

Accounting Alert

Public Benefit Entities

Quarterly update – What's new in financial reporting for September 2013?



The analysis below provides a high level overview of new and revised financial reporting requirements that need to be considered by PBEs for annual financial reporting periods ending on 30 September 2013. PBEs can use this listing to identify areas that may need to be considered further as part of their close process.

While there are fundamental changes coming soon for PBEs (in respect of the new Accounting Standards Framework (the "New Framework")), NZ IFRS for PBEs is currently in a relatively stable phase. There are only a small number of new or amended accounting requirements to be considered for annual financial reporting periods ending 30 September 2013.

The information below was updated on 12 September 2013 for developments to that date. As more information becomes available in respect of the impact of the New Framework, we will keep you updated.

Interim NZ IFRS for PBEs

What are the new and revised accounting pronouncements for September 2013?

Until the New Framework is effective, NZ IFRS for PBEs is in a relatively stable phase. Current NZ IFRS for PBEs can be found at: [Interim NZ IFRS for PBEs](#). There are only two new amendments which are mandatory for the first time for financial years ending 30 September 2013, which were both effective for periods beginning on or after 1 January 2012:

- **Amendments to NZ IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets**

These amendments are most relevant to entities with investment property. They introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments would allow reversal of significant deferred tax liabilities recognised with recent changes to NZ tax legislation in relation to the removal of depreciation on buildings.

- **Amendments to FRS 43 Summary Financial Statements**

This amended NZ specific Standard sets out the requirements when preparing summary financial statements, whether a single period summary (with one comparative period) or a multi period summary. The amendments:

- extend the scope of FRS 43 to summary financial statements included in the same document as full financial statements if required by regulation (e.g. in a prospectus)
- simplify disclosures for multi period summaries
- clarify that where an entity has restated or reclassified comparative information the summary must be drawn from the restated or re-classified information
- remove the disclosure requirement of subsequent events that occur after the approval of full financial statements.

There have also been recent amendments to FRS-42 (PBE) *Prospective Financial Statements* and FRS-44 (PBE) *New Zealand Additional Disclosures*, which are effective for periods beginning on or after 1 January 2014. The amendments resolve a conflict between the requirements of FRS-42 (PBE) to present prospective financial statements in respect of an annual period, and the requirements of the Securities Regulations 2009 (in certain cases) to present prospective financial statements in respect of an interim period. The amendments to FRS-42 (PBE) permit an entity to present prospective financial statements in respect of an interim period but also require the entity, under FRS-44 (PBE), to present a comparison of actual amounts versus the previously published prospective interim financial information in the subsequent interim financial statements.

NZ IFRS 9 *Financial Instruments* is effective for periods beginning on or after 1 January 2015 but is also unlikely to impact many PBEs before adoption of the New Framework. More detail on NZ IFRS 9 can be found in our “For-Profit Entities Quarterly Update” publication.

Disclosure of the application of new and revised accounting pronouncements needs to be carefully considered (outlined in Appendix A).

