Deloitte
Touche
Tohmatsu

International Financial Reporting Standards

Healthcheck 2003

Assurance and Advisory

Contents

International Financial Reporting Standards Healthcheck 2003

Foreword

If you think the International Financial Reporting Standards (IFRS), previously known as International Accounting Standards (IAS), are 'not applicable' and 'nothing to worry about yet' — think again.

The Accounting Standards Review Board (ASRB) in New Zealand has recommended that IFRS be applicable to New Zealand entities starting from 1 January 2007 (with early adoption permitted from 1 January 2005). This will have a significant impact on your business and you will need to start planning now. Big changes should be expected; changes that may impact on your profits and your net assets, changes that do not derive from operational activity, changes that the board, investors, analysts and employees are going to need to understand, and changes that will mean restated comparative financial statements for the year prior to adoption and therefore the opening comparative position as well.

We hope that having read this document you will agree that this is much more than an accounting issue. Significant business issues are raised by this conversion and need to be addressed if the transition is to be made without damaging your business and business environment.

You may feel that you are already on track to achieve a smooth transition to the new regime. We anticipate that this healthcheck can be used to reinforce that view or to provide an indication of where further action is required. For those not so well prepared, then this document sets the parameters of the conversion process and provides contact points for advice and assistance.

IFRS 2007 — What's the deal?

In 2002, the Accounting Standards Review Board (ASRB) announced that it would recommend to government that New Zealand reporting entities should be required to adopt International Financial Reporting Standards (IFRS) for periods beginning 1 January 2007, with early adoption permitted from 1 January 2005.

The compelling reason for the change to IFRS is that a single set of high quality accounting standards which are accepted in major international capital markets will greatly facilitate cross-border comparisons by investors, reduce the cost of capital and assist New Zealand companies wishing to raise capital or list overseas. Early adoption is permitted in order to coincide with the requirement for European Union listed companies and Australian reporting entities to prepare financial reports in accordance with IFRS.

The Financial Reporting Standards Board (FRSB) has for some time been developing Financial Reporting Standards with a view to international harmonisation, however following the ASRB announcement, the FRSB has made detailed plans for the process of full convergence with IFRS. The FRSB intends to adopt IFRS as New Zealand Financial Reporting Standards (NZ IFRS) with additional requirements for public sector and not-for-profit entities ("public benefit entities") to ensure they can also apply the standards. These sector neutral NZ IFRS would apply to all reporting entities required to comply with generally accepted accounting practice (e.g. under the Financial Reporting Act 1993 or the Public Finance Act 1989).

It remains unclear at this stage which entities will be deemed 'reporting entities'. The Ministry of Economic Development is due to release a discussion paper on this topic later this year.

Although subject to the IASB adhering to their timetable, the FRSB intends to issue available IASB standards by mid 2004. Due to the inter-relationships that exist within IFRS, a 'big-bang' approach to convergence has been adopted so that all standards must be applied at once. It is intended that NZ IFRS will converge with IFRS, however as part of the due process the FRSB will seek opinions on:

- the proposed additional requirements for public benefit entities or whether additional requirements are needed; and

- whether there are any regulatory or other issues arising in the New Zealand environment that may affect the implementation of IFRS, including any issues relating to the Privacy Act 1993.

The impact of the convergence with IFRS will vary from entity to entity depending on structure, operations, transactions and historical accounting policies. Despite New Zealand's previous harmonisation policy, a number of significant differences remain between IFRS and current Financial Reporting Standards in New Zealand. There are also a myriad of minor differences that many entities will need to identify and resolve. In accordance with the IASB's current agenda, a significant majority of the IFRS are also expected to be revised between now and 1 January 2005. In addition, new IFRS have been or are being developed on topics including share-based payment, first-time application, business combinations and insurance. As a result, the exact nature and requirements of NZ IFRS which New Zealand entities will be required to apply from 2007 (or 2005 for early adopters) will not be known until mid 2004. New Zealand entities will therefore need to consider the transition process in the context of concurrent changes, especially where the decision is taken to adopt early.

