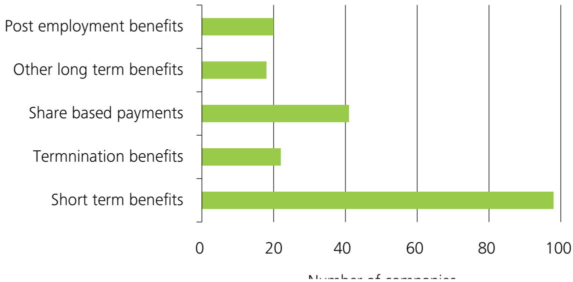
Compensation of KMP is also required to be disclosed to enable users to understand how those managing the business are compensated. 77 companies show this information in the related party note, 19 companies provided this information in a separate note and four companies did not disclose any KMP compensation. As they were investment vehicles, they instead disclosed the management fees paid to the manager of the vehicle. We note that Exposure Draft ED/2012/1 *Annual Improvements to IFRSs 2010-2012 Cycle* includes a proposed amendment to NZ IAS 24 that will include as a related party, an individual/s or entity (including its group) that provides KMP services to the reporting entity. The disclosure requirements will also be modified as follows:

- if an entity hires KMP services from another entity, 'the management entity', then the entity is not required to disclose KMP compensation paid or payable by the management entity to the management entity's employees or directors
- amounts recognised as an expense by the entity for the provision of KMP services that are provided by a separate management entity should be separately disclosed.

This proposed amendment is consistent with previous commentary from the IFRS Interpretations Committee in September 2010.

NZ IAS 24 requires disclosure of compensation to KMP in five categories as shown in Figure 11.

Figure 11: What types of compensation are paid to key management personnel?



Short term benefits are the most common including salaries, leave entitlements and directors fees.

Provisions

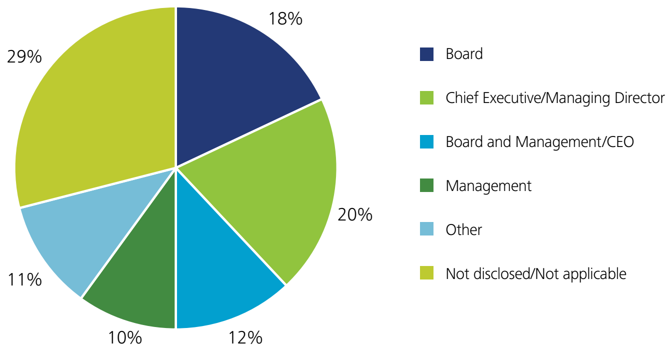
Consistent with last year's survey, the most common provisions held are for rectification work (22 companies), such as making good leased properties at the end of the lease term, and warranty obligations (19 companies). There were also 18 companies with onerous leases and other contracts, and 14 companies with restructuring provisions. Of the 58 companies with provisions, only seven did not explain the nature of all their provisions. We also noted that most companies rely on the current and non-current split of their provisions to address the requirement in the standard to disclose the expected timing of cash flows to settle these obligations.

Contingent liabilities

The most common type of contingent liability disclosed was guarantees as shown in Figure 12. Other contingencies included references to contingent consideration in business combinations and lending commitments that might arise among others. A value was not provided for all contingent liabilities by 17 companies.

Figure 12: What types of contingencies do companies have?

Figure 13: Who is identified as the chief operating decision maker?



Segment reporting

Segment reporting is mandatory for entities whose debt or equity instruments are traded in a public market, as well as for entities that file, or are in the process of filing, financial statements for the purpose of issuing any class of instruments in a public market. Segment information needs to be disclosed on the same basis as internal management reporting used for strategic decision making by the entity's 'chief operating decision maker' so that users of financial statements can obtain a better perspective of how the business is managed.

NZ IFRS 8 does not require disclosure of who the 'chief operating decision maker' is, but 71% of companies provided this information as shown in Figure 13.

92 companies provided segment disclosure with 27 showing only one segment. On average three segments were shown, with a maximum number of seven segments. Segments disclosed were predominantly by business type with only 14 companies giving a geographical presentation.

There were 12 companies where the annual report did not discuss the business in the same way as the segment reporting note (a decline from 28 companies in the prior year). It is possible that some inconsistencies are due to the application of the aggregation criteria.

