



Financial reporting update

Client Updates, May 2018

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Agenda

- Accounting standard changes for 2018
- Future changes



Accounting Standard Changes for 2018

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Changes to standards applying for March/June 2018 reporting

Amended	Effective date	Description of change
PBE IPSAS 32 (not applicable to for-profits)	1 Jan 2017	Clarifies that service concession assets should be grouped with similar assets as a class of assets for the purpose of subsequent measurement and disclosure, consistent with PBE IPSAS 17, and that dissimilar service concession assets cannot be accounted for as a class of assets.
NZ IAS 7 (not applicable to PBEs)	1 Jan 2017	Requires disclosures that enable users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. For example, opening to closing reconciliation of financing liabilities. Comparatives not required for first-year.

Changes to standards applying for March/June 2018 reporting

Example of reconciliation under revised NZ IAS 7

	20X1	Cash flows	Non-cash changes			20X2
			Acquisition	Foreign exchange movement	Fair value changes	
Long-term borrowings	22,000	(1,000)	—	—	—	21,000
Short-term borrowings	10,000	(500)	—	200	—	9,700
Lease liabilities	4,000	(800)	300	—	—	3,500
Assets held to hedge long-term borrowings	(675)	150	—	—	(25)	(550)
Total liabilities from financing activities	35,325	(2,150)	300	200	(25)	33,650

Future changes – possible early adoption

Amended	Effective date	Description of change
Public Benefit Entities		
PBE IPSAS 17 (also NZ IAS 16, but effective 1 Jan 2016)	1 Jan 2018	Changes the scope of PBE IPSAS 17 to include biological assets that meet the definition of bearer plants (e.g. fruit trees, grape vines). Previously were agricultural assets under PBE IPSAS 27. Amendment means can change to accounting using cost model.
PBE IPSAS 21 and PBE IPSAS 26 (Revalued PPE already in scope of NZ IAS 36)	1 Jan 2019	Revalued PPE scoped into PBE impairment accounting standards. PPE that is impaired (for example, earthquake damage) can be impairment tested without revaluing entire asset class.

Future changes – possible early adoption

Amended	Effective date	Description of change
For-profits		
NZ IFRIC 22	1 January 2018	Clarifies the accounting treatment for advance receipts and payments denominated in a foreign currency
NZ IAS 40	1 January 2018	Clarifies when an entity should transfer property, including property under construction or development into, or out of investment property: <ul style="list-style-type: none">• A change in use of a property occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use;• A change in management's intentions for the use of a property does not, by itself, provide evidence of a change in use;
NZ IFRIC 23	1 January 2019	Clarifies how to deal with uncertainty in income tax treatments

Model financial statements - 2018

- Model financial statements
 - No changed requirements affecting existing Model Financial Statements. 30 June 2017 versions remain applicable.
 - Will issue a revised DHB model for 30 June 2018 to reflect the presentation and disclosure changes already applied to other Model Financial Statements.
 - Plan to issue a revised Tier 3 model for 30 June 2018



Financial Reporting – the Future

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Financial Reporting – The Future Big

3



	For Profits	PBEs
NZ IFRS 9 Financial instruments/ PBE IFRS 9	Periods beginning on or after 1 January 2018 (31 March/30 June 2019)	Periods beginning on or after 1 January 2021 (30 June 2022) Early adoption? FSG 2019
NZ IFRS 15 Revenue from Contracts with Customers	Periods beginning on or after 1 January 2018 (31 March/30 June 2019)	IPSAS project on revenue and non-exchange expenditure in progress
NZ IFRS 16 Leases	Periods beginning on or after 1 January 2019 (31 March/30 June 2020)	IPSAS Leases project in progress. ED issued Jan.