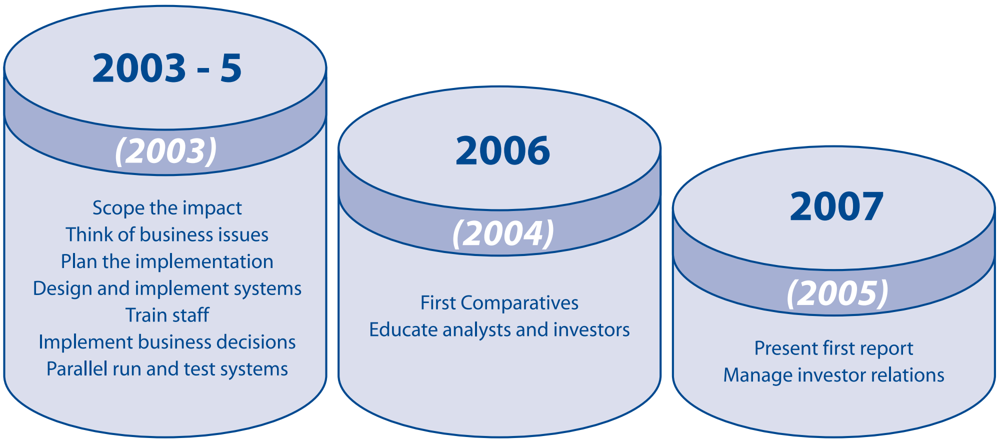
Your profits and earnings per share will change. Your statement of financial position will look very different. These are not just accounting numbers.

The practical impact of harmonisation under IFRS-1: Adoption of International Financial Reporting Standards is that entities will be required to restate prior year comparatives on implementation of IFRS. For entities adopting early, restatement of balances as early as 31 December 2003 will be required (otherwise 31 December 2005).

Entities should not underestimate the business implications and the amount of work involved. The planning and approach to convergence with IFRS needs to be considered by all entities now. Your profits and earnings per share (EPS) will change. Your statement of financial position will look very different. These are not just accounting numbers. They are the means of communication, they form the basis of contractual arrangements and regulatory controls and underlie many business transactions. Knowing the scale of the change in these numbers is essential in planning your future business strategy.

The stages

The diagram below demonstrates the necessary implementation stages and the potential timing of related activities leading up to the current proposed convergence date of 1 January 2007 (early adoption at 2005).



IFRS 2007 — Business issues

Some of the key business issues that will need to be addressed if implementation is to be successful are outlined below:

Treasury Management

Certain financing and hedging policies will no longer achieve the desired accounting effect and will instead create volatility in reported profits. The challenge will be to find good economic strategies that will produce the right accounting treatment.

Distributions

Equity will change — therefore the current dividend policy may no longer be sustainable. Altered dividend patterns may directly impact the share price.

Debt Covenants & Financing

Where debt covenants do not provide for changes in accounting standards, changes to the statement of financial position may cause these covenants to be breached. This will impact the company's ability to ensure continuity of financing arrangements. Financing strategies may no longer achieve the desired accounting effect. When seeking to raise finance, comparative figures in accordance with IFRS for years earlier than 2006 (2004 for early adopters) may be required.

Mergers & Acquisitions

Accounting for potential acquisitions will be altered by the adoption of IFRS, particularly in light of the numerous proposed changes. The amount of goodwill recognised in the statement of financial position will also be affected, both initially and on an ongoing basis due to the proposed non-amortisation of goodwill. Consideration may need to be given to past mergers/ acquisitions where they contain clauses that include price revisions based on accounting data.

Management Compensation

Changes may cause share option performance targets to be met immediately even when the underlying performance has not changed. Alternatively, share options and other incentive plans could become unachievable and thus no longer meet their original incentive purpose. Any adjustment to a directors' remuneration scheme is a sensitive issue. Careful management of investor relations is essential.

Product Development

The accounting outcome for some revenue generating activities under IFRS will be very different. With certain financial products the business objective will no longer be

achievable under the new treatment and the product may need to be abandoned. Conversely, new business opportunities may arise from the new treatment.

Management Information

Forecasts and internal performance measurements may no longer be comparable with the results reported in the financial statements. Increased volatility of earnings, e.g. through fair value adjustments, will make forecasting more difficult. Also, internal performance measurements will have to be structured in a way that avoids penalties for fluctuations outside the direct control of management. Subsidiary companies are likely to experience changes in group reporting schedules.

Human Resources & Training

Finance staff will need to be at the forefront of compliance with the new regime, but awareness will be needed in more than just the finance department. Training will be required throughout the organisation and will vary from a general level, such as highlighting differences between New Zealand GAAP and IFRS, particularly in the early stages of the project, to specialised training on topics like financial instruments. Existing skills may not be adequate to tackle IFRS related issues, particularly the requirements for fair value measurement, and may need to be supplemented externally or by recruitment. Appropriately qualified and experienced candidates may well be scarce so competition could be fierce.

