

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE

18 MARCH 2013



REPORT 2
(1215/52/01/1M)

IMPLICATIONS FOR COUNCIL OF PROPOSED FINANCIAL REPORTING STANDARDS

1. Purpose of report

The purpose of this regular report is to inform the Subcommittee of new and proposed International Financial Reporting Standards and their likely impact for the Council.

2. Recommendations

Officers recommend that the Audit and Risk Management Subcommittee:

1. *Receive the information*
2. *Note the developments in New Zealand generally accepted accounting practice (GAAP) since the last regular Subcommittee meeting on 12 December 2012.*

3. Background

The Local Government Act 2002 requires the Council to comply with GAAP in preparing the Annual Report. GAAP is defined by the External Reporting Board (XRB) to encompass all applicable Financial Reporting Standards (FRSs) and other sources of appropriate authoritative support (for example; exposure drafts of Financial Reporting Standards, International Accounting Standards etc).

Council Officers have undertaken to report to the Subcommittee on a regular basis in relation to any new IFRSs and any exposure drafts currently on issue by XRB. This report outlines developments in GAAP and the implications for the Council since the last regular Subcommittee meeting on 3 December 2012. Although not currently applicable for the Council, developments in International Public Sector Accounting Standards (IPSAS) will also be presented to this Subcommittee for completeness. These developments will become more relevant going forward as a result of the External Reporting Board (XRB) having released exposure drafts for a suite of New Zealand Public Benefit Entity (PBE) standards based on IPSAS.

4. Developments in financial reporting

4.1 Adoption of NZ IFRS PBE in for the 2013/14 Annual Plan

The NZ IFRS PBE suite of standards is applicable for reporting periods starting after 1 December 2012. NZ IFRS PBE suite of standards will be adopted for use

in the 2013/14 Annual Plan process. The NZ IFRS PBE suite of standards is frozen at the point the standards split between profit and not-for-profit entities. The new IPSAS based suite of standards will be effective for Council reporting from 1 July 2014.

4.2 Issue of Public Sector PBE Standard Exposure Drafts

In March 2012 the External Reporting Board (XRB) announced its decisions in relation to the new Accounting Standards Framework for Public Benefit Entities (PBEs). In the announcement the XRB confirmed its proposal to adopt two sets of standards: one set for for-profit entities based on IFRS and another set for public benefit entities based primarily on International Public Sector Accounting Standards (IPSAS), modified as necessary for the New Zealand environment. There will be four tiers of reporting, each with their own reporting requirements.

The Tiers and the applicable reporting requirements for PBEs are:

Tier	Standards Applicable
1	PBE Standards
2	PBE Standards with disclosure concessions
3	PBE Simple Format Reporting Standards for Accrual Accounting
4	PBE Simple Format Reporting Standards for Cash Accounting

The Council is in Tier 1 because it has public accountability and expenses > \$30m. For an entity to be determined as public accountability it needs to trade in the public market and hold assets in a fiduciary capacity.

A submission was made on the proposed IPSAS based PBE standards. The submission made was presented to ARMS during the meeting on 12 December 2012.

4.3 Submissions

The Council makes submissions on discussion papers or exposure drafts where there is potential for it to have a significant impact on either the Council as a reporting entity or the level of funding provided by ratepayers. We also consider whether the proposals are appropriate, in our opinion, from a standard setting perspective.

4.3.1 Submissions made

As noted in 4.2, a submission was made on the proposed IPSAS based PBE standards which was presented to ARMS on 12 December 2012.

Submissions have also been made on the IPSAS conceptual frameworks phases 2 and 3. Phase 2 is elements and recognition in financial statements and Phase 3 covers measurement.

The submissions have been included as appendix 1 and appendix 2 of this document.

4.4 Summary of exposure drafts reviewed since the last committee meeting

Due to the changes in applicable standards to PBE reporting this section of the report has been reformatted. The reformatting reflects the new emphasis on XRB PBE and IPSASB standards.

In future the intention is to only perform a high level review of the for profit exposure drafts issued by XRB and IASB to maintain an awareness of the current thinking in standard setting which may flow through to PBE standard setting.