Coming soon – the new framework

The “New” Accounting Standards Framework – XRB A1 Accounting Standards Framework	Helpful Publications
<p>The “New” Framework is a two sector, multi-tiered Framework. This approach has been adopted in order to meet the differing information needs of each sector’s users of financial statements. The for-profit entity framework is based on International Financial Reporting Standards (IFRS), whereas the framework for PBEs is based on International Public Sector Accounting Standards (IPSAS).</p> <p>Public Sector¹ PBEs (PS PBEs) – periods beginning on or after 1 July 2014 In May 2013, the XRB issued:</p> <ul style="list-style-type: none"> • an update to General (Accounting) Standard XRB A1: <i>Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities Update (XRB A1 (FP Entities + PS PBEs Update))</i>. XRB A1 sets out the tiers for reporting, the standards that apply to each tier and the requirements for transitioning between tiers • <i>The PBE (Conceptual) Framework</i> and • a suite of 39 standards for PBE entities, comprising PBE Standards and PBE Standards Reduced Disclosure Regime (PBE Standards RDR). The PBE Standards include guidance specific to PS PBEs and not-for-profit entities. <p>PS PBEs will need to carefully consider which tier applies, to determine whether they will be required to apply PBE Standards, PBE Standards RDR, or Simple Format Reporting from 1 July 2014. In the first year of application, comparative information will be required for the previous financial year. The New Framework cannot be early adopted. The NZASB is currently in the process of developing a Comparison Table which will outline the major recognition and measurement differences between PBE Standards and NZ IFRS. As more information becomes available in respect of the impact of the New Framework, we will keep you updated.</p> <p>Amendments to PBE FRS-42 <i>Prospective Financial Statements</i> and PBE FRS-44 <i>New Zealand Additional Disclosures</i> (relating to prospective interim financial statements) will also apply to PS PBE’s.</p> <p>The PS PBE Framework can be found at: PS PBE Standards</p> <p>Not-for-Profit PBEs – periods beginning on or after 1 April 2015 The requirements for Not-For-Profit PBEs (which are not Public Sector PBEs) (NFP PBEs) are expected to be issued in late 2013 and it is anticipated that they will be effective for periods beginning on or after 1 April 2015. As more information becomes available in respect of the impact of the New Framework, we will keep you updated.</p> <p>Interim Standards for PBEs In the meantime, PBEs (both PS PBEs and other NFP PBEs) will continue to use the current NZ IFRS for PBEs, which are now contained in a separate set of standards on the XRB’s website. Some NFP PBEs will be able to continue using old NZ GAAP.</p> <p>Current NZ IFRS for PBEs can be found at: Interim NZ IFRS for PBEs</p> <p>New NZ IFRS or amendments to NZ IFRS approved subsequent to March 2011 have generally been applicable to profit-oriented entities only, and therefore NZ IFRS for PBEs is a relatively stable platform until the New Framework changes set out above come into effect.</p> <p>The New or amended NZ IFRS which are relevant to PBEs during the interim period are set out above. Amendments to FRS-42 (PBE) <i>Prospective Financial Statements</i> and FRS-44 (PBE) <i>New Zealand Additional Disclosures</i> (relating to prospective interim financial statements) are applicable for periods beginning on or after 1 January 2014 and will also apply under the New Framework. NZ IFRS 9 <i>Financial Instruments</i> is applicable to PBEs for periods beginning on or after 1 January 2015, but as PBEs will mandatorily adopt the New Framework before NZ IFRS 9’s mandatory effective date, it may not impact many PBEs.</p> <p>For-profit entities For-profit entities should look to our “For-Profit Entities Quarterly Update” publication.</p>	<p>March 2013 Accounting Alert – Staying on top of developments (this accounting alert outlines the exposure draft of the new simple format reporting standards that will apply to public benefit entities)</p> <p>September 2012 Accounting Alert – Staying on top of developments (this accounting alert summarises the proposed financial reporting requirements by entity type, bringing together the proposals included in the Financial Reporting Bill (who has to report, whether an audit is required, filing requirements, and penalties) with the proposals of the XRB on which financial reporting standards would apply)</p> <p>May 2012 Accounting Alert – Staying on top of developments (this accounting alert provides an update on the proposed changes to New Zealand’s Accounting Standards Framework (as at May 2012))</p>

1 Public Sector entities are “Public entities as defined by the Public Audit Act 2001 that are PBEs and all Offices of Parliament”.

PBE applicable accounting standards

Tier	Who Captured	Applicable Accounting Standards
Tier 1	Publicly accountable entities ² Large (expenses >\$30 million)	PBE Standards
Tier 2	Non publicly accountable and non-large Elects to be in tier 2	PBE Standards RDR
Tier 3	Non publicly accountable with expenses ≤ \$2 million Elects to be in tier 3	PBE Simple Format Reporting Standard – Accrual (PBE SFR-A (PS) and PBE SFR-A (NFP))
Tier 4	Certain entities as set out in XRB A1 ³ , and other entities allowed by law to use cash accounting (currently proposed in the Financial Reporting Bill for entities with operating payments of less than \$40,000, although this may be increased to \$125,000) Elects to be in tier 4	PBE Simple Format Reporting Standard – Cash (PBE SFR-C (PS) and PBE SFR-C (NFP))

- 2 Publicly accountable entities include entities that have debt or equity instruments that are traded, or to be traded in a public market, or entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Certain entities are deemed to be publicly accountable, such as issuers as defined by the Securities Act 1978 or any other Act, registered banks, deposit takers and registered superannuation schemes.
- 3 Rural Education Activity Programmes (REAPs); Reserves Boards and Administrating Bodies; Trustees of Cemeteries; and Provincial Patriotic Councils.