IT Systems

Accounting and operating systems will need to be analysed and system changes identified and implemented. Systems that will be affected consist of internal and external reporting systems (including consolidation procedures), accounting systems and operating systems (e.g. treasury management, project management, human resources). For example, new accounting treatments for financial instruments may require treasury systems to be integrated with financial reporting systems.

Investor Relations

Investors may challenge the changes in reported profits and EPS with a view to understanding what has happened to underlying performance. They will form their own expectation on new accounting policies and expect certain accounting outcomes — they will not like many surprises.

Your implementation healthcheck

Some practical questions:

The table below sets out some key questions that need to be considered in deciding if your organisation will be in a position to converge with IFRS in 2007 (early adoption in 2005).

Planning for IFRS implementation	Ready?
Have you carried out a high level scoping exercise for the Board?	☐
Is there a detailed conversion project plan and timetable?	☐
Does the plan cover all the wider business issues?	☐
Have you taken into account the need for comparative disclosures and time for parallel running of new systems?	☐
Board level acknowledgement and support	
Has IFRS been discussed at board level?	☐
Has the board communicated to staff the importance and scope of this issue and its support for the plans?	☐
Has the Board successfully delegated the responsibilities for the implementation project?	☐
Awareness of the new standards and associated implications	
Is there a clear understanding of IFRS?	☐
Is the impact on particular functions clearly understood?	☐
Product/services and other revenue generating activities	
Has the impact on current derivative and structured finance products been assessed and a view taken on whether they still meet strategic objectives?	☐
Have the new accounting requirements been incorporated into the process for evaluating potential new products?	☐
Management compensation	
Do you have share options and other incentive plans tied to reported profits, EPS or other performance targets that may be affected by IFRS convergence?	☐
Have you assessed the extent to which these will be affected by conversion changes?	☐
What is the process for changing the provisions of any share option schemes?	☐
If changes cause performance targets to be met immediately, how will this be explained to shareholders?	☐

Fair value measurement	Ready?
Have you identified all assets and liabilities which will be subject to fair value measurement or impairment test requirements?	☐
Do you have the appropriate models, information and skills to perform these valuations and impairment tests?	☐
Treasury and financing	
Has a process been established to identify all financial instruments, including embedded derivatives, in for example, leasing/commodity/property contracts?	☐
Has the classification of financial instruments and the potential volatility in the statement of financial performance and statement of financial position resulting from those carried at fair value, been determined?	☐
Has the impact on the current hedging strategy been assessed and a revised hedging and risk management strategy been formulated?	☐
Have you scoped the necessary changes to information systems to address the hedge documentation requirements (effectiveness testing, identification of individual transactions hedged etc.)?	☐
If you have financing arrangements in place with covenants linked to reported profits or net assets, have these been assessed to determine whether these will be breached?	☐
What plans have been put in place to renegotiate finance arrangements as necessary?	☐
Mergers & acquisitions	
Have the consequences of convergence with IFRS on, for example, potential earn out provisions and pricing been considered?	☐
Will merger and acquisition activities continue to achieve the desired accounting treatment?	☐
Investor relations and dividend policy	
Have you identified the impacts on your key performance indicators that need to be communicated to shareholders?	☐
Have you determined the appropriate timing and means of communication in order to manage expectations?	☐
How will you explain that these changes have arisen through no change in underlying performance?	☐
Have you considered benchmarking against competitors to understand the impact across your industry sector and on your comparative position?	☐
Have you assessed the potential impact on your dividend policy if your earnings number is expected to be significantly affected or to be volatile?	☐
Will it make planned dividend payments prior to adoption of IFRS appear imprudent?	☐
Systems, controls and information	
Have existing processes and systems been reviewed to establish whether they will support IFRS financial statements?	☐
Have necessary enhancements to processes and systems been identified?	☐
Human resources and training	
Have you assessed the available knowledge and the training needs of personnel?	☐
Have you assessed whether there is available internal resource to engage in all aspects of the project or identified a suitable external provider?	☐
IFRS is a moving target, how are you going to keep on top of developments?	☐

Areas of significant change

There are many differences between IFRS (current and new/revised standards to be issued) and New Zealand Financial Reporting Standards including disclosure differences. The areas of major impact are discussed below. If any of these are relevant to your organisation expect significant changes and commence implementation programmes as soon as possible.

Business combinations

The following areas of significant change are based on the proposals in the current exposure draft on business combinations.

NZ – Goodwill amortisation occurs over a maximum useful life of 20 years on a systematic basis.

IFRS – Goodwill not amortised, subject to an annual impairment test (and as events occur indicating impairment).

