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WELLINGTON CITY COUNCIL

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE
5 OCTOBER 2009

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 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 12 June 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. The Council made two submissions during the period. Copies of the full submissions are shown in Appendices 1 and 2 and are summarised below:

4.1.1 Submission on the FRSB and AASB working draft of the Process for Modifying, or Introducing Additional Requirements to IFRSs for PBE/NFP

This working draft suggested a proposed process which would need to be followed in order to modify or introduce additional requirements to IFRSs for Public Benefit Entities (PBE) and Not For Profit (NFP) entities. Overall we support the establishment of a documented process for this as it helps to ensure a robust and uniform evaluation process is followed across all standards and for all issues raised in relation to PBE/NFP financial reporting. We also support the introduction of a greater focus on user needs and differences between the sectors rather than factors which are unique to PBEs.

The working draft requires the following to be considered when deciding whether a modification to IFRS can be considered:
(a) Are there PBE/NFP issues that might warrant modifying an IFRS?
(b) Are the identified PBE/NFP issues so significant that a departure from IFRSs is warranted?

We expressed some concerns over the factors used to determine the significance of any PBE/NFP issues that might warrant modifying an IFRS. In assessing the significance of the issue we would like to see the draft process focus on weighing up the costs and benefits of both the application of the unmodified IFRS and the proposed modification.

4.1.2 Submission on the ARSB Proposed Revised Release 8: The Role of the Accounting Standards Review board and the Nature of Approved Financial Reporting Standards

Release 8 introduces a greater focus on user needs and differences between the sectors rather than factors which are unique to PBEs when deciding whether to modify or introduce additional requirements to IFRSs for PBE/NFP financial reporting.

We currently consider that a single set of standards for all sectors is still the most appropriate approach to setting financial reporting standards in New Zealand. This ensures a consistent knowledge base of financial reporting standards between public and private entities and allows accountants to move more freely between the public and private sectors.

We acknowledge that there are some issues with the current framework and believe that there is a need for specific PBE guidance in some areas where IFRSs do not provide sufficient clarity for PBEs (e.g. heritage assets, non-exchange revenue, consolidations of trusts).

4.2 Public sector accounting standards

There have been some discussions recently around whether NZ IFRS is the most appropriate accounting framework for public sector entities and in June 2009 the OAG released a discussion paper entitled The Auditor General's views on setting Financial Reporting Standards for the Public Sector. The main views expressed in this paper are as follows:

- The approach to setting financial reporting standards for the public sector needs to change to ensure that these standards meet the needs of the users of public sector financial statements.
- NZ IFRSs were approved for application by reporting entities whether profit-oriented or not however the original IFRSs were designed by the IASB for application by large profit-oriented entities.
- Although it contains no direct criticism of IFRS it does express concern that there have been few changes and little additional guidance included in NZ IFRS to assist public sector entities in applying the new standards.
- Proposed changes to IFRS by the IASB will likely make IFRS even more difficult for most public sector entities to apply.
- There needs to be a significant change in the way that financial reporting standards are set for the public sector. This is likely to include taking more account of the work performed by the International Public Sector Accounting Standards Board (IPSASB).
- The focus of public sector financial reporting should be on ensuring that reports are understandable and useful for users.

As well as the above discussion document the Ministry of Economic Development (MED) will shortly be publishing a discussion document on the Statutory Framework for Financial Reporting in New Zealand and is expected to discuss the appropriateness of NZ IFRSs for public sector entities.

The IPSASB published International Public Sector Accounting Standards (IPSAS), which are currently not applicable for the Council, is currently going through a period of review of its existing IPSASs to standards and is aiming to more closely align these standards with IFRSs. In doing this the IPSASB is attempting, wherever possible, to maintain the accounting treatment and original text of the IFRS unless there is a significant public sector issue which warrants a departure.

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.

