

Financial reporting update

Government Departments/Crown Entities
Client Update, March 2018

AUDIT NEW ZEALAND
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Agenda

- Standards update
 - What's new for 30 June 2018
 - Some future changes of interest
 - What's in the pipeline



New or amended PBE standards for 30 June 2018

- No new PBE standards come into effect for 30 June 2018
- A number of standards have been amended e.g:

| Amended | Effective date | Description of change |
|------------------------|----------------|---|
| PBE IPSAS 12 | 1 Jan 2017 | Replaces the term “ammunition” with “military inventories” and includes a description of military inventories. |
| PBE IPSAS 17 | 1 Jan 2017 | Replaces the term “specialist military equipment” with “weapon systems” and includes a description of weapons systems. Clarifies some missiles may be PPE. |
| PBE IPSAS 32 | 1 Jan 2017 | Clarifies that service concession assets should be grouped with similar assets as a class of assets for the purpose of subsequent measurements, consistently with PBE IPSAS 17. |
| PBE IAS 12/ PBE IFRS 5 | 1 Jan 2017 | Clarifies the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. Clarifies disclosure of income tax expense. |

New or amended PBE standards for 30 June 2019

| Amended | Effective date | Description of change |
|--------------|----------------|---|
| PBE IPSAS 17 | 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). |
| PBE IPSAS 1 | 1 Jan 2018 | The standard has been amended to refer to “general purpose prospective financial statements” instead. |

Proposed early adoption effective for 30 June 2019

| | | |
|------------|--|--|
| PBE IFRS 9 | 1 Jan 2021 FSG propose to adopt 1 July 2018 | Early adoption by the Crown: will apply to the Financial Statements of the Government (FSG) for 2018/19. Changes to classification, measurement, impairment, and hedge accounting requirements. |
|------------|--|--|

New or amended for-profit standards for 30 June 2018

- No new FP standards come into effect for 30 June 2018
- A number of standards have been amended e.g:

| Amended | Effective date | Description of change |
|--------------------------------------|----------------|--|
| 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, an opening to closing reconciliation. |

| | 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 |

Model financial statements

- Model financial statements
 - No amendments effective for 18J require adjustment to GD and CE Model Financial Statements. 30 June 2017 version remains applicable.
 - Will issue a revised DHB model for 30 June 2018 to reflect the changes already applied to GD and CE Model Financial Statements.
 - Will be issuing a revised Tier 3 model for 30 June 2018

