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## **IMPLICATIONS FOR COUNCIL OF NEW AND PROPOSED FINANCIAL REPORTING STANDARDS**

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### **1. Purpose**

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

### **2. Recommendation**

Officers recommend that the Subcommittee:

- 1. Receive the information*
- 2. Note the developments in New Zealand generally accepted accounting practice (GAAP) since the last regular Subcommittee meeting in March 2009.*

### **3. Background**

The Local Government Act 2002 requires the Council to comply with GAAP in preparing the Annual Report. GAAP is defined by the Accounting Standards Review Board (ASRB) 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 FRSs and any exposure drafts currently on issue by the New Zealand Institute of Chartered Accountants (the Institute). This report outlines developments in GAAP and the implications for the Council since the last regular Subcommittee meeting on 9 March 2009.

## **4 Developments in Financial Reporting Standards**

### **4.1 Submissions Made**

The Council makes submissions on exposure drafts where there is potential for 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. There were no submissions made during the period but Council is currently preparing a submission on the draft process for modifying, or introducing additional requirements to IFRSs for Public Benefit Entities (PBE). This will be presented at the next Subcommittee meeting on 19 August 2009.

### **4.2 Borrowing Costs**

During the last Subcommittee meeting we discussed the update to NZ IAS 23 Borrowing Costs, which permits public benefit entities (PBEs) to defer application of NZ IAS 23. This standard, while not effective until June 2010, currently requires the capitalisation of borrowing costs on qualifying assets. The proposed extension of the June 2010 deadline for PBEs will continue to provide Council with the option of expensing borrowing costs.

Whilst it might be possible for local government entities to allocate borrowing costs to qualifying assets and depreciate them over the remaining life of the asset, it is not anticipated that this will provide more meaningful information to ratepayers.

Further, infrastructure assets, which are a significant proportion of assets for the Council, are carried at depreciated replacement cost. It is currently unclear how the capitalisation of borrowing costs can be incorporated into the fair value assessment for our infrastructure assets. We are concerned that the lack of authoritative guidance on how to incorporate borrowing costs into the depreciated replacement cost model will result in a range of methods used to capitalise the costs resulting in a reduction in the comparability and reliability of the information presented.

### **4.3 Summary of Exposure Drafts reviewed since last Subcommittee meeting**

There were a number of exposure drafts reviewed which we have divided between exposure drafts with a potential impact for the Council and those with limited or no expected impact.

**Exposure drafts with potential impact for Council reporting:**

<b>Exposure Draft/ Discussion Paper</b>	<b>Impact/Summary</b>
<p>Discussion Paper: Initial Accounting for Internally Generated Intangible Assets</p>	<p>This paper written by the Australian Accounting Standards Board addresses the accounting treatment for internally generated intangible assets. It specifically addresses those intangible assets which are not currently being reported and looks at whether existing financial standards currently applied under a business combination could be used to assess whether internally generated intangible assets exist.</p> <p>The Council is currently reviewing the exposure draft to determine whether there are any potential internally generated intangible assets that exist but are not currently reported.</p> <p>The Council records its internally generated software assets as an intangible asset but does not report any other forms of internally generated intangible assets.</p>
<p>Exposure Draft 115 Omnibus Exposure Draft [2008-2]</p>	<p>This exposure draft proposes several minor amendments to a number of IFRSs.</p> <p>Some of the amendments relate to differential reporting entities and do not apply to Council.</p> <p>The remaining amendments relate to insurance contracts and prospective financial statements.</p> <p>The insurance contract amendment requires some additional disclosure related to actuarial information. The final amendment clarifies the assertions of compliance that are permitted in prospective financial statements. (An entity wishing to assert that prospective financial statements comply with NZ GAAP may assert compliance with FRS-42 and NZ GAAP as it relates to prospective financial statements rather than compliance with NZ IFRS)</p>

	The Council is in agreement with the proposals and does not anticipate a significant impact on its financial statements.
Discussion Paper: Financial Statement Presentation	<p>This discussion paper presents an alternative format which requires separate disclosure of operating, investing and financing activities in the Statement of Financial Position and Statement of Comprehensive Financial Performance in addition to the Statement of Cash Flows, which already uses this format.</p> <p>The discussion paper would have a significant presentational impact on the Annual Report for the Council both in terms of changing the format of existing primary statements as well as adding in a schedule which reconciles cash flows to comprehensive income.</p> <p>The Council will monitor the progress of this discussion paper closely.</p>

**Exposure drafts with limited or no expected impact on Council reporting:**

<b>Exposure Draft/ Discussion Paper</b>	<b>Summary</b>
Exposure Draft Relationships with the State (Proposed Amendments to NZ IAS 24 Related Party Disclosures)	<p>This exposure draft proposes to exempt a state-controlled entity from disclosing transactions with the state as well as other state-controlled entities, regardless of whether influence actually exists in such relationships.</p> <p>The Council does not anticipate any impact on its financial statements.</p>
ED Discontinued Operations – Proposed amendment to IFRS 5	<p>This exposure draft proposes to revise the definition of a discontinued operation under NZ IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> to align it with the definition of an operating segment under NZ IFRS 8 <i>Operating Segments</i>.</p> <p>If the Council were planning to discontinue a part of our business we would be required to review the classification in NZ IFRS 8 to see if it meets the definition of an</p>

	<p>operating segment (regardless of whether or not we apply IFRS 8 in the financial statements).</p> <p>Council does not currently have any disclosures relating to discontinued operations as Council and its subsidiaries have not discontinued any operations in recent times (ie at least the past 5 years).</p>
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#### 4.4 Exposure Drafts on Issue

The following exposure drafts are currently open for comment:

- Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers
- Discussion Paper Leases - Preliminary Views
- Exposure Draft of proposed International Financial Reporting Standard on Income Taxes
- IASB Exposure Draft Derecognition (proposed amendments to IAS 39 and IFRS 7)
- Process for Modifying, or Introducing Additional Requirements to, IFRSs for PBE/NFP
- IPSASB Moves Closer to Global Convergence of Financial Reporting Standards with New ED on Agriculture
- IPSASB issues Financial Instrument EDs
- Exposure Draft Derecognition (Proposed amendments to IAS 39 and IFRS 7)
- IPSASB ED 40 Intangible Assets and IPSASB ED 41 Entity Combinations from Exchange Transactions
- ED 116 Operating Segments – Amendment to NZ IFRS 8
- ED 117 Proposed Amendment to NZ IAS 34 Interim Financial Reporting - Scope

We are currently reviewing these exposure drafts to determine any potential impacts on the Council. We will provide analysis of impacts for the Council and copies of any submissions made at the next Subcommittee meeting.

## 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.

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**Supporting Information**

**1) Strategic Fit/Strategic Outcome**

*This project supports Key Achievement Area 9 Governance and Citizen Information: As per the Annual Plan, Governance and Citizen Information includes all those activities that make the Council accountable to the people of Wellington and ensure the smooth running of the city. That includes all meetings of the Council and its committees.*

**2) LTCCP/Annual Plan reference and long term financial impact**

*Relates to C534: Committee and Council process*

**3) Treaty of Waitangi considerations**

*There are no Treaty of Waitangi implications*

**4) Decision-Making**

*This is not a significant decision*

**5) Consultation**

**a)General Consultation**

*Not required*

**b) Consultation with Maori**

*Not required*

**6) Legal Implications**

*None*

**7) Consistency with existing policy**

*This report is consistent with existing Wellington City Council policy*