4.3.1 Exposure drafts with potential impact for Council reporting

Exposure Draft/ Discussion Paper	Impact/Summary
Discussion Paper Leases	This discussion paper proposes the elimination of the current differing accounting treatment between operating and finance leases. It proposes all leases be valued at the present value of discounted rental payments and be shown as assets with a corresponding liability. Depreciation will be applied over the life of the lease. Lessee accounting treatment is only covered as lessor treatment will be covered in a later paper. Investment property leases will also be covered later. This would change the Council's current treatment of operating leases which are currently not shown as assets within the financial statements. These leases will be required to be measured at the present value of discounted rental payments and be shown as an asset with a corresponding liability. We are generally opposed to this change as it distorts the asset and liability figures on the statement of financial position and will likely increase complexity around lease transactions. However, we do acknowledge that the existing accounting standards can result in similar transactions being accounted for very differently which reduces comparability for users.
IASB ED Financial Instruments: Classification and Measurement	This exposure draft proposes to change the requirements for the classification and measurement of financial assets and financial liabilities. The aim is to reduce the complexity in reporting financial instruments. This change for the Council will affect the categories under which financial assets are classified, but will have no impact on the values currently reported in the annual report. We are generally supportive of this change as it should help to reduce the complexity

	in reporting financial instruments.
ED 2009/5 Fair Value Measurement	This exposure draft proposes guidance on how fair value should be measured where it is required by existing standards. It does not propose to extend the use of fair value measurements. It states that fair value must be measured based on the "highest and best use" of an asset and it also introduces a fair value hierarchy, which prioritises into three levels the inputs to valuation techniques used to measure fair value. The new standard is unlikely to significantly change any of the Council's fair value measurements but there will be additional disclosure requirements for Council under the new standard. These additional disclosures are aimed to enable users of the financial statements to assess the methods and inputs used to develop fair value measurement. We are generally supportive of this change as it explains more clearly
ED Proposed International Financial Reporting Standard on Income Taxes	The ED contains proposals for an IFRS on income tax to replace IAS 12 *Income Taxes*. Various aspects of the current standard are in need of clarification. The ED proposes the following main changes: • Deferred tax assets to be recognised on a 'gross' basis together with an associated "valuation allowance" which adjusts the figure to take into account whether or not an entity expects to be able to realise this asset against taxable profit • All tax assets and liabilities (both current and deferred) should be measured using a probability-weighted average amounts of all possible outcomes • Requirement to allocate income tax expense to the components of comprehensive income and equity • Deferred assets and liabilities be classified as either current or non-current based on the financial reporting classification of the related non-tax asset or liability

	The proposals would likely result in greater complexity in the income tax provision calculations and it is likely that the Council would have to recognise deferred tax assets. It is also likely to result in increased disclosures, especially around uncertain tax positions. The Council has $1.5m of deferred tax assets (at 30 June 2009) which are currently only included in the financial statements as a disclosure item since we do not believe it is probable that future taxable profits will be available against which the benefit of the losses can be utilised. Under the exposure draft all or some of these assets may have to be recognised depending on whether the Council believes it will be able to realise any portion of these against taxable profit. We are generally supportive of this change as it clarifies certain aspects of IAS 12 however we believe that there are aspects of the proposed IFRS that require further clarification, for example around the treatment of tax losses at a Company and Group level.

4.3.2 Exposure drafts with limited or no expected impact on Council reporting

Exposure Draft/ Discussion Paper	Summary
ED 116 Operating Segments (Proposed amendment to NZ IFRS 8 *Operating Segments)*	This exposure draft proposes to align the scope of NZ IFRS 8 *Operating Segments* with the scope of IFRS 8 *Operating Segments*. This would result in fewer New Zealand entities being required to comply with NZ IFRS 8. The Council, as a Public Benefit Entity is not required to comply with NZ IFRS 8. The proposed amendment would not change this.
ED 117 Proposed Amendment to NZ IAS 34 Interim Financial Reporting - Scope	This exposure draft proposes to amend the scope of NZ IAS 34 *Interim Financial Reporting*. This would result in NZ IAS 34 applying to interim financial statements that are included in a registered prospectus. The Council is not currently required to