IFRS 9 Financial Instruments

- IFRS 9 is significantly different compared to IAS 39/IPSAS 29
 - New classification requirements for financial assets
 - New impairment model based on expected losses
 - New hedge accounting requirements
- NZ IFRS 9 and PBE IFRS 9 essentially the same
- For-profits mandatory effective from 1 Jan 2018
- For PBEs, the mandatory effective date of 1 Jan 2021 provides PBEs with flexibility to early adopt to minimise mixed group issues

IFRS 9 Financial Instruments – FSG early adoption

- Treasury advice as per Treasury Circular 2017/09:
 - The Crown has elected to early adopt PBE IFRS 9: will apply to the Financial Statements of the Government (FSG) for 2018/19
 - Assessing changes in disclosures and understanding how this will impact the CFISnet Data Load and other Crown reporting templates.
 - Guidance for entities with routine trade receivables and term deposits:

<https://treasury.govt.nz/publications/guide/guidance-accounting-financial-instruments-under-pbe-ifs-9-non-financial-entities>

Classification of financial assets

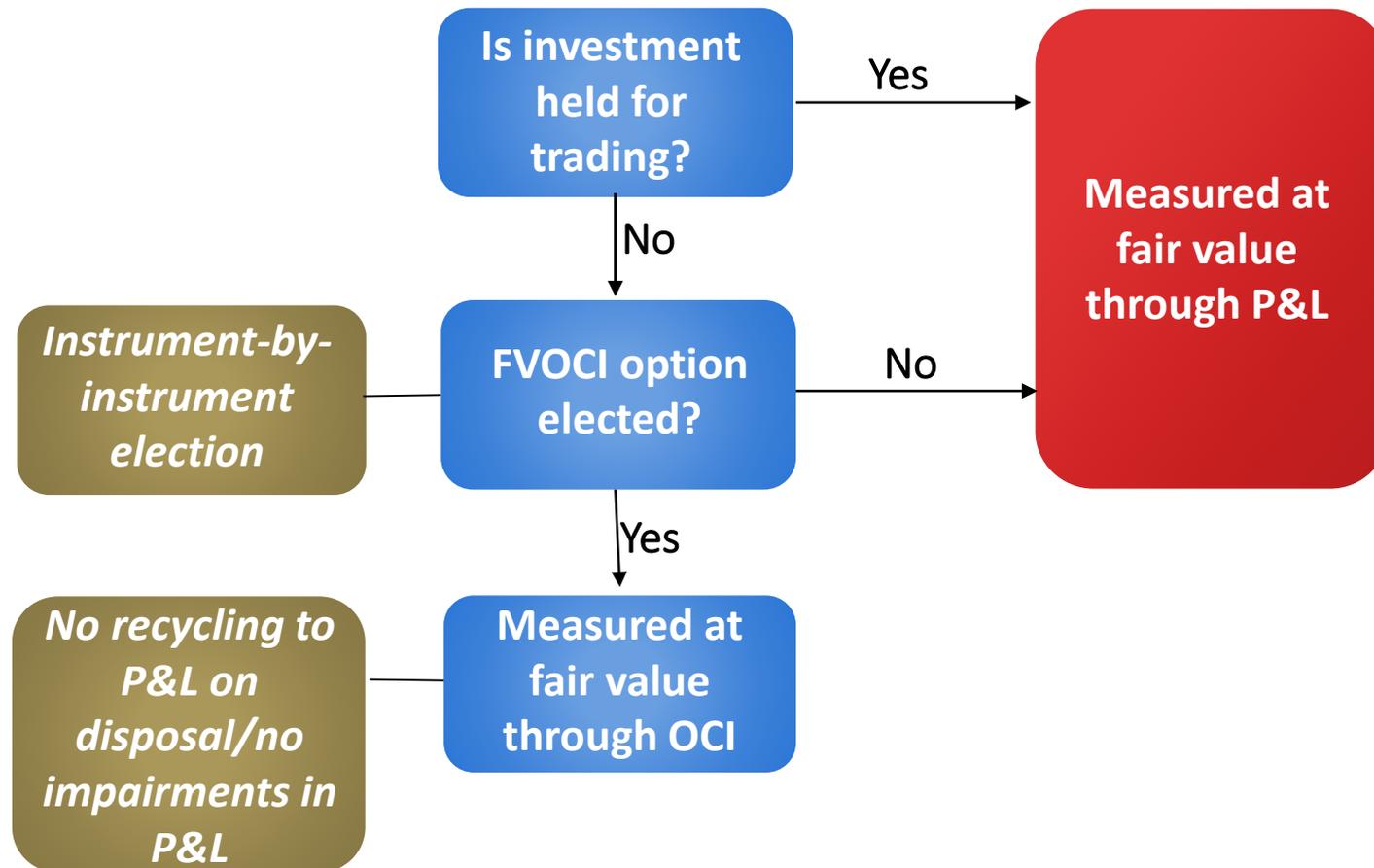
NZ IAS 39/PBE IPSAS 29

Fair value through P&L
Held to maturity
Loans and receivables