NZ – Proportional consolidation for jointly controlled entities (e.g. companies) is not permitted; the equity method must be used.

IFRS – Jointly controlled entities can be presented using either proportional consolidation or the equity method.

Financial instruments

NZ – Disclosure requirements for derivatives and other financial instruments exist, however, there is no standard on recognition and measurement of financial instruments in New Zealand.

IFRS – All derivative financial instruments (including embedded derivatives) are required to be recognised at fair value. All changes in fair value of derivatives, other than those meeting hedge criteria, are recognised in the net profit or loss for the period.

NZ – There are rules governing some foreign currency hedging, however there are no rules governing other forms of hedging.

IFRS – Prescriptive rules including those on documentation, designation and effectiveness testing determine whether an item can be a hedge and how to account for a hedging item.

NZ – Long-term investments must be carried at cost (less impairment losses) or revalued amounts. Surpluses on revaluation are generally recognised in the asset revaluation reserve. Current asset investments are carried at the lower of cost and net realisable value, or are marked to market.

IFRS – Measurement of a financial asset depends on its classification. If it is held to maturity or is an originated loan or receivable then it is carried at amortised cost, otherwise it is carried at fair value.

Pensions

NZ – There is no guidance on the recognition of defined benefit plans by sponsoring employers.

IFRS – Defined benefit plans are recognised at the present value of the defined benefit obligation less the fair value of any plan assets, adjusted for unrecognised actuarial gains and losses and unrecognised past service costs.

Expect major change in accounting for financial instruments, business combinations and share based payments.

Investment properties

NZ – Investment properties are carried at net current value. Changes in value are either recognised through the asset revaluation reserve or in the statement of financial performance.

IFRS – Investment properties are measured at depreciated cost or fair value with changes in fair value recognised in the net profit or loss.

Share-based payments

NZ – No measurement or recognition requirements exist.

IFRS – Proposed to require all share-based payment transactions to be recognised as an expense (or asset if appropriate) over the service period.

Asset revaluations

NZ – The recognition of asset revaluation adjustments through reserves is performed by class of asset.

IFRS – The recognition of asset revaluation adjustments through reserves is performed on an individual asset basis, no offsetting of surpluses/deficits is allowed.

Deferred tax

NZ – Provision for timing differences, being the differences between accounting and taxable profit. Entities have the choice of applying accounting for timing differences on a comprehensive or partial basis.

IFRS – Full provision for temporary differences, being the difference between carrying amount and tax base of assets and liabilities.

NZ – Silent on whether deferred tax balances may be discounted.

IFRS – Prohibits discounting of deferred tax balances.

NZ – Deferred tax assets are recognised based on a virtual certainty criteria.

IFRS – Deferred tax assets are recognised based on a probable criterion.

Foreign currency

NZ – Foreign operations translated to NZ dollars using either the current rate (independent operations) or temporal method (integrated operations).

IFRS – IASB Improvements Project has introduced the concepts of functional and presentation currencies, with the translation from functional currency to presentation currency effectively using the current rate method. The concept of integrated/independent is no longer necessary.

NZ – It is not permissible to recycle translation gains and losses to the statement of financial performance on disposal.

IFRS – On disposal of a foreign entity, the appropriate amount of cumulative translation difference relating to the entity is transferred to the income statement and included in the gain or loss on sale.

Presentation of statement of financial performance

NZ – Entities required to produce a statement of financial performance, which includes net surplus/deficit, revenue and expenses. Valuation adjustments can be recognised through reserves in equity.

IFRS – The income statement is a current project on the IASB agenda. It is likely that proposals will favour a single performance statement presenting all recognised changes in assets and liabilities including fair value revaluations, foreign currency translation reserve movements etc.

Intangible assets

The following changes are based on proposals in the current exposure draft on intangibles.

NZ – No accounting standard comprehensively addresses the accounting for intangible assets. General asset recognition and measurement principles apply.

IFRS – Intangible assets are recognised if they are identifiable, that is they arise as a result of contractual or legal rights or are separable from the business, it is probable that future economic benefits attributable to the asset will flow to the entity and its costs can be measured reliably.

There is a prohibition on the recognition of internally generated brand names, mastheads, publishing titles, customer lists and similar items as assets and the capitalisation of expenditure (outside of a business combination) related to start-up, training activities, advertising, promotional, relocation and other similar activities.

NZ – No requirement to amortise intangible assets if useful life is indefinite.

IFRS – Indefinite life intangibles are not amortised, but subject to an annual impairment test.

NZ – Intangible assets are carried at amortised cost or fair value.