Subsequent events

78 companies discussed events that occurred subsequent to balance date. The most common area discussed was declaration of dividends (54 companies). Other events discussed included the asset purchases/sales, court case settlements, debt refinancing and new director appointments, among others.

9. Impact of future standards

With the delay in adoption of NZ IFRS 9: *Financial Instruments* until periods beginning on or after 1 January 2015, the next significant suite of standards to adopt relates to investments in other entities. We expect that some previous decisions about whether another entity is a subsidiary will need to be reconsidered in light of the new standard NZ IFRS 10: *Consolidated Financial Statements.* In addition, NZ IFRS 11: *Joint Arrangements* removes the proportionate consolidation method requiring interests that meet the joint venture definition to be accounted for using equity accounting. However, the most significant change comes out of the new standard NZ IFRS 12: *Disclosure of Interests in Other Entities* which is more extensive than current requirements.

The extended disclosure requirements of NZ IFRS 12, NZ IFRS 13: *Fair Value Measurement*, and continuing add-ons to NZ IFRS 7 (such as new disclosures for transfers of financial assets) suggest that financial statements will be getting longer not shorter going forward. We note, however, that that the topic of disclosure overload is getting a lot more attention with a number of submissions from round the world to the IASB's agenda consultation paper commenting that there needed to be a focus on improving disclosures. In addition we note that the IASB has received a report prepared by the Institute of Chartered Accountants of Scotland (ICAS) and the New Zealand Institute of Chartered Accountants (NZICA) titled "*Losing the Excess Baggage – Reducing Disclosures in Financial Statements to What's Important*" which suggest cutting back disclosure requirements that could lead to a reduction in financial statements of around 30%. The IASB is currently reviewing its agenda and it is likely that a review of disclosures/principles for disclosure will be added in some form.

Also on the horizon are the revenue, leases, insurance and financial instruments (impairment and hedge accounting) projects. The timing for these projects has been delayed as the IASB continues to consult and deliberate the proposals.

If the trend of the previous revenue and leases exposure drafts are any indication, increased disclosure should be expected when these standards are finalised as well as changes to amounts recorded in the income statement and balance sheet. For example, the proposal in the leases standard to bring operating leases on balance sheet is expected to have a significant impact in New Zealand given the extensive use of operating leases. The 100 companies in our sample have $8.1billion of operating lease commitment payables disclosed in the notes to the financial statements (an increase from $7.3 billion in the prior year). Recording a right-of-use asset and lease payments liability will clearly have a significant impact on some of the key ratios used by companies such as debt to equity and net asset value measures.

Survey results for 30 companies taking advantage of differential reporting concessions in NZ IFRS

This section of the publication provides an overview of the 2011 annual reports of a random sample of 30 companies complying with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as applicable to entities taking advantage of differential reporting concessions. Information on the full survey population, from which the sample of 30 was selected, is set out in the Appendix.

10. Overview of financial statements

Highlights:

- Financial statements are on average 25 pages long, stable compared to the prior year
- 29 companies in our sample will ultimately have to report using a reduced disclosure regime based on NZ IFRS (NZ IFRS RDR)
- Companies report, on average, within 119 days after balance date

Balance dates

As shown in Figure 14, June is the most common balance date (57%) for companies in the sample followed by March (20%).

Length of reports

Financial statements (including the audit report) are on average 25 pages long and range from 15 to 36 pages in length. As shown in Figure 15 there has been a slight decline since 2009. The higher average number of pages in 2008 was due to first time adoption of NZ IFRS. As there have not been any significant changes to disclosure requirements since 2009, little movement was expected.

Differential reporting concessions have significantly reduced the disclosure requirements for qualifying entities, reflected in the average length of 25 pages compared to an average of 42 pages for companies that cannot take advantage of these concessions as shown on page 5.

As noted in section 13, 29 companies in this sample will ultimately have to report using a reduced disclosure regime based on NZ

Figure 14: What is the balance date for entities in the sample?