	apply NZ IAS 34 because it does not prepare interim financial statements.
Exposure Draft ED/2009/10 Discount Rate for Employee Benefits (Proposed amendments to IAS 19 *Employee Benefits)*	The purpose of the amendment is to restrict the use of different discount rates when calculating employee benefit liabilities. This is not expected to impact on the discount rate that the Council currently use.
NZ IFRIC Draft Interpretation D25: Extinguishing Financial Liabilities with Equity Instruments	This draft interpretation gives guidance for "debt for equity swap" transactions which involves issuing equity instruments to extinguish all or part of a liability. This is not applicable for the Council as it does not issue equity instruments to extinguish financial liabilities.
Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers	In IFRS the principles underlying the two main revenue recognition standards (IAS 18 *Revenue* and IAS 11 *Construction Contracts*) are sometimes inconsistent and vague, and provide limited guidance other than for simple transactions. This discussion paper aims to clarify the principles for recognising revenue. The way the Council recognises revenue will not be affected if the proposed model is accepted.
Discussion Paper: Credit Risk in Liability Measurement	This discussion paper is to get people thinking about the question "should current measurements of liabilities (including fair value) incorporate the chance that an entity will fail to perform as required". The Councils' borrowings are secured by way of a Debenture Trust Deed over Council rates revenue and the Council has statutory rights to invoice households for rates and statutory remedies available to recover unpaid rates, penalties and water meter charges. If the board decided to include credit risk in measuring all liabilities the Council would have to amend the accounting policy on measurement and reconsider the approach to measurement of liabilities not already held at fair value. The effect on the Council is expected to be immaterial as the Council has minimal

	credit risk.
IFRIC tentative agenda decision relating to impairments	IFRIC noted there was some diversity in practice resulting from application of the impairment requirements (specifically around the phrase "significant or prolonged" used in IAS 39 *Financial Instruments: Recognition and Measurement*) surrounding available-for-sale equity instruments. IFRIC decided to defer clarification as it would form part of the accelerated project relating to replacing IAS 39.
ED 2009/9: Classification of Rights Issues (Proposed amendments to IAS 32 *Financial Instruments: Presentation)*	The purpose of the amendment is to clarify the classification of instruments that give the holders the right to acquire an entity's own equity instruments at a fixed price (in a rights issue) when that price is stated in a currency other than the entity's functional currency. We note that this is not relevant to the Council as we do not currently issue shares.
ED Prepayments of a Minimum Funding Requirement (Proposed amendments to IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*	The exposure draft clarifies that the amount of the defined benefit asset should include any amount of minimum funding which has been prepaid. The previous Interpretation did not include a requirement to include any amounts that had been prepaid when calculating the value of the defined benefit pension asset. We note that this is not relevant to the Council as we do not have a defined benefit plan.
ED Derecognition (Proposed amendments to IAS 39 Financial Instruments: *Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosure*)	This exposure draft aims to improve the derecognition requirements for financial assets and liabilities and the assessment of when a financial instrument should be derecognised. It also aims to enhance disclosure requirements, especially in situations where an entity continues to have ongoing involvement in a financial asset or liability, for example continues to get returns from the asset or own a portion of the asset. If Council were to transfer any financial assets or liabilities but still have continuing involvement then an assessment would need to be made as to whether it meets the

	definition for derecognition. This exposure draft would also significantly increase the disclosures required. The Council does not generally enter into these types of transactions therefore no significant impact expected.

4.3.3 Exposure drafts relating to International Public Sector Accounting Standards (IPSAS)

At the moment these IPSAS exposure drafts and new standards are not relevant to the Council as we apply IFRSs not IPSASs. These are included for completeness, especially in light of the recent discussion document from the Audit General and expected discussion document from MED which suggest that any changes to financial reporting for public sector entities is likely to take more account of the work performed by the IPSASB.