Available-for-sale

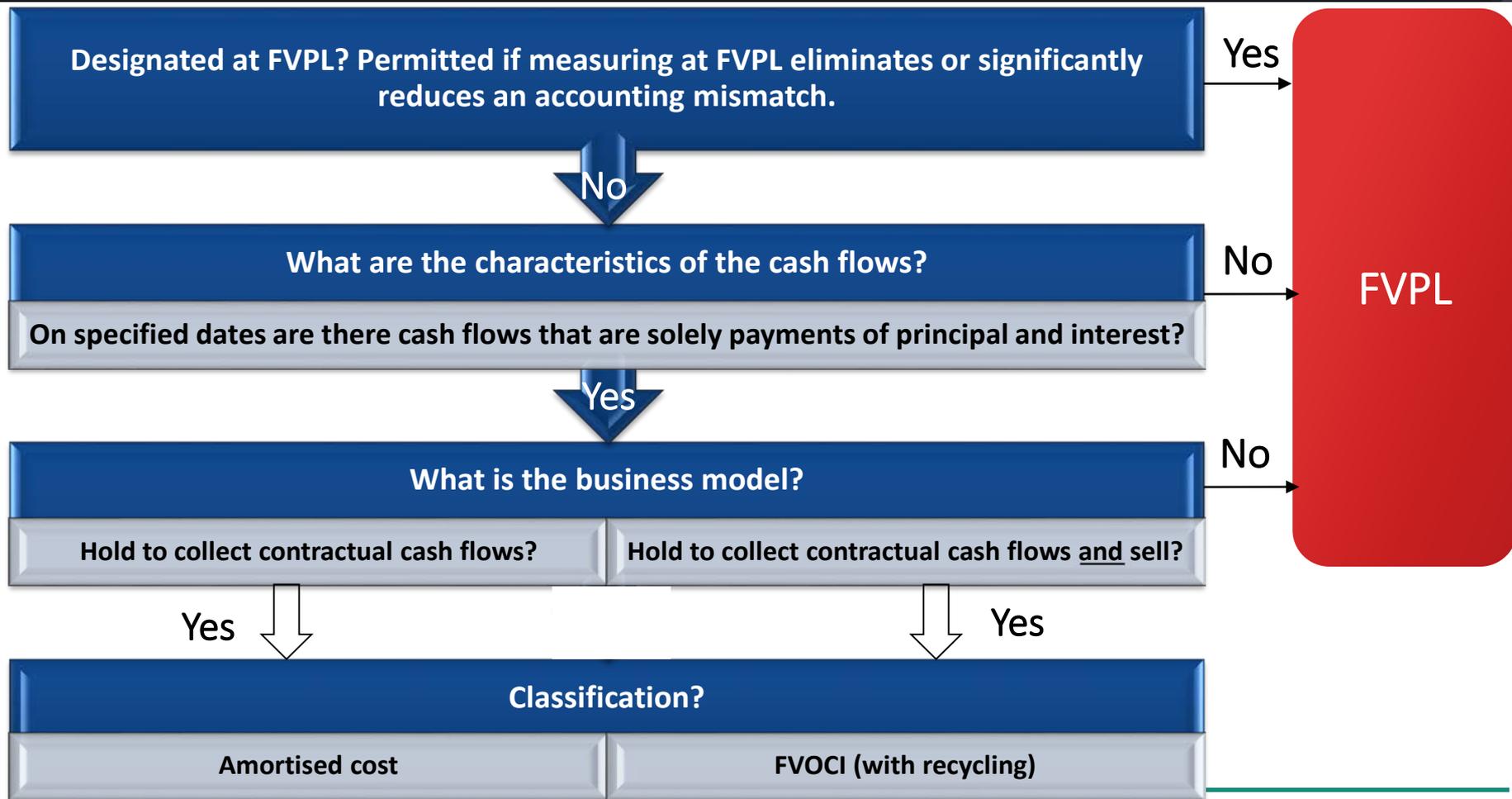
IFRS 9

Amortised cost
Fair value through OCI
Fair value through P&L

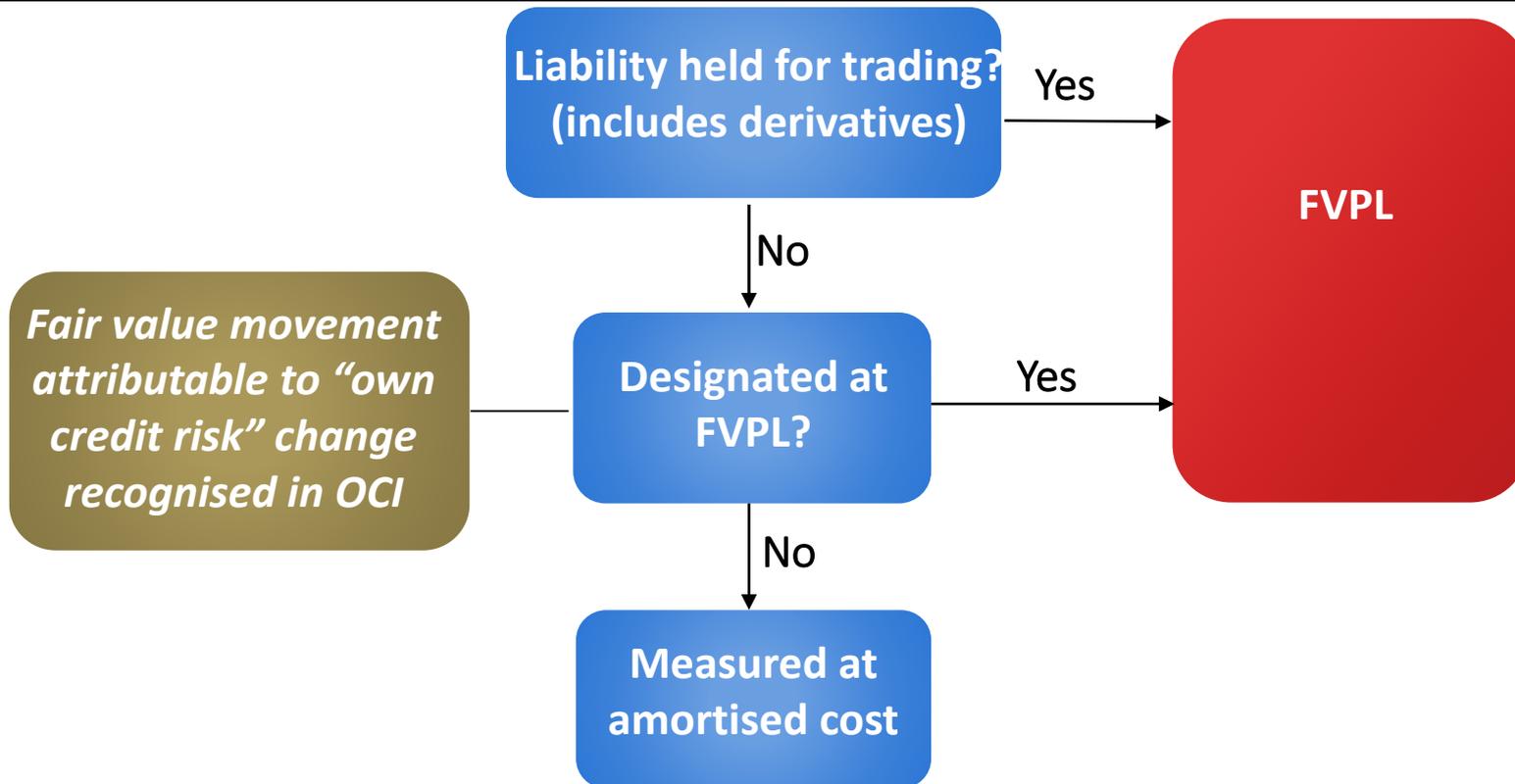
Equity instruments



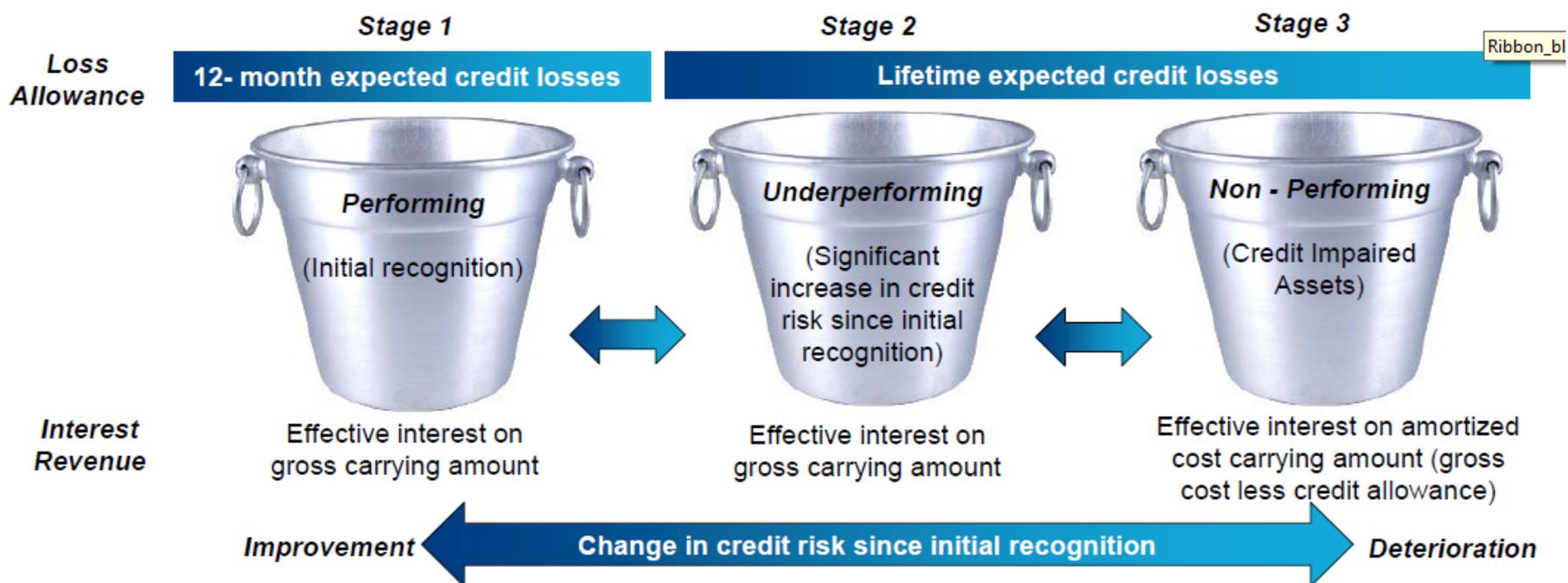
Debt instruments



Financial liabilities



Impairment model



Instruments that are credit impaired at initial recognition always remain in stage 3

