

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE

12 DECEMBER 2012



REPORT 3
(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 2 April 2012.*
3. *Note the implications of the Local Government (Financial Reporting) Regulations 2011 on the Council's financial reporting.*

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 08 October 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 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.

The standards will be adopted on 1 July 2014. Council officers have reviewed the impact of the proposed standards contained in a package of 41 exposure drafts. Section 4.3 below contains a summary of the significant impacts expected. Appendix 1 comprises the draft submission to be made to the XRB on behalf of the Council regarding the Public Sector PBE accounting standards package.

4.2 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.

4.2.1 Proposed Submission

The closing date for submissions to the XRB on the package of proposed Public Benefit Entity (PBE) accounting standards is Friday 14 December 2012. Please see appendix 1 for a copy of the proposed submission on the PBE package standards.

4.2.2 Submissions made

Since the last regular Subcommittee the Council has made no submissions on issued exposure drafts.

4.3 Summary of exposure drafts reviewed since the last committee meeting

Exposure drafts are divided between exposure drafts with a potential impact for the Council and those with limited or no expected impact.

4.3.1 Exposure drafts reviewed with potential impact on Council reporting

Exposure Draft/ Discussion Paper	Impact/Summary
ED PBE IPSAS 1 – <i>Presentation of Financial Statements</i>	Changes to the presentation of information in statements, including the line items within those statements. The requirements in PBE Standards are similar to earlier

	requirements in NZ IFRS. Reversion to elements of Comprehensive Income being within Statements of Movements in Equity only. Change in assertion of compliance required.
ED PBE IPSAS 7 – <i>Investments in Associates</i>	There are some changes relating to investments in associates, IPSAS 7, which are of some concern. The standard specifically refers to “a shareholding or other formal equity structure” being in place in order for an entity to be an associate. We are still investigating the impact of this but early indications would suggest that several of our current associates would potentially not be classified as associates under the new standard.
ED PBE IPSAS 9 – <i>Revenue from Exchange Transactions</i> & ED PBE IPSAS 23 – <i>Revenue from Non-Exchange Transactions</i>	PBE IPSAS 9 and 23 separate revenue from transactions in to exchange and non-exchange categories that are reported separately. NZ PBE IPSAS 9 requires that where dividends received were paid from pre-acquisition profits that the value of the dividend is to be deducted from the cost of the investment. NZ PBE IPSAS 23 requires disclosures around conditions and restrictions on non-exchange assets to be disclosed.
ED PBE IPSAS 17 – <i>Property, Plant and Equipment</i>	Disclosures are required in respect of heritage assets that are not recognised.
ED PBE IPSAS 20 – <i>Related Party Disclosures</i>	ED PBE IPSAS 20 widens the definition of Key Management Personnel (KMP) and includes much more detail with respect to who is to be included as KMP, specifically with regards to “key advisors”. The definition of a related party in the ED is different from the current NZ IAS 24 definition and more closely resembles the previous version of NZ IAS 24. This widens the definition of related parties to include entities which KMP have significant influence over (current NZ IAS 24 specifies control or joint control). The ED also proposes that an entity need only disclose related party transactions which are not on an arm’s length basis in a normal supplier / client relationship.
ED PBE IPSAS 25 – <i>Employee</i>	Disclosure of the basis for determining the

<i>Benefits</i>	discount rate required.
ED PBE IPSAS 26 – <i>Impairment of Cash-Generating Assets</i>	PBE IPSAS 21 and 26 separate cash generating and non-cash generating assets in to separate categories. PBE IPSAS 26 only applies to cash generating property if it is not measured at revalued amounts. This could result in some previous impairment being reversed if it had been applied to assets that are revalued.
ED PBE IPSAS 32 – <i>Service Concession Arrangements: Grantor</i>	The application of this standard will result in the reclassification of at least one asset to a new classification of “service concession assets”. Minor additions to the disclosures will need to be made in the commentary on the arrangement in the notes. The policy will need to be updated for the new asset classification.
ED 2012-4 <i>Framework: PBE Standards – Mixed Groups</i>	This ED required entities within a mixed group to apply consistent accounting policies for “like transactions and other events in similar circumstances and requires the parent entity to restate numbers on consolidation where a non-PBE subsidiary has a different accounting policy, where the difference is material. Overall, having different sets of standards applicable to different entities within a group is potentially going to cause some ongoing issues, especially with the expected divergence of the two sets of standards going forward. It may also be difficult to determine what would be “material” when deciding whether to restate.

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

Exposure Draft/ Discussion Paper	Impact/Summary
Draft IFRIC Interpretation DI/2012/2 Put Options Written on Non-controlling Interests	Draft IFRIC Interpretation DI/2012/2 Put Options Written on Non-controlling Interests - Not applicable to Council as it does not have any shares in its subsidiaries held by non-controlling interests and therefore does not have any put options to purchase those shares back.

IASB draft of the forthcoming IFRS on general hedge accounting	IASB draft of the forthcoming IFRS on general hedge accounting IFRS 9. This next phase in the replacement of NZ IAS 39 <i>Financial Instruments</i> is intended to bring closer alignment between hedge accounting and risk management. Features that would potentially affect Council if and when it becomes part of the PBE standards would include the removal of the bright line test for hedging ineffectiveness and the inability to voluntarily discontinue hedge accounting for a hedging instrument. As Council's hedges are predominately cashflow hedges for interest rate risk the effect should be minimal however the application guidance in some areas remains complex. Increased disclosure requirements will definitely apply.
Various ED PBE IPSAS standards	All of the EDs in the Public Sector PBE accounting standards package have been reviewed. Apart from the ED which are specifically mentioned in the table above under section 4.3.1 the other EDs are expected to have limited or no impact on Council reporting.

4.4 Exposure drafts on issue

The following exposure drafts are currently open for comment and will be reviewed by the Council before the next subcommittee meeting:

- ED Conceptual Framework Phase 2 – Elements and Recognition in Financial Statements
- ED Conceptual Framework Phase 3 – Measurement of Assets and Liabilities in Financial Statements

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

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.