4.4.1 PBE exposure drafts issued

Exposure Draft	Impact/Summary
Conceptual Framework 2 – Elements and recognition in Financial Statements	<p>The exposure draft defines elements of financial statements (Assets, Liabilities, Revenue, Expenses, Ownership Contributions and Distributions, Deferred Outflows and Deferred Inflows) and their recognition.</p> <p>There does not appear to be any significant divergence from current practice other than the definition of two elements that did not previously exist; Deferred Inflows and Deferred Outflows. The difference between Deferred Outflows and Deferred Inflows and Assets and Liabilities is that Deferred Inflows and Outflows specifically relate to non-exchange transactions.</p>
Conceptual Framework 3 – Measurement of assets and liabilities in financial statements	<p>Conceptual Framework Phase 3: Measurement of Assets and Liabilities in Financial Statements is a discussion of a number of measurement bases and how they would be applied to elements when producing standards.</p> <p>The measurement bases discussed for assets were: historical cost, market value, replacement cost, net selling price and value in use. Two models are proposed, the fair value model, and the deprival or “rational” value model with various options to determine the value of an asset</p> <p>Liabilities had similar measurement bases,</p>

	with exception of value in use and the addition of 'cost of fulfilment' as a possible measurement base. The measurement basis is determined using a relief value model.
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4.4.2 PBE consultation papers issued

Consultation Paper	Impact/Summary
IPSASs and Government Finance Statistics Reporting Guidelines	No significant impact. The consultation paper discussed reducing differences between IPSAS and Government Finance Statistics. Suggestions for changes to IPSAS 22 Disclosure of information about the General Government Sector. IPSAS 22 is not in the proposed suite of PBE standards.

4.4.3 For-profit exposure drafts issued

Exposure Draft/ Discussion Paper	Impact/Summary
ED/2012/2 Annual improvements to IFRSs 2011-2013 cycle	Proposes minor changes to four existing standards: IFRS1: <i>First time adoption of International Financial Reporting Standards</i> , IFRS3: <i>Business combinations</i> , IFRS13: <i>Fair value measurement</i> , IAS40: <i>Investment Property</i> .
ED/2012/3 Equity Method: Share of Other Net Asset Changes	Provides additional guidance on the application of the equity method, in instances where changes in the net assets of an investee are not recognised in profit or loss or other comprehensive income, and are not distributions received from the investee ('other net asset changes'). The proposed amendments specify that an investor should recognise its share of the investee's other net asset changes in equity.
Limited changes to IFRS 9 Classification and Measurement requirements	Addresses specific application questions raised by interested parties; take into account the interaction of the model for financial assets with the IASB's Insurance Contracts project and reduce key differences with the FASB tentative model. Council has not early adopted or intends to early adopt any phase of IFRS 9 so these amendments are not applicable until periods beginning 1 January 2015.
ED/2012/5 Clarification of	Proposes to remove the ability to choose a

Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)	depreciation method which uses the revenue generated from the use of the asset as a basis for depreciation. It also clarifies that when using the diminishing method any information about the technical or commercial obsolescence of the product or service output is relevant when estimating both the pattern of consumption of future economic benefits and the useful life of the asset.
ED/2012/6 Sale or Contribution of Assets between and Investor and its Associate or Joint Venture	Provides certainty over the accounting treatment to use when an entity contributes a “business” to a joint venture. Previously there was uncertainty if this transaction should be recorded as per SIC-13 or IAS27. The ED proposes that where a business is being contributed the full gain or loss is recognised in the donor. Where the transfer is not a business only a partial gain or loss is recognised.
ED/2012/7 Acquisition of an Interest in a Joint Operation	Provides guidance to Joint Operators where the acquisition of a Joint Operation constitutes a business as defined in IFRS 3 <i>Business Combinations</i> .
ED/2013/1 Recoverable Amount Disclosures for Non-Financial Assets	An earlier amendment of IAS36 required the disclosure of the recoverable amount for impaired assets. The impact of this amendment was broader than the IASB intended and the amendment is to reduce the disclosure requirements in specific circumstances.

4.5 Exposure drafts on issue

There are no other exposure drafts currently open for comment.

5. Conclusion

We will circulate any key documents to Subcommittee members as they become available. We will also continue to report developments in Financial Reporting Standards to the Subcommittee on a quarterly basis.

Contact Officer: Nicky Blacker, Manager, Financial Accounting

SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

The report supports Council's overall vision by ensuring that legislative compliance with GAAP (NZ IFRS) is appropriately managed.

2) LTP/Annual Plan reference and long term financial impact

The report has no specific Annual Plan reference. There is no long term financial impact arising from the report.

3) Treaty of Waitangi considerations

There are no specific Treaty of Waitangi considerations.