Exposure Draft/ Discussion Paper	Summary
IPSASB ED 36 Agriculture	This exposure draft is based on IAS 41 *Agriculture* and clarifies that biological assets held for the supply of services are not within the scope of ED 36 Agriculture and removes the section in IAS 41 relating to government grants as this is covered in IAS 20. There are also some minor changes in terminology. We note that this is not relevant to the Council at this stage as we have no assets falling within ED 36.
IPSASB ED 37 Financial Instruments: Presentation	This exposure draft is based on IAS 32 *Financial Instruments: Presentation*. The main difference between this ED and NZ IAS 32 relates to financial guarantees. The ED requires that financial guarantees be recognised as financial liabilities at their fair value. The Council does not currently recognise its finance guarantee contracts which were non-exchange transactions unless it believes there is a probability that they will be required to settle on them, otherwise the fair values of the contracts are assessed at nil. No significant changes are expected should the Council be required to comply with this IPSAS in the future.
IPSASB ED 38 Financial Instruments: Recognition and Measurement	This exposure draft is based on IAS 39 *Financial Instruments: Recognition and Measurement*. The main differences

	between this ED and NZ IAS 39 is that the exposure draft contains additional guidance for financial guarantee contracts and concessionary loans entered into at nil or nominal consideration. There are no significant differences noted between NZ IAS 39 and ED 38, therefore no significant changes expected should the Council be required to comply with this IPSAS in the future.
IPSASB ED 39 Financial Instruments: Disclosure	This exposure draft is based on IFRS 7 *Financial Instruments: Disclosures*. The main differences between this ED and NZ IAS 39 is that there are additional disclosure requirements for financial guarantee contracts and concessionary loans entered into at nil or nominal consideration. The Council currently conforms to the disclosure requirements of this ED relating to concessionary loans as best practice, so no significant changes are expected should the Council be required to comply with this IPSAS in the future.
IPSASB ED 40 Intangible Assets	This exposure draft is based on IAS 38 *Intangible Assets*. The standard has been amended slightly to better address public sector circumstances in the definitions and terminology used and in the examples provided. No significant differences noted between NZ IAS 38 and ED 40, therefore no significant changes expected should the Council be required to comply with this IPSAS in the future.
IPSASB ED 41 Entity Combinations from Exchange Transactions	This exposure draft is based on IFRS 3 *Business Combinations*. The standard has been amended slightly to better address public sector circumstances in the definitions and terminology used and in the examples provided. No significant differences noted between NZ IFRS 3 and ED 41, therefore no significant changes expected should the Council be required to comply with this IPSAS in the future.

Exposure Draft 42: Improvements to IPSAS	This exposure draft proposes amendments to IPSAS standards to converge with amendments to International Financial Reporting Standards. All the amendments to IPSAS standards included in this exposure draft already form part of NZ IFRS.

4.4 Exposure Drafts on Issue

The following exposure drafts are currently open for comment:

- IASB ED 2009/6 Management Commentary (Guidance)
- FRSB / AASB Exposure Draft on Income from Non-Exchange Transactions
- IASB ED 2009/8 Rate-regulated Activities

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 note that there is a significant amount of standard setting activity going on at the moment and await the discussion document from MED which is likely to propose more changes to public sector reporting.

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*

Appendix 1

Submission on the FRSB and AASB working draft of the Process for Modifying, or Introducing Additional Requirements to IFRSs for PBE/NFP

Process for Modifying, or Introducing Additional Requirements to, IFRSs for PBE/NFP

Overall the Council supports the establishment of a documented process for modifying or introducing additional requirements to IFRSs for Public Benefit Entities (PBE) and Not-For-Profit Entities (NFP). It helps to ensure a robust and uniform evaluation process is followed across all standards and for issues raised in relation to PBE/NFP financial reporting.

We generally support the processed approach that “The purpose of modifying IFRSs for PBE/NFP is to reflect differences between the sectors, including differences in user information needs that warrant a different accounting treatment or additional guidance for public benefit entities.” We support the move to a greater focus on user needs.

The Council also generally agrees with the two main factors to be considered before modifying an IFRS for PBE/NFP are appropriate (P9):

- 9a) Are there PBE/NFP issues that might warrant modifying an IFRS for PBE/NFP?
- 9b) Are the identified PBE/NFP issues so significant that a departure from an IFRS if warranted?