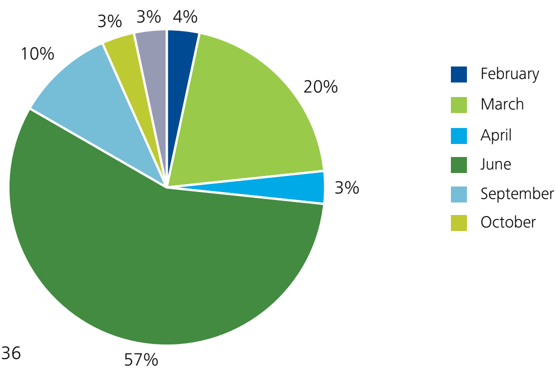
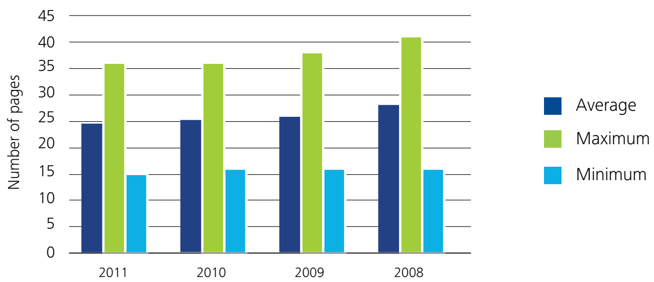


Figure 15: What is the average, maximum and minimum number of pages in the financial statements?



IFRS (NZ IFRS RDR), instead of the current differential reporting regime. While some disclosure requirements will reduce, there is a requirement to prepare a cash flow statement. The XRB's ED 2012-1 *Framework: Tier 1 and Tier 2 For-Profit Entities* (ED 2012-1) outlines proposed Reduced Disclosure Requirements (NZ IFRS RDR) that will apply to the companies in our sample following legislative amendments being made to the Financial Reporting Act 1993. At that time the differential reporting framework will be removed. The exposure draft would apply to periods beginning on or after 1 November 2012 with early adoption permitted.

Speed of reporting

The Companies Act 1993 requires companies to prepare an annual report within five months of balance date. On average, companies in our sample report within 119 days which has reduced from 125 days in 2010, with the quickest entity in our sample managing to approve their financial statements 27 days after balance date.

Nature of audit reports

Consistent with last year's survey, only one company had a modified audit report as a result of an emphasis of matter paragraph in relation to going concern.

Statement of compliance

Companies in our sample are required to provide a statement of compliance that the financial statements have been prepared in accordance with NZ GAAP, together with a description of the financial reporting standards applied by the entity (which is New Zealand equivalents to International Financial Reporting Standards for the entities in the sample) and the fact that entities qualify for differential reporting and therefore apply differential reporting concessions. All companies have complied with this requirement.

11. Differential reporting concessions applied

Highlights:

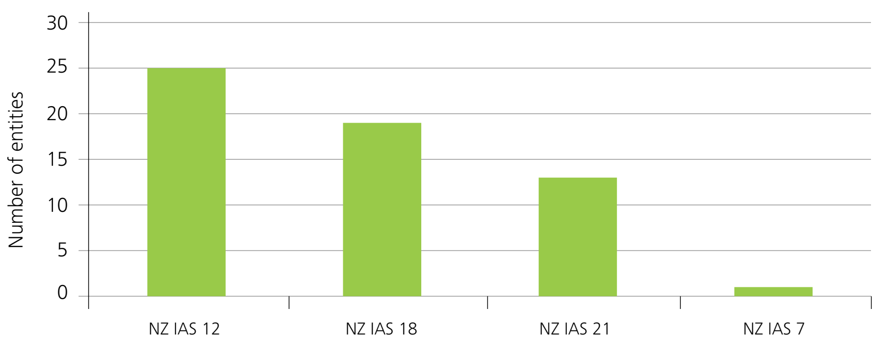
- 25 companies chose not to apply the taxes payable method concession, instead accounting for deferred tax
- 29 companies took advantage of the concession to not provide a cash flow statement

The companies in our sample stated that they took advantage of all available concessions except for those shown in Figure 16.

The proposed NZ IFRS RDR only provides one exemption from the recognition and measurement requirements of NZ IFRS (group accounts won't be required by intermediate holding companies if certain criteria are met). Therefore companies currently taking advantage of recognition and measurement concessions in the differential reporting framework will need to change their treatment. For example, the taxes payable method will no longer be allowed, there will be no exemption from accounting for foreign exchange movements and revenue and expenses will have to be presented exclusive of GST.