IFRS – Intangible assets are carried at cost or fair value, but measurement at fair value is only possible if a quoted market price in an active market exists.

Impairment of assets

NZ – Very little guidance on determining value-in-use.

IFRS – Extensive guidance on determining value-in-use. Annual impairment tests required for goodwill and indefinite life intangibles.

Headline impact by business sector

Property and construction

- Investment property revaluation gains taken direct to net profit or loss - investment property revaluations can be taken to a revaluation reserve in New Zealand.
- On completion of construction of own properties there could be large gains or losses to net profit/loss when fair valuing on classification as investment properties carried at fair value.
- A proposed amendment to IAS-40: Investment Property will take away the prohibition on properties purchased under a long leasehold being classified as investment properties if they are fair valued.

Utilities

- Mark to market for some commodity contracts — IFRS requires subsequent measurement of all derivatives at their fair value, with changes in value recognised in net profit or loss as they arise.
- No hedge accounting for many instruments — IAS-39: Financial Instruments: Recognition and Measurement is restrictive in allowing hedge accounting and permits its use only in accordance with strict criteria.
- Embedded derivatives are separately recognised — under IFRS derivatives are recognised as either financial assets or liabilities.

Manufacturing

- No hedge accounting for many instruments — IAS-39 is restrictive in allowing hedge accounting and permits its use only in accordance with strict criteria.
- Cumulative foreign exchange gains and losses on the net investments in foreign entities recognised in equity will be recycled through the profit and loss on sale of the entity.
- Recording of foreign exchange transactions must be at the spot exchange rate, not at any contracted rate.

Extractive industry

- No IFRS specifically dealing with the extractive industry.
- No hedge accounting for many instruments — IAS-39 is restrictive in allowing hedge accounting and permits its use only in accordance with strict criteria.

Agriculture

- IAS-41: Agriculture requires valuation of biological assets (living plants and animals) at fair value less estimated point of sale costs. Cost less depreciation/ impairment losses allowed where no reliable fair value.
- Changes in fair value recognised in earnings.

Financial services

- Embedded derivatives are separately recognised — under IFRS derivatives are recognised as either financial assets or liabilities.
- More mark-to-market — IFRS requires subsequent measurement of derivatives at their fair value, with changes in value recognised in net profit or loss as they arise.
- No hedge accounting for certain well established risk management strategies.

Technology, media and telecommunications

- IFRS is likely to be amended to require indefinite life intangibles and goodwill to be tested for impairment annually. There will also be recognition of more classes of intangible assets with shorter amortisation periods.

Insurance

- IFRS is likely to have limited requirements in relation to the measurement and recognition of insurance contracts. It is expected that FRS-34: Life Insurance Business and FRS-35: Financial Reporting of Insurance Activities will continue to apply for the measurement and recognition of insurance liabilities until the IASB's project on insurance is finalised.
- Insurance companies will need to value their assets and non insurance liabilities in accordance with existing IFRS.

How we can help

Deloitte can assist with the transition to IFRS in several ways. The first step in the process is scoping the impact of IFRS. In addition to assisting in identifying and quantifying the detailed differences, examples of how we can help include:

Treasury Management

We can assist in scoping the impact of IFRS on internal hedging strategies and help revise existing risk management frameworks. In implementing IAS-39 it is important to ensure that strong internal controls exist across the company, not just in treasury. We are able to help management implement controls to ensure that suitable risk policies are in place.

Convergence with IFRS is not only likely to impact the way financing structures are accounted for, it may also have a corresponding effect on their recognition for tax purposes. We can provide a review of existing tax efficient financing and hedging strategies including assessing their continuing efficacy, quantifying the tax impact of IFRS implementation and offering customised solutions to any problems identified.

Debt Covenants & Financing

The terms of a number of financial instruments are dependent upon audited financial statements. Such terms may include covenants attaching to debt, hurdle rates for earn-outs, bonuses or options and conversion rates. We can both advise companies on the effect of the move to IFRS and help ensure controls are in place to monitor and correctly report on, for example, loan covenants but also assist in the renegotiation of relevant instruments as necessary.

Fair Value Measurement

A number of IFRS require fair value measurement or impairment tests (e.g. financial instruments, share options, biological assets). We can assist in identifying or developing appropriate valuation models.

Mergers & Acquisitions

Well before 2005, deals will need to be structured to take account of the move to IFRS. We can assist in the negotiation of deals taking into account the consequential effects of IFRS on pricing, future earnings and dividend policy, earn-out provisions and terms of convertible instruments. Certain major

transactions will look very different under IFRS as opposed to current New Zealand GAAP. We can advise on the appropriate timing and accounting for transactions.

