
REPORT 3
(1215/52/01/1M)

IMPLICATIONS FOR COUNCIL OF NEW AND 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 29 June 2010.*

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 IFRSs 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 29 June 2010. Although not currently applicable for the Council, developments in International Public Sector Accounting Standards (IPSAS) will also be presented to this Subcommittee for completeness.

4. Developments in Financial Reporting Standards

4.1 Submissions made

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.

Since the last regular Subcommittee meeting on 29 June 2010 the Council has made one submission on exposure draft ED2010/9 Leases, detailing proposed amendments to IAS 37: Leases.

The proposed amendments represent a significant change from the previous standard in that lessees will be required to record a right-of-use asset and a liability for lease payments on commencement of the lease. Initial recognition under the previous standard was based on whether significant risks were transferred to the lessee.

For lessors the treatment varies based on whether the lessor retains significant risk exposure to the asset. If the lessor retains significant exposure to the risk the “Performance Obligation” approach is used, otherwise a “De-recognition” approach is applied.

If the lease is subject to the “Performance Obligation” approach the lessor recognises an asset being the right to receive lease payments based on the discounted value of the lease payments. The lessor also recognises a lease liability. These are both reported separately to the underlying asset in the statement of financial position.

Under the “De-recognition” approach the lessor recognises the right to receive lease payments as an asset and derecognises a portion of the value of the asset. The remaining portion of the asset is a residual asset representing the rights retained by the lessor in the asset.

The concern we raised in our submission was that the application of the standard to the Council’s social housing leases would be very subjective. Based on the approach set out in the standard the social housing leases would be recorded using the performance obligation approach. This would involve estimating the lease term of the social housing leases. Estimation of the term is difficult as the leases can be terminated by either the lessor or lessee without penalty and with limited notice. As the right to receive lease payments is recorded as an asset any change in lease terms would flow through to the amounts reported in the statement of financial position.

A suggestion was made that treatment of leases which can be terminated with limited notice and without penalty be recorded using the same methods proposed for short-term leases which mirrors our current treatment of these leases.

5.2 Summary of Exposure Drafts reviewed since last Subcommittee meeting

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

5.2.1 Exposure drafts reviewed with potential impact for Council reporting

Exposure Draft/ Discussion Paper	Impact/Summary
IASB ED/2010/13 Hedge Accounting	<p>The ED proposes requirements as to what financial instruments qualify for designation as hedging instruments; the items that will qualify for designation as hedged items and an objective-based hedge effectiveness assessment.</p> <p>The effects for Council will mainly concern the presentation of it's fair value hedges, with any accumulated fair value adjustments for the hedged item being shown separately on the Statement of Financial Position and changes going through other comprehensive income and not surplus or deficit. This is similar to the present treatment for cash flow hedges. Additional qualitative disclosures will be also be required. Generally there will be more flexibility to achieve a better relationship between economic risk management and hedge accounting strategies.</p>

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

Exposure Draft/ Discussion Paper	Impact/Summary
ED/Code of Ethics: Independence in Assurance Engagements	As a member of the International Federation of Accountants (IFAC), NZICA is required to apply no less stringent standards than those in the International Code of Ethics. As a result a number of requirements relating to independence have been strengthened.

	<p>The changes proposed are not expected to have any impact on the Council.</p>
<p>IASB Discussion Paper DP/2010/1 Extractive Activities</p>	<p>Extractive activities are the activities undertaken by mining and oil and gas entities when searching for, and ultimately extracting, minerals or oil and gas.</p> <p>The changes proposed are not expected to have any impact on the Council.</p>
<p>IASB Exposure Draft ED/2010/4 Fair Value Option for Financial Liabilities</p>	<p>The proposed new standard would see no change to the classification and measurement of financial liabilities except where they are designated at Fair value through profit or loss (FVTPL). However, any changes in the credit risk of liabilities designated at FVTPL will be required to be presented in other comprehensive income (OCI) rather than in profit or loss, as currently under NZ IAS 39, unless such treatment would result in an accounting mismatch.</p> <p>The changes proposed are expected to have minimal impact for the Council.</p>
<p>IASB ED/2010/3 Defined Benefit Plans Proposed amendments to IAS 19</p>	<p>The standard proposes to improve the recognition, presentation and disclosure of defined benefit plans by removing the 'corridor' method and using a new approach to presentation.</p> <p>The changes proposed are not expected to have any impact on the Council.</p>
<p>IASB Exposure Draft ED/2010/6 Revenue from Contracts with Customers</p>	<p>This exposure draft proposes to replace IAS 18: Revenue and IAS 11: Construction Contracts with one standard on revenue from contracts with customers. It proposes to focus on the transfer of control rather than the transfer of risks and rewards.</p> <p>The changes proposed are expected to have minimal impact for the Council with the biggest change being the presentation of impairment for doubtful debts. These will need to be estimated upfront and deducted against revenue.</p>
<p>IASB ED/2010/7 Measurement Uncertainty Analysis Disclosure for Fair Value Measurements</p>	<p>NZ IFRS 7: Financial instruments: Disclosures requires a three level hierarchy disclosure for financial instruments measured at fair value with level 3 having the least observable inputs. The unobservable level 3 inputs presently</p>