Similar to the approach proposed in this working draft, the Council endeavours to be fully compliant with IFRS in the first instance and has not taken PBE exemptions unless there are issues significant enough to warrant a departure.

The Council agrees with the three factors proposed in P11 to be reviewed when considering whether there are PBE issues that might warrant modifying an IFRS for PBE/NFP (P9a):

- nature of transactions, events and circumstances and their impact on PBE/NFP
- benefits of compliance to users; and
- costs of compliance.

When determining the significance of the issue (P9b), some key assessment areas are identified (P 20-22):

1. an estimate of the significance of any modification on the financial statements
2. an estimate of the significance of a transaction on the financial statements taken as a whole
3. whether or not a modification will increase or decrease internal consistency within IFRSs as modified for PBE/NFP; and
4. the costs of preparing the modification and the costs of requiring preparers, auditors and users to learn two sets of requirements.

We have a concern that the factors to determine the significance of the issue are linked more closely to the proposed modification than to the underlying issue identified in 9(a). We would expect a greater linkage between the factors identified in 9(a) and 9(b). For example, in assessing the significance of the issue, we would expect the key assessment areas 1-4 above to weigh up the costs and benefits of both the application of IFRS (unmodified) and the proposed modification.

The impact of this can be illustrated by the following example. Upon review of current standards with PBE exemptions, the Council noted an instance where we believe the application of the proposed process would not result in the granting of an exemption.

The exemption from providing disclosures of the cost of an asset when the fair value model is applied (NZ IAS 16 Property, Plant and Equipment) was based, in part, on the view that the costs of compliance with this disclosure given the frequent use of the fair value model by PBE/NFP, were substantial with no corresponding benefit to users.

In applying the proposed review process this issue meets the first of the two assessment criteria (P9a); Are there PBE/NFP issues that might warrant modifying an IFRS for PBE/NFP. However, when applying the guidelines for (9b) to determine whether PBE/NFP issues are so significant that a departure from an IFRS if warranted, the Council believes that the criteria would not be met based on the four assessment areas outlined in P20-22:

1. An estimate of the significance of any modification on the financial statements – This would not have a significant effect on the financial statements.
2. An estimate of the significance of a transaction on the financial statements taken as a whole- This would not have a significant effect on the financial statements.
3. Whether or not a modification will increase or decrease internal consistency within IFRSs as modified for PBE/NFP - unlikely to have a significant change on the internal consistency within IFRSs as modified for PBE/NFP
4. The costs of preparing the modification and the costs of requiring preparers, auditors and users to learn two sets of requirements – There would have been costs in preparing this modification.

While the modification would likely meet the criteria under P9a, it does not appear to meet the criteria under 9b when applying the four assessment areas outlined above. It appears that the decision to create an amendment for NZ IAS 16 was based on the cost and time required for PBEs relative to benefit which we believe should meet the overall criteria in 9b. However this is not reflected in the assessment areas outlined above and so additional guidance may need to be added.

While it has been noted that the International Public Sector Accounting Standards Board's guidance would be considered when it was determined that different recognition was required for PBE/NFP (P26), we would also recommend that the views of the Public Benefit Entity Working Group and the National Public Sector Committee are also incorporated into the review programme to ensure that the views of the wider PBE/NFP community are carefully considered.

Appendix 2

Submission on the ARSB Proposed Revised Release 8: The Role of the Accounting Standards Review board and the Nature of Approved Financial Reporting Standards

Proposed Revised Release 8: *The Role of the Accounting Standards Review Board and the Nature of Approved Financial Reporting Standards.*

Wellington City Council ("The Council") would like to comment on the proposed revised Release 8 in relation to the approach for modifying International Financial Reporting Standards for Public Benefit Entities (PBE). We understand that the key change is that the focus in future, when determining modifications to IFRSs for PBE, would be on the differences between the sectors, including differences in user needs, rather than on factors which are unique to PBEs. This is expected to result in more modification and additions than in recent years. The Council is in general agreement with the proposed key changes to Release 8.