We can also provide tax structuring advice for deals including mergers, acquisitions, joint ventures and private finance initiatives focusing on the impact of IFRS.

Management Compensation

Typically long term incentive and option plans set targets of at least three years so any awards made or options granted recently will be tested at a time when the financial statements are drawn up under accounting standards converged with IFRS. We can assist companies to review and test the targets to ensure that they will still be relevant under the new accounting rules. We can help you to consider what business objectives the employee benefit plans need to meet, what new arrangements might look like and how to implement, administer and communicate these.

Product Development

We can advise on the accounting and regulatory impact of IAS-39 and SIC-12: Consolidation – Special Purpose Entities on existing and proposed derivatives and structured finance transactions, considering whether they will be viable products under the IFRS regime.

We can advise on the interpretation of the changes and their disclosure to shareholders in relation to listed companies and any acquisitions, disposals or restructuring. We can assist with the revision and development of your dividend policy and can gather benchmark comparator group information.

Management Information

We can assist in building, delivering and updating consolidation, financial reporting and management information systems.

Training

We can assist clients with embedding new reporting requirements across their companies. These projects can include training key personnel, identifying the critical path for implementation and key dependencies.

IT Systems

We can assist our clients by mapping the current group financial and management reporting business cycles, identifying key controls over the processes and where these will need to be enhanced to allow for IFRS parallel running and full implementation. This process would also identify key members of staff that will require specific IFRS training.

We can help plan and aim at what is a moving target.

The move to IFRS may require clients to update or replace their existing financial or enterprise risk planning (ERP) systems. We can provide advice to clients on selecting and implementing appropriate system replacements or enhancements.

Investor Relations & Dividend Policy

The transition to IFRS will require careful explanation to shareholders, especially where results differ substantially under IFRS or where the restatement of a company's results is not in line with market expectations. This could affect many factors including valuation, earnings and distribution policy.

Project Change/Management

We have experienced project management teams who have been involved in implementing major business and technology change for a wide range of organisations across all sectors. We would be pleased to discuss how our services can help mitigate business risk through effective project and programme management.

If you would like to talk to us about the transition to IFRS please contact us:

National Technical Director:

Denise Hodgkins	(09) 303 0918	dhodgkins@deloitte.co.nz

Or your local office:

Andrew Burgess	(09) 303 0734	aburgess@deloitte.co.nz
Bruce Taylor	(07) 838 4802	bructaylor@deloitte.co.nz
Graeme Mitchell	(04) 495 3916	grmitchell@deloitte.co.nz
George Rowley	(03) 363 3839	growley@deloitte.co.nz
Pat Heslin	(03) 474 8635	pheslin@deloitte.co.nz

Appendix 1 — The IASB agenda

Towards global standards

On 31 July 2001 the IASB issued a press release announcing its initial agenda of technical projects. This was as a result of its consultation with the Standards Advisory Council (SAC), national accounting standard-setters, regulators and other interested parties. The initial agenda consisted of 9 core projects.

Projects providing leadership and promoting convergence:

- Accounting for insurance contracts (being dealt with in two phases — phase I exposure draft on issue).
- Business combinations (being dealt with in two phases — phase I exposure draft on issue).
- Income statement (previously known as performance reporting).
- Accounting for share-based payments (exposure draft on issue).

Projects intended to provide for easier application of IFRS:

- Guidance on first-time application of IFRS (exposure draft on issue).
- Deposit-taking, lending and securities activities: disclosure and presentation.

Projects intended to improve existing IFRS:

- Preface to IFRS (finalised).
- Improvements to existing IAS (exposure draft on issue).
- Amendments to IAS-39 (exposure draft on issue).

In addition to these projects, there were 16 other issues being worked upon in conjunction with national standard-setters. As the initial projects are progressed, these other projects are gaining greater prominence on the IASB's agenda. Recent additions to the formal agenda have included:

- Concepts - revenues, liabilities and equity.
- Consolidations and special purpose entities.
- Convergence of IFRS and other national accounting standards.

Many of these projects are continuing in partnership with national standard-setters and should allow the pooling of resources, mutual monitoring and also accelerate the development of new standards.

Moving Target

IFRS are a moving target. Exposure drafts proposing changes to existing standards have been issued. We will also see new standards. For a one-stop source for all the latest developments go to:

www.iasplus.com

- Full range of links
- IASB projects and decisions
- Quarterly newsletters
- Country comparisons

Appendix 2 — A quick guide to IFRS

Who sets the standards?