	<p>require a reconciliation of movements and explanation of any movements in or out of that classification.</p> <p>The changes proposed are expected to have minimal impact for the Council as presently we only have one equity investment in Level 3 (Civic Assurance) which is measured using the net asset value.</p> <p>An extra analysis table will be required as part of the financial instruments note and processes put in place to ascertain the information required.</p>
<p>Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand</p>	<p>ED 121 contains proposals to harmonise Australian and New Zealand financial reporting standards for the purpose of eliminating many of the differences between the standards in each jurisdiction. The objective is to achieve trans-Tasman harmonisation, rather than to reconsider the relevance of the original rationale for modifications from IFRSs.</p> <p>The FRSB has also issued ED 122 Proposed Separate Disclosure Standards which complements the proposals in ED 121. ED 122 contains proposals for items to be included a separate New Zealand disclosure standard.</p> <p>The changes proposed are expected to have minimal impact for the Council.</p>
<p>IASB ED/2010/8 Insurance Contracts</p>	<p>The exposure draft proposes a comprehensive measurement approach for all types of insurance contracts issued by entities. The Council is exposed to this standard through being an Accredited Employer under the ACC Partnership Programme.</p> <p>The changes proposed are expected to have minimal impact for the Council.</p>
<p>IASB Exposure Draft ED/2010/10 Removal of Fixed Dates for First-time Adopters (Proposed amendments to IFRS 1)</p>	<p>The International Accounting Standards Board (IASB) has published an exposure draft of minor proposed amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards.</p>

	This change is not expected to have any impact for the Council.
ED 123 Proposed Amendments to NZ IFRS 7 Financial Instruments: Disclosures; Removal of Appendix E New Zealand-specific additional disclosure requirements applicable to financial institutions	ED 123 proposes to amend NZ IFRS 7: Financial Instruments: Disclosures by removing New Zealand-specific additional disclosure requirements applicable to financial institutions. This change is not expected to have any impact for the Council.
IASB Exposure Draft ED/2010/11 Deferred Tax: Recovery of Underlying Assets (Proposed amendments to IAS 12)	The purpose of the amendments is to provide an exception to the principle that the measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities. The changes proposed are expected to have minimal impact for the Council.
IASB ED/2010/5 Presentation of Items of Other Comprehensive Income (Proposed Amendments to IAS 1)	The exposure draft proposes a single statement of comprehensive income with two sections: (i) profit or loss; and (ii) other comprehensive income. The exposure draft also proposes a new presentation approach for OCI. With recent decisions in other IASB projects, more items will be presented in OCI. The changes proposed are expected to have minimal impact for the Council.

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

While the Council is not currently required to apply International Public Sector Accounting Standards (IPSAS), we continue to review them and assess the impact on the Council if we were required to move to reporting under IPSAS.

Exposure Draft/ Discussion Paper	Impact/Summary
IPSASB Exposure Draft 44 Improvements to IPSASs	This exposure draft proposes amendments to IPSAS standards to converge with amendments to International Financial Reporting Standards. No impact as all the amendments to IPSAS standards included in this exposure draft already form part of NZ IFRS.

5.3 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:

- IPSASB International public sector conceptual framework
- ED 124 Proposed amendments to FRS-43 Summary Financial Statements
- ED 125 Concessionary Loans: Proposed Amendments to NZ IAS 39 Financial Instruments: Recognition and Measurement, NZ IFRS 7 Financial Instruments: Disclosures and NZ IFRS 9 Financial Instruments
- ED/2009/12 Financial Instruments: Amortised Cost and Impairment Financial Instruments: Impairment
- Exposure Draft ED/2011/1 Offsetting Financial Assets and Financial Liabilities

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.

6. 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) LTCCP/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.