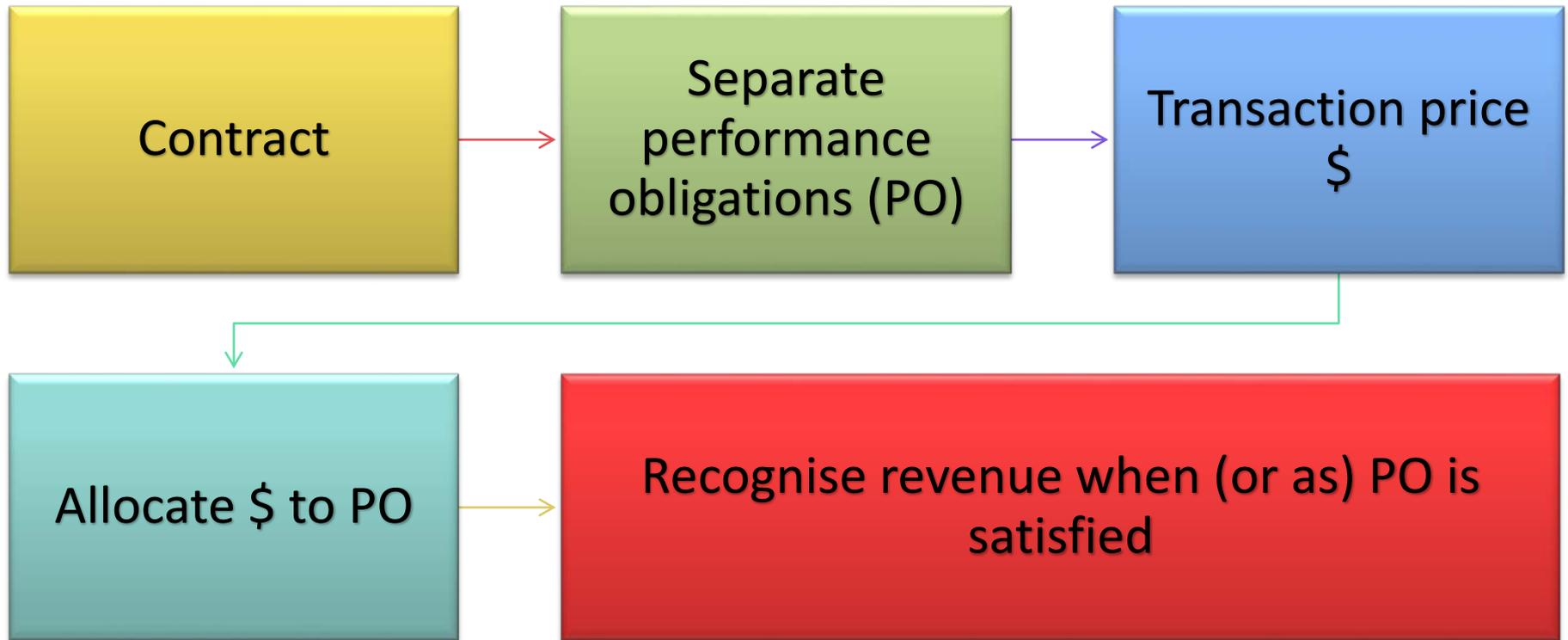
Hedge accounting

- Remains optional
- Mechanics basically unchanged
 - Fair value hedge, Cash flow hedge, Net investment
 - Ineffectiveness to P&L
 - Formal designation and documentation
- But more risk management strategies should qualify for hedge accounting
 - 80-125% effectiveness threshold removed
 - Possible to hedge components of non-financial items (e.g. hedge crude oil component of jet fuel)
- Entities that hedge account need to can either:
 - transition to IFRS 9 hedge accounting or
 - wait until transition becomes mandatory (waiting on macro-hedging)