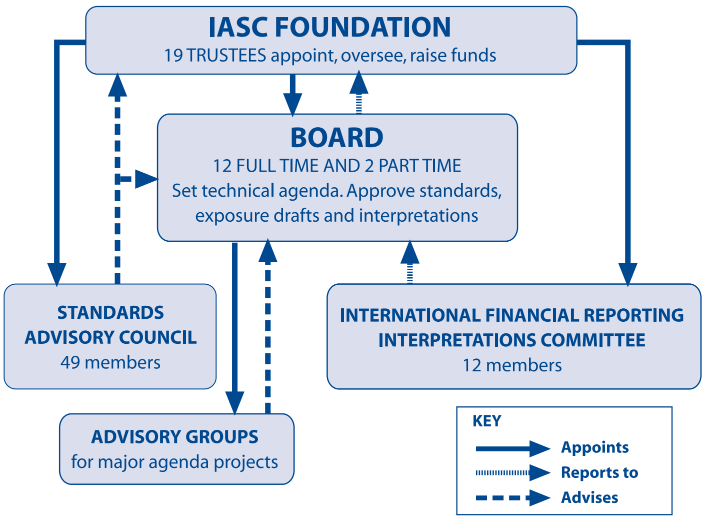
IASB - Background

The IASB is based in London having been restructured in 2001 (previously the International Accounting Standards Committee - IASC). It is funded by a combination of Central Banks, major accounting firms, financial institutions and industrial companies. There are 12 full-time and 2 part time board members from nine countries and a variety of backgrounds. Its mandate is to promote convergence on a single set of high quality, understandable and enforceable global accounting standards, which will give transparent and comparable information.

Responsibilities

- Preparing and issuing standards and exposure drafts which include dissenting opinions and approval of International Financial Reporting Interpretations Committee (IFRIC) abstracts.
- Publishing exposure drafts on all projects for public comment.
- Full discretion over technical agenda and project assignments.
- Reviewing public comments received in a reasonable time frame.
- Consultation with Standards Advisory Council (SAC).
- Consideration of field-tests to ensure that standards are practical and workable.

New Structure



IASB

Auditors

Sir David Tweedie - (Chairman)

Gilbert Gélard - (Liaison with the French standard setter)

John Smith - (Part-time)

Tricia O'Malley - (Liaison with the Canadian standard setter)

Tatsumi Yamada - (Liaison with the Japanese standard setter)

Users

Tony Cope

Robert Garnett

Geoffrey Whittington - (Liaison with the UK standard setter)

Others

Jim Leisenring - (Liaison with the U.S. standard setter)

Warren McGregor - (Liaison for the Australian and NZ standard setters)

Mary Barth - (Part-time, Academic)

Preparers

Hans-Georg Bruns - (Liaison with the German standard setter)

Tom Jones - (Vice Chairman)

Harry Schmid

IFRIC

As part of the restructuring process, the Standing Interpretations Committee was renamed the International Financial Reporting Interpretations Committee (IFRIC). IFRIC provides timely guidance on the application and interpretation of IFRS.

SAC

The Standards Advisory Council (SAC) currently has 49 members. It is a forum for organisations and individuals with an interest in international financial reporting. SAC meets 3 times each year in a public meeting to advise on priorities, inform on implications and give other advice as required. Its membership is geographically and professionally diverse, covering 6 continents and 29 countries. The SAC Chairman is constitutionally the Chairman of the IASB. Peter Wilmot, the Deputy Chairman, was formerly a Deloitte partner in South Africa.

The IASB and IOSCO - Background

The International Organisation of Securities Commissions (IOSCO) is the association of worldwide national regulatory commissions. It has approximately 100 members including all major stock exchanges and is governed by an Executive

Committee. IOSCO would like a single set of accounting standards which can be used for all international offerings.

IOSCO endorsement of IAS

1993 – IOSCO and IASC agreed a list of the minimum core standards that should be applied to enterprises involved in cross-border offerings and listings. Whilst standards had already been established for most core areas, a number of gaps were identified and this determined the IASC's work programme.

1995 – The two bodies reviewed the progress and agreed that completion of the IASC work programme would achieve this comprehensive set of standards.

1998 – The approval of IAS-39 represented the completion of the work programme established in 1993. A standard on accounting for investment property was added to the programme and was completed in March 2000.

1999 – IOSCO reviewed the core standards and concluded that IAS could be endorsed for the purpose of multinational offerings and cross-border listing, with the addition of some supplementary information. This supplementary information may take the form of reconciliation (to compare to an alternative method), additional disclosure or interpretation (either specifying use of a particular alternative in the standard or clarifying the adopted interpretation where the standard is silent or unclear).