In addition, a cash flow statement will need to be presented.

Figure 16: Diffential reporting concessions not applied



12. Presentation of the primary statements

Highlights:

- 19 companies presented all items shown in equity by reserve, showing profit for the year, other comprehensive income and total comprehensive income as separate line items
- Six companies provided a restructuring provision

Statement of comprehensive income

Three companies have presented two statements (i.e. income statement and statement of comprehensive income) with the rest providing the one statement. As 11 of these companies had no items of other comprehensive income, there was no reason to provide a second statement.

60% of companies presented expenses by function, with the nature of expenses included in the notes (as required by NZ IAS 1) which is a 10% decrease from 70% in prior year. In relation to audit fees and other services provided by auditors, an entity is required to disclose the nature of any other services provided by the auditors. 73% of companies provided this detail while 90% provided this in the prior year.

67% of companies had items of other comprehensive income, primarily cash flow hedges. NZ IFRS allows items of other comprehensive income to be shown gross with a separate tax line (if NZ IAS 12 is followed) or net with tax shown in a note. Seven companies that have accounted for income tax in accordance with NZ IAS 12 did not provide this information.

Statement of changes in equity

19 companies presented all items shown in equity by reserve, showing profit for the year, other comprehensive income and total comprehensive income as separate line items compared with 23 companies in the prior year. Six companies disclosed all items shown in equity by reserve, but did not show total comprehensive income as its two components (profit for the year and other comprehensive income), although three of these companies did not have any items of other comprehensive income. The remaining five companies aggregated their reserves in the statement of changes in equity, showing the detail of each reserve in the notes.

Balance sheet

Reserves

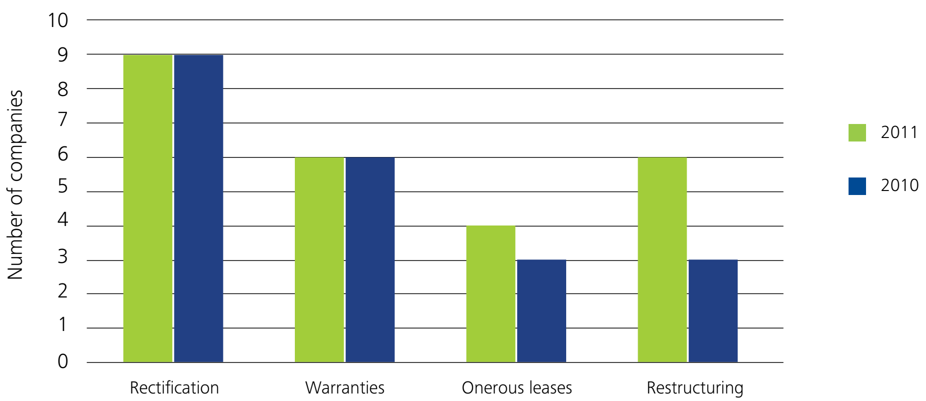
67% of companies have reserves in addition to retained earnings with the most common reserve being the cash flow hedge reserve (17 companies). Other reserves presented were the foreign currency translation reserve (three companies) and option premium on convertible notes reserve (two companies).

A description of the nature and purpose of each reserve is required to be disclosed either in the balance sheet or in the statement of changes in equity or in the notes. 16 companies provided this information, four companies did not provide this information however the title of each reserve was self-explanatory.

Provisions

As shown in Figure 17, the most common type of provision used is rectification work such as making good leased properties at the end of the lease term. The use of a restructuring provision has increased by three on prior year. 50% of companies with a restructuring provision also had a business combination during the year.

Figure 17: What types of provisions do differential reporting entities have?



13. Other matters

Highlights:

- No company has early adopted any approved standards that are not yet effective
- One company restated prior year balances due to errors

Accounting policies

NZ IAS 8 requires companies to disclose the impact of standards that are adopted during the year, with no differential reporting concession available. Only two companies made this disclosure stating that there was no impact on the adoption of new standards during the year. It is possible that the remaining companies did not have any changes in accounting policies so chose not to make the statement.

No company has early adopted any standard that is on issue but not yet effective.