Appendix A – Shedding light on the disclosures required

NZ IFRS requires disclosures in relation to all the new or revised Standards and Interpretations that have had or may have a material impact on the annual financial report of the entity, **whether they have been adopted or not.**

The disclosure requirements surrounding new or revised accounting pronouncements under Interim NZ IFRS are specified by:

- for annual reporting periods – NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- for interim reporting periods – NZ IAS 34 *Interim Financial Reporting*.

PBEs which qualify for differential reporting (**Qualifying Entities**) are permitted exemptions from certain disclosures as noted below.

What disclosures are required?

Applicability of new or revised pronouncement	Summary of disclosure required
Initial mandatory or voluntary application of a new or revised pronouncement	<p>The relevant pronouncement, the nature of the change in accounting policy, details of any transitional provisions, line-by-line analysis of the effect of the change in policy on the financial statements and the impacts on earnings per share.</p> <p>(NZ IAS 8.28)</p> <p>When initial application has not had a material impact on the financial statements (and is also not expected to have a material impact in future periods), an entity may wish to include a generic disclosure such as:</p> <p><i>“All mandatory Standards, Amendments and Interpretations have been adopted in the current year. None had a material impact on these financial statements.”</i></p>
Pronouncement on issue but not adopted	<p>The financial report must disclose which pronouncements have been issued but not adopted in the financial report, when the pronouncements have mandatory application, when those pronouncements are going to be applied by the entity and the possible impact on the entity's financial report (where known or reasonably estimable).</p> <p>PS PBEs which have not yet assessed the impact of the New Framework on the financial statements may wish to include a generic disclosure such as:</p> <p><i>“In May 2013 the External Reporting Board (XRB) approved, with effect for periods beginning on or after 1 July 2014, a New Framework for PS PBEs including a suite of 39 standards based largely on International Public Sector Accounting Standards (IPSAS). The Company will adopt the New Framework when it becomes mandatory. The full impact of these new standards is yet to be determined.</i></p> <p><i>In the interim, all new New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs) and amendments to existing NZ IFRSs approved in and subsequent to, March 2011 are applicable to profit-oriented entities only. This means that the financial reporting requirements for public benefit entities (PBEs) are frozen for the short-term. Consequently, new or amended NZ IFRS released during the year are not applicable to PBEs and hence no disclosure has been made.”</i></p> <p>PS PBEs which have assessed that initial application of the New Framework is not expected to have a material impact on the financial statements may wish to include a generic disclosure such as:</p> <p><i>“In May 2013 the External Reporting Board (XRB) approved, with effect for periods beginning on or after 1 July 2014, a New Framework for PS PBEs including a suite of 39 standards based largely on International Public Sector Accounting Standards (IPSAS). The Company will adopt the New Framework when it becomes mandatory. The New Framework is not expected to result in a material impact on the Company's financial statements.</i></p> <p><i>In the interim, all new New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs) and amendments to existing NZ IFRSs approved in and subsequent to, March 2011 are applicable to profit-oriented entities only. This means that the financial reporting requirements for public benefit entities (PBEs) are frozen for the short-term. Consequently, new or amended NZ IFRS released during the year are not applicable to PBEs and hence no disclosure has been made.”</i></p> <p>NFP PBEs may wish to include the following disclosure in respect of the New Framework:</p> <p><i>“The External Reporting Board (XRB) is currently in the process of establishing a new Accounting Standards Framework based on a multi-sector, reporting tiers approach. The new accounting standards framework will consist of two sets of accounting standards, one to be applied by entities with a for-profit objective and the other to be applied by public benefit entities (PBEs). The not-for-profit PBE standards have not yet been released, but will be based largely on International Public Sector Accounting Standards (IPSAS).</i></p> <p><i>In the interim, all new New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs) and amendments to existing NZ IFRSs approved in and subsequent to, March 2011 would be applicable to profit-oriented entities only. This means that the financial reporting requirements for not-for-profit PBEs are frozen for the short-term. Consequently, new or amended NZ IFRS released during the year are not applicable to PBEs and hence no disclosure has been made.”</i></p> <p>Qualifying Entities are exempt.</p> <p>(NZ IAS 8.30-31)</p>

Example disclosures can be found in our Green Dot Holdings Limited model financial statements, at the following link: [Model financial statements](#)

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