The IASB and the US Securities and Exchange Commission (SEC)

The US SEC issued a Concept Release on International Accounting Standards in February 2000. The Concept Release highlights the need for high quality financial reporting standards, which are internationally accepted. The question posed by the SEC is whether IFRS would provide investors with comparable, transparent and reliable information and whether some conditions should be attached to the agreement to accept foreign registrants preparing financial statements in accordance with IFRS.

The Financial Accounting Standards Board (FASB) strongly and actively supports the internationalisation of accounting standards. Almost every FASB project is a matter of interest in some other country or with the IASB. The FASB's obligation to its

domestic constituents demands that it attempt to narrow the range of difference between the U.S. and other countries' standards. The Board and staff participate in many international liaison activities with different standards setters around the world.

"The Norwalk Agreement"

In September 2002, the FASB and the IASB each acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. Both the FASB and IASB pledged to use their best efforts to:

- make their existing financial reporting standards fully compatible as soon as practical; and
- coordinate their future work programmes to ensure that once achieved, compatibility is maintained.

To achieve compatibility the FASB and IASB agreed, as a matter of high priority, to:

- undertake a short-term project aimed at removing a variety of individual differences between US GAAP and IFRS;
- remove other differences between IFRS and US GAAP that will remain at 1 January 2005, through coordination of their future work programme;
- continue progress on the joint projects that they are currently undertaking; and
- encourage their respective interpretative bodies to coordinate their activities.

IFRS around the world

Over 70 countries have currently elected to adopt IFRS in some form. Visit www.iasplus.com for a list of countries which have elected to adopt or harmonise with IFRS.

Glossary of terms

Abbreviation/ Term	What it stands for
ASRB	Accounting Standards Review Board (New Zealand)
ED	Exposure Draft
FASB	Financial Accounting Standards Board (United States)
FRS	Financial Reporting Standards
FRSB	Financial Reporting Standards Board of ICANZ
GAAP	Generally Accepted Accounting Practice
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee - the predecessor to the IASB. The overall structure is now known as the International Accounting Standards Committee or IASC and the 'parent' foundation is the IASC Foundation. The standard-setting body is now called the IASB.
ICANZ	Institute of Chartered Accountants of New Zealand
IFRIC	International Financial Reporting Interpretations Committee of the IASB. Also used to refer to the interpretations issued by this committee.
IFRS	International Financial Reporting Standards – IFRS incorporates IAS (inherited by the IASB from its predecessor body the IASC), IFRS (issued by the IASB) and interpretations of both types of standards (SIC, IFRIC).
IOSCO	International Organisation of Securities Commissions. The association of worldwide national regulatory commissions.
NZ IFRS	New Zealand International Financial Reporting Standards – the FRSB intends to adopt IFRS as New Zealand financial reporting standards (NZ IFRS). IFRS are written for profit oriented entities - additional guidance is incorporated to ensure NZ IFRS are sector neutral.
Public Benefit Entities	Entities whose primary objective is to provide goods or services for a community or social benefit. Incorporates central government, local government and not-for-profit entities.
Reporting Entity	Entities subject to legal requirements on financial reporting. Which entities constitute reporting entities has yet to be defined. The financial reporting structure was reviewed by the ASRB and submitted to the Ministry of Economic Development – they are expected to issue a discussion paper for public comment on the structure later this year.
SAC	Standards Advisory Council
SEC	Securities and Exchange Commission (United States)
SIC	Interpretation(s) issued by the Standing Interpretations Committee of the IASC, the predecessor committee to the IFRIC.

Contact Us

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

Auckland
Deloitte House
8 Nelson Street
PO Box 33, Auckland
New Zealand
Telephone +64 9 309 4944
Facsimile +64 9 309 4947

Christchurch
32 Oxford Terrace
PO Box 248
Christchurch
New Zealand
Telephone +64 3 379 7010
Facsimile +64 3 366 6539

Dunedin
Otago House
481 Moray Place
PO Box 1245, Dunedin
New Zealand
Telephone +64 3 477 7042
Facsimile +64 3 477 9433

Hamilton
Fonterra House
80 London Street
PO Box 17, Hamilton
New Zealand
Telephone +64 7 838 4800
Facsimile +64 7 838 4810

Wellington
Deloitte House
61 Molesworth Street
PO Box 1990, Wellington
New Zealand
Telephone +64 4 472 1677
Facsimile +64 4 472 8023

www.deloitte.co.nz

AAA1171-3