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**REPORT 2**  
*(1215/52/01/IM)*

## **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**

It is recommended 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 June 2008.*
- 3. Note the appointments of Council officers to positions within New Zealand Institute of Chartered Accountants (NZICA) committees and boards.*

### **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 June 2008.

## 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.

The most significant development during the period was ED35 Borrowing Costs which was proposed by the International Public Sector Accounting Standards Board (IPSASB). This exposure draft proposes that Public Benefit entities be provided with the option of expensing borrowing costs. The Council is in agreement with this proposal.

The International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities. While public sector entities in New Zealand are not required under Generally Accepted Accounting Practice (GAAP) to comply with these standards, the IPSASB have a large role in lobbying the International Accounting Standards board (IASB) to develop standards that are appropriate for public sector entities.

There has also been a recent 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 for the Council until June 2010, currently requires the capitalisation of borrowing costs on qualifying assets. The extension of the June 2010 deadline will continue to provide Public Benefit Entities with the option of expensing borrowing costs in line with this exposure draft.

There were also 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 Discussion Paper</b>	<b>Draft/</b>	<b>Impact/Summary</b>
International Accounting Standards Board (IASB) Exposure Draft (ED) Investments in Debt Instruments (Proposed amendments to IFRS 7 Financial Instruments: Disclosures)		This exposure draft proposes additional disclosure requirements for all investments in debt instruments other than those classified as at fair value through profit or loss. The IASB's proposals require information to be disclosed about the effect on pre-tax profit or loss as if these instruments were accounted for at fair value; and at amortised cost. It will also require disclosure of the value of debt

	<p>instruments measured at fair value and amortised cost.</p> <p>The Council does not anticipate a significant impact on its financial statements.</p>
<p><b>Consolidated Financial Statements</b></p>	<p>This exposure draft will supersede existing standards on consolidated financial statements. The standard will maintain the existing position in relation to consolidation procedures and will introduce some additional disclosure requirements. This includes judgements made by management when reaching decisions about whether it controls other entities.</p> <p>It also provides guidance to aid a reporting entity in determining whether or not it controls another entity.</p> <p>The Financial Reporting Standards Board (FRSB) is currently considering the need for additional material for public benefit entities (PBEs) to apply the proposed IFRS when it is adopted in New Zealand. It is expected that the proposed amendments will be introduced in the next few months.</p>
<p><b>Exposure Draft on Improving Disclosures about Financial Instruments</b></p>	<p>In light of market conditions, this Exposure Draft proposes amendments to IFRS 7 Financial Instruments. The ED proposes requiring:</p> <ul style="list-style-type: none"> <li>• disclosure of the fair value of financial instruments using a fair value hierarchy;</li> <li>• expanded disclosures about the fair value of financial instruments measured and not measured at fair value in the statement of financial position;</li> <li>• expanded disclosures on liquidity risk; and</li> <li>• amending the definition of liquidity risk.</li> </ul> <p>The Council does not anticipate a significant impact on its financial statements.</p>

<p>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</p> <p>The Objectives of Financial Reporting</p> <p>The Scope of Financial Reporting</p> <p>The Qualitative Characteristics of Information Included in General Purpose Financial Reports</p> <p>The Reporting Entity</p>	<p>This consultation paper is the product of phase one of the IPSASB's project to develop a Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, and covers:</p> <ul style="list-style-type: none"> <li>• the role and authority of the IPSASB Framework;</li> <li>• the objectives of financial reporting;</li> <li>• the scope of financial reporting;</li> <li>• the qualitative characteristics of information included in general purpose financial reports (GPFRs); and</li> <li>• the nature of the reporting entity.</li> </ul> <p>The creation of this conceptual framework is not anticipated to have a significant impact on the Council's financial statements as it currently adheres to the broad principles that have been prescribed in this exposure draft.</p>
<p>Discussion Paper Reducing Complexity in Reporting Financial Instruments</p>	<p>This paper discusses the main causes of complexity in reporting financial instruments. It also discusses possible intermediate and long-term approaches to improving financial reporting and reducing complexity.</p> <p>The discussion paper proposes a solution to complexity by measuring all financial instruments in the same way, using fair value.</p> <p>The Council does not anticipate a significant impact on its financial statements.</p>
<p>Exposure Draft of Improvements to NZ IFRSs</p>	<p>This exposure draft arises from the annual improvements project and proposes a number of minor amendments to NZ IFRSs which may result in minor terminology changes in the annual report. It will not require any formal changes to the Council's accounting policies.</p>
<p>Exposure Draft - Objective and Qualitative Characteristics</p> <p>Discussion Paper - Preliminary Views on an improved Conceptual Framework for</p>	<p>These amendments to the conceptual framework for financial reporting are not anticipated to have an impact on the Council's current financial reporting as we currently adhere to the broad principles</p>