Restatements

One company restated prior year balances, due to a material error. When applying changes in accounting policies or correcting prior period errors, companies should provide enough information including the nature of changes, and impact on financial statements in accordance with NZ IAS 8. The company provided the required information.

Reclassification

When an entity restates its comparatives as a result of changes in the presentation or classification of items presented in the current year financial statements, it is required to disclose the nature and the reason for the reclassification in accordance with NZ IAS 1. Two companies reclassified certain comparatives and both provided the information required. Six companies provided a general statement about comparatives being reclassified such as "*comparatives are reclassified where necessary to ensure consistent presentation with the current year*" but did not explain the nature and reason for the change.

Contingent liabilities

The most common type of contingent liability presented was financial guarantees (13 companies). Other types of contingent liability included court proceedings (two companies) and a letter of credit (two companies).

Impact of future standards – reduced disclosure regime

The External Reporting Board recently issued its strategy for a new accounting standards framework which has been approved by the Minister of Commerce. For-profit entities will have two permanent tiers of reporting:

- Tier 1: (full) NZ IFRS;
- Tier 2: NZ IFRS RDR (reduced disclosure version of NZ IFRS)

Two further interim tiers (tier 3 and 4) will remain until the Government passes the legislative changes proposed in September 2011. These include the current differential reporting framework and the suite of old GAAP standards that existed before NZ IFRS was adopted.

When legislation is passed, tiers 3 and 4 will be removed. At that time, any for-profit entities required to prepare general purpose financial statements under legislation will be in tier 1 or 2. For most entities currently applying differential reporting this will mean a move to NZ IFRS RDR (or they may have no requirement to prepare financial statements).

NZ IFRS RDR differs to differential reporting because only one recognition or measurement exemption is proposed (relating to intermediate holding companies not being required to prepare consolidated financial statements). Current measurement exemptions such as the taxes payable method (instead of recording deferred tax in accordance with NZ IAS 12) would no longer be available as discussed further in section 11 above. In addition, some current disclosure exemptions will be changed. For example, NZ IFRS RDR will require a cash flow statement as well as disclosure of critical judgements and major sources of estimation uncertainty.

We look forward to analysing the impact that NZ IFRS RDR will have on the companies in our sample.

For more information on the proposed changes to the Framework, as well as information on the applicable accounting standards for public benefit entities, refer to our May 2012 Accounting Alert available at **www.deloitte.co.nz.**

For a direct link:
www.deloitte.com/view/en_NZ/nz/services/audit/9a0a6d3920337310VgnVCM3000001c56f00aRCRD.html

Appendix: The survey population

The survey population is made up of the financial statements of the top 200 companies (by revenue) in New Zealand from the Deloitte/ Management magazine article reported in the Management Magazine issued in December 2010, and other NZSX and NZDX listed entities. Only those companies with publicly available financial statements are part of the population. In order to focus the survey some of the companies in the original population were removed:

- Public benefit entities were removed as they formed a small percentage of the population and often have unique disclosures. The survey instead focuses on for-profit entities.
- A small number of dual listed entities complying with the GAAP of another country were removed as their disclosures would not be consistent with entities reporting in accordance with NZ GAAP.
- Subsidiaries were removed, where the New Zealand group entity was represented in the population. For example there were some cases where the subsidiary was listed on the NZDX, and the group was included in the Top 200. They were excluded as they are already included in the group results.

Once the population was determined, it was segmented into two groups – those that report in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and those that take advantage of differential reporting exemptions.

A random sample of 100 entities complying with NZ IFRS formed the basis of the main survey in sections 1 to 9 which focused on the 2011 annual report of these entities compared to data collected in our surveys of 2009 and 2010 annual reports.

Sections 10 to 13 consider a sample of 30 entities taking advantage of differential reporting exemptions, also focusing on their 2011 annual report.

Our Financial Reporting Survey Series has been following the financial reporting practices of New Zealand entities since 2009. While our aim is to follow the same entities to identify trends we had to replace three entities in our sample of 100 entities, and two entities in our sample of 30 entities, due to annual reports no longer being publicly available.

The Deloitte Financial Reporting Survey Series

This publication is the seventh in our Financial Reporting Survey Series in which we consider a series of questions regarding the financial reports of a sample of New Zealand entities.

Other issues in the series are available at:

www.deloitte.com/nz/financialreportingsurvey