4) Decision-making

There are no significant decisions required by the paper.

5) Consultation

a) General consultation

There are no parties significantly affected by this paper.

b) Consultation with Maori

Maori are not significantly affected by this paper.

6) Legal implications

This report has no specific legal implications.

7) Consistency with existing policy

This report is consistent with existing policy.

8 March 2013

Chief Executive
External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142

Dear Sir/Madam

**Submission on IPSASB Conceptual Framework for General Purpose
Financial Reporting by Public Sector Entities: Elements and
Recognition in Financial Statements**

Thank you for the opportunity to comment on the IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements.

If you would like further clarification on the issues raised in our submission please don't hesitate to contact me.

Yours sincerely

Leslie Boardman
Team Leader, Financial Accounting
Wellington City Council

Appendix 1: Specific Matters for Comment

Specific Matter for Comment 1

Do you agree with the definition of an asset? If not, how would you modify it?

Yes, we agree with the definition of an asset in paragraph 2.1.

Specific Matter for Comment 2

(a) Do you agree with the definition of a liability? If not, how would you modify it?

Yes, we agree with the definition of a liability given in paragraph 3.1.

(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

Yes, we agree with the description of a non-legal binding obligation in paragraph 3.10.

Specific Matter for Comment 3

Do you agree with the definition of revenue? If not, how would you modify it?

Yes, we agree with the definition of revenue.

Specific Matter for Comment 4

Do you agree with the definition of expenses? If not, how would you modify it?

Yes, we agree with the definition of expenses.

Specific Matter for Comment 5

(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?

We do not agree with the decision to define deferred inflows and deferred outflows as elements. Deferred inflows and deferred outflows fit with in the existing definitions and treatment of assets and liabilities other than that they refer specifically to non-exchange transactions.

Unless there was a very clear advantage to having these elements separately defined we feel that it will only serve to confuse readers of the financial statements.

(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:

(i) Decision to restrict those definitions to non-exchange transactions? If not, why not?

Yes, if deferred inflows and deferred outflows are to be included they should be restricted to non-exchange transactions.

(ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

If the decision is made to retain the deferred inflows and deferred outflows elements we have no issue with the definitions given.

Specific Matter for Comment 6

(a) Do you agree with the terms net assets and net financial position and the definitions?

Yes, if deferred inflows and deferred outflows remain as elements there will need to be a new defined term to explain whether the resulting net position includes them or not. The term 'Net Assets' clarifies that the term is focussing on assets and liabilities.

If not, how would you modify the terms and/or definitions?

(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?

Yes we agree with the decision to define ownership contributions and ownership distributions.

(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?

Yes we agree with the definitions of ownership contributions and ownership distributions.

(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

No, ownership interests do not need to be specifically defined as the ownership interest is simply the net financial position.

Specific Matter for Comment 7

Do you agree with the discussion on recognition? If not, how would you modify it?

We agree with the discussion on recognition and the decision to not include recognition criteria in the definitions of the elements.

8 March 2013

Chief Executive
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Dear Sir/Madam

**Submission on IPSASB Conceptual Framework for General Purpose
Financial Reporting by Public Sector Entities: Measurement**

Thank you for the opportunity to comment on the IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements.

If you would like further clarification on the issues raised in our submission please don't hesitate to contact me.

Yours sincerely

Leslie Boardman
Team Leader, Financial Accounting
Wellington City Council

Appendix 1: Specific Matters for Comment

Specific Matter for Comment 1

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

The measurement basis selected should be selected based on how well it meets the objectives of financial reporting. A separate measurement objective is not required as the objectives and qualitative characteristics strive towards the same outcome of providing useful information to users.

Specific Matter for Comment 2

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

Yes, we agree with the proposed measurement bases.

Specific Matters for Comment 3

Do you agree with the approaches proposed in Section 4 for application of:
(a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and

The fair value model as a tool for determining a suitable measurement basis to specify in a standard seems reasonable. However, having the fair value model included as a method for determining value in a standard could result in excessive compliance costs in calculating three values based on separate measurement bases to determine which should be used.

(b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.

The deprival model as a tool for determining a suitable measurement basis to specify in a standard seems reasonable. However, having the deprival model included as a method for determining value in a standard could result in excessive compliance costs in calculating three values based on separate measurement bases to determine which should be used.

Specific Matter for Comment 4

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

We agree with the proposed measurement bases for liabilities.