Transition

- Need to decide whether to restate comparatives
 - Can only restate if you don't use hindsight
- For transition adjustments, carefully consider transitional provisions
- Additional disclosure requirements will need to be considered
- Entities may need to seek external accounting advice on complex issues
- Engage with your auditor early on your approach to the transition

NZ IFRS 15 Revenue – 5 step model



NZ IFRS 15 - Revenue

- Application of the 5 step model requires a detailed understanding of revenue contracts
- May require significant work and judgement
- Some entities are finding this challenging
- Engage with your auditor early on your approach to the transition

PBEs - Revenue and non-exchange expenses

- In 2017 IPSASB issued a consultation paper on:
 - Revenue accounting by PBEs
 - Accounting for non-exchange expenses, for example, grants
- Submissions closed on 22 November 2017 and a number of PBEs in NZ provided a submission on the CP.
- IPSASB is considering the CP responses and next steps. A finalised standard is expected to be several years away.

NZ IFRS 16 – Leases

- For-profits must apply a new lease standard, NZ IFRS 16, from 31 December 2019 year ends
- Lessees to recognise most leases on the balance sheet
 - Lease liability and associated “right to use” asset
 - Both initially measured at PV of lease payments
 - Depreciate right of use asset
 - Interest expense on lease liability using discount rate determined at lease commencement
 - Two exemptions: low value and short term leases
- Lessor accounting largely unchanged from NZ IAS 17 *Leases*

IPSASB Leases Project

- Status of IPSASB work:
 - Exposure draft (ED 64) issued January 2018.
 - Comments close June 2018.
 - Possible release of standard mid 2019
- Timing issues between application of NZ IFRS 16 and an IPSAS standard:
 - Risk for PBE mixed group consolidations in having to reverse FP lessee accounting balances.

IPSASB Leases Project

- Lessee accounting: same approach as IFRS 16
- Lessor accounting is different to IFRS 16
 - Book a receivable and deferred revenue liability
 - Spread deferred liability over the lease term
 - Recognise underlying asset
- Includes guidance on concessionary leases
- If you have significant leases as lessor or concessionary leases, we encourage entities to read the ED and submit to XRB/IPSASB
 - Comments to XRB – by 31 May 2018
 - Comments to IPSASB – by 30 June 2018

Future - Accounting for groups



	For Profits	PBEs
PBE IPSAS 34 - Separate Financial Statements;	NZ IFRS 10,11,12, IAS 27,28 already effective	Periods beginning on or after 1 January 2019 (30 June 2020)
PBE IPSAS 35 - Consolidated Financial Statements;		(replaces PBE IPSAS 6,7,8)
PBE IPSAS 36 - Investments in Associates and Joint Ventures;		Requires broader and more comprehensive disclosures.
PBE IPSAS 37 - Joint Arrangements;		
PBE IPSAS 38 - Disclosure of Interests in Other Entities.		
IPSAS 40 Public Sector Combinations		NZASB still to approve in NZ

Future – Service performance reporting

- PBE FRS 48 – Service Performance - Applies to reporting periods starting on or after 1 January 2021 (30 June 2022)
- Will replace the SSP requirements of PBE IPSAS 1
 - For-profit service performance reporting unchanged under FRS-44
- Applies to Tier 1 and 2 public sector PBEs required by law to present performance information in accordance with GAAP and all Tier 1 and 2 not-for-profit PBEs.
- We expect the public sector is well placed to comply
- Additional disclosures may be necessary:
 - Comparative information now mandatory
 - Disclosure of significant judgements in reporting performance information

Questions?