1) Do you consider that a single set of standards remains the most appropriate approach to setting financial reporting standards in New Zealand currently? If so, why? If not, why not and what do you consider an appropriate approach to be

At a principle level, the Council considers that a single set of standards for all sectors is still the most appropriate approach to setting financial reporting standards in New Zealand. A single set of standards ensures a consistent knowledge base on financial reporting standards between public and private entities. This allows for accountants to move more freely between the public and private sector and reduces the burden of maintaining multiple separate sets of standards.

While we support the principle of one set of standards, we acknowledge that there are some issues with the current framework which must be addressed. We believe there is a need for greater resource to be applied in respect of PBE specific guidance. There are a number of areas where IFRS do not provide sufficient clarity for PBEs (eg heritage assets, consolidation of trusts). It is important that this is acknowledged by NZ standard setters, and a clear work programme established to address these areas. The absence of an appropriate and clear conceptual framework is also of concern.

Given the importance and size of the PBE sector, and the historical tendency for the NZ public sector to play a leading role on the world stage in terms of financial reporting and financial management, we strongly encourage greater investment by NZ standard setters in this area, including a stronger advocacy role at an international level.

2) Do you consider IFRSs continue to provide an appropriate starting point for setting standards for PBEs? What issues (if any) do you foresee with using IFRSs in the future? What role do you think IPSASs should have in New Zealand standard-setting over the coming years?

The Council considers that IFRS continue to be an appropriate starting point for setting standards for PBEs. For the reasons outlined in 1) above, the Council considers that the application of IFRS with appropriate modifications for PBEs, is the most appropriate approach.

We note that PBEs have already invested considerable resource into the transition to IFRS (and in explaining this to stakeholders) and the IPSASB also appear to be migrating their standards towards IFRS where applicable to PBEs. We therefore do not see benefit in a radical departure from IFRS at this point.

When setting standards, the Council consider that it is appropriate to start with IFRSs and then work with the IPSASB and the Public Benefit Entity Working Group in New Zealand to determine whether there are any PBE specific issues that are significant enough to warrant additional guidance for PBEs or an exemption if appropriate.

3) Assuming that a single set of standards based on IFRSs is maintained as currently proposed:

a) Do you agree with the change of focus from factors which are unique to PBEs to differences between the sectors, including differences in user needs?

The Council supports the changes of focus from areas which are unique to PBEs, to differences between the sectors and their user needs. Considering user needs when making changes to IFRSs will help to make accounts more useful and understandable to readers/users.

b) Do you agree that more sector-specific guidance is needed? Please list areas of existing standards or matters not covered by existing standards on which you consider guidance is needed?

The Council have identified a number of areas where more sector-specific guidance is required:

1. Consolidation of trusts
2. Heritage assets
3. Non-exchange revenue
4. Non-market loans
5. Bequests and Trusts
6. Development Contributions
7. Small entities and their difficulty in complying with IFRS

It is important that a clear work programme is developed to address these areas.

c) Do you consider the changes proposed to Release 8 are necessary and sufficient to ensure that financial reporting standards will be appropriate for PBEs in the future? If not, what changes do you recommend?

The changes proposed to Release 8, together with the proposed *Process for Modifying, or introducing Additional Requirements to, IFRSs for PBE/NFP* are necessary to ensure that the use of IFRSs will continue to be appropriate for PBEs. We strongly encourage NZICA to seek the views of the PBE Working Group as part of the review process for modification of any standard.

4) Are there any issues relating particularly to not-for-profit sector which are of concern to you in relation to the current standard-setting approach? How would you propose such issues would be addressed?

Our comments are addressed primarily at public sector issues (and local government specifically). We do not have any specific not for profit sector comments, other than to note that given the size, scale, diversity and voluntary nature of many not-for-profit organisations, easily accessible guidance material is crucial to ensure that both preparers and auditors are clear on their financial reporting obligations.