<p>Financial Reporting The Reporting Entity</p>	<p>that have been prescribed in the exposure draft.</p> <p>It is of note that the current exposure draft outlines the objective of general purpose financial reporting from the perspective of a business entity only. We are expecting some further amendments to the conceptual framework as there is currently an exposure draft on issue looking at the conceptual framework from the perspective of public sector entities.</p>
<p>ED 114 Omnibus Exposure Draft</p>	<p>This exposure draft includes a number of minor amendments to financial reporting standards.</p> <p>The FRSB is proposing to amend the additional Public Benefit Entity (PBE) guidance on materiality to better align it with the definition of materiality in NZ IAS 1 and IPSAS 1. The revised definition will include reference to omissions and misstatements. The current PBE definition of materiality refers only to materiality in the context of non-disclosure of items.</p> <p>The Council is in agreement with the proposal and does not anticipate a significant impact on its financial statements.</p>
<p>Accounting and Financial Reporting for Service Concession Arrangements (IPSASB)</p>	<p>This IPSASB consultation paper lays out a set of requirements for reporting service concession arrangements that are very similar to those required by NZSIC 29 – Service Concession Arrangements. NZSIC 29 has a disclosure focus with this discussion paper also focusing heavily on the measurement of assets and liabilities.</p> <p>The Council does not anticipate a significant impact on its financial statements.</p>

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

<b>Exposure Draft/ Discussion Paper</b>	<b>Summary</b>
Exposure Draft of amendments to NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards	This discussion paper is not anticipated to have any impact for the Council as we adopted IFRS in 2007.
IPSASB ED 34 Social Benefits: Disclosure of Cash Transfers to Individuals or Households	<p>The purpose of this ED is to provide requirements for the disclosure of amounts expected to be transferred to individuals or households that have met threshold requirements for providing social benefits in non-exchange transactions in the form of cash transfers.</p> <p>While the Council does not provide social benefit payments we are in the process of determining whether any other grants or benefits would fall within the scope of this standard.</p>
Preliminary Views on Amendments to IAS 19 Employee Benefits	<p>The amendments proposed in this discussion document concern defined benefit plans.</p> <p>There will be no changes in how the Council accounts for employee benefits as we have no defined benefit plans.</p>
Discussion Paper Financial Instruments with Characteristics of Equity	This discussion paper is not anticipated to have any impact for the Council as we do not issue any shares or any other forms of claims on our equity.
Exposure Draft of amendments to NZ IAS 33 Earnings per Share	This discussion paper is not anticipated to have any impact for the Council as we do not issue any shares.
Exposure Draft Embedded Derivatives (Proposed amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement)	<p>This exposure draft proposes to make amendments to prevent any practice developing whereby, following the reclassification of a financial asset; embedded derivatives that should be separately accounted for are not.</p> <p>The Council does not anticipate a significant impact on its financial statements.</p>

<p>Request for Comment on Exposure Draft Relationships with the State (Proposed Amendments to NZ IAS 24 Related Party Disclosures)</p>	<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. However, the proposal would require an entity to disclose information necessary to draw attention to such transactions. It also proposes a slightly revised definition of a related party.</p> <p>The Council does not anticipate a significant impact on its financial statements.</p>
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## 4.2 Exposure Drafts on Issue

The following exposure drafts are currently open for comment:

- ED Discontinued Operations – Proposed amendment to IFRS 5
- Financial Statement Presentation
- Discussion Paper: Initial Accounting for Internally Generated Intangible Assets
- Exposure Draft 115 Omnibus Exposure Draft [2008-2]
- Request for Comment on Exposure Draft Relationships with the State (Proposed Amendments to NZ IAS 24 Related Party Disclosures)
- Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers

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. Council Representation on NZICA Committees

The Council's Chief Financial Officer, Neil Cherry has recently been appointed as the chair of the Professional Standards Board. This is the arm of the New Zealand Institute of Chartered Accountants (NZICA) responsible for formulating and implementing professional and ethical standards applicable to all NZICA members.

The Council's Financial Controller, Helen Rogers has recently been appointed to the Institute's National Public Sector Committee. This committee represents

the views of NZICA members working in the core public sector, Crown entities and local government.

## **6. Conclusion**

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

Contact officer: *Helen Rogers*  
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<b>Supporting Information</b>
<p><b>1) Strategic Fit/Strategic Outcome</b></p> <p><i>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.</i></p>
<p><b>2) LTCCP/Annual Plan reference and long term financial impact</b></p> <p><i>Relates to C534: Committee and Council process</i></p>
<p><b>3) Treaty of Waitangi considerations</b></p> <p><i>There are no Treaty of Waitangi implications</i></p>
<p><b>4) Decision-Making</b></p> <p><i>This is not a significant decision</i></p>
<p><b>5) Consultation</b></p> <p><b>a) General Consultation</b></p> <p><i>Not required</i></p> <p><b>b) Consultation with Maori</b></p> <p><i>Not required</i></p>
<p><b>6) Legal Implications</b></p> <p><i>None</i></p>
<p><b>7) Consistency with existing policy</b></p> <p><i>This report is consistent with existing Wellington City Council policy</i></p>