Future – Accounting for groups

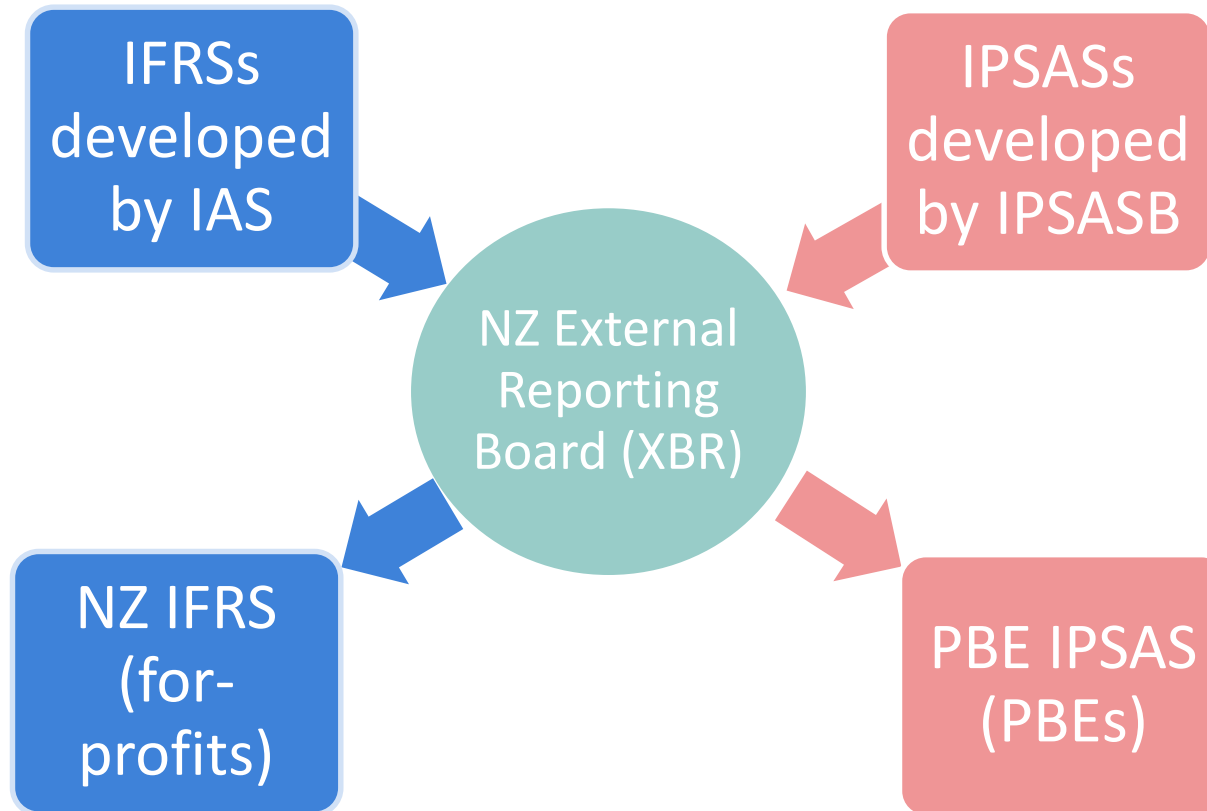


| | For Profits | PBEs |
|--|--|---|
| PBE IPSAS 34 - Separate Financial Statements; | IFRS 10,11,12, IAS 27,28 already effective | Periods beginning on or after 1 January 2019 (30 June 2020) |
| PBE IPSAS 35 - Consolidated Financial Statements; | | (replaces PBE IPSAS 6,7,8) |
| PBE IPSAS 36 - Investments 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. | | |

Future – Service performance

- 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
- 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

Context of standard setting



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 (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 (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 (30 June 2020) | IPSAS Leases project in progress |

IFRS 9 Financial Instruments

- PBE IFRS 9 is a FI standard for PBEs, based on NZ IFRS 9
- The mandatory effective date from 31 December 2021 year-ends provides PBEs with flexibility to early adopt to minimise mixed group issues
- New:
 - Classification requirements for financial assets
 - Impairment model
 - Hedge accounting requirements

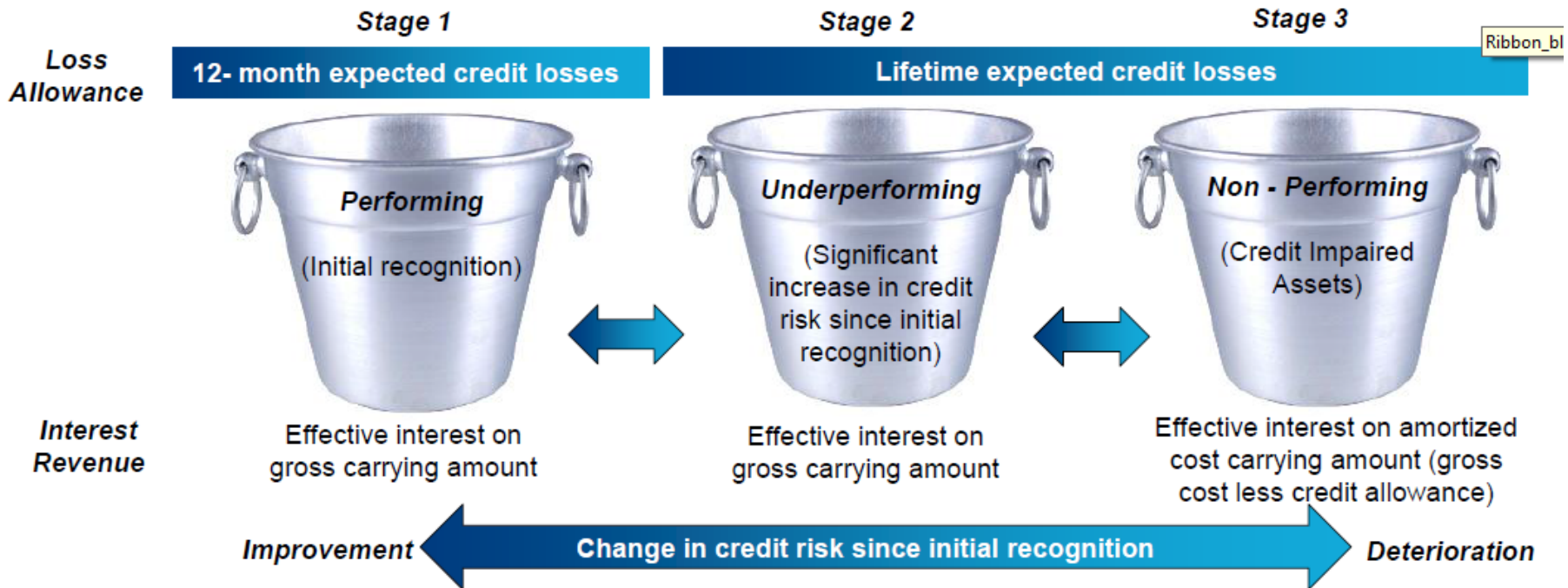
IFRS 9 Financial Instruments - FSG

- Treasury advice as per Treasury Circular 2017/09:
 - Early adoption by the Crown: 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:
<http://www.treasury.govt.nz/publications/guidance/reporting/accounting>

IFRS 9 Financial Instruments – Key messages

- Determine what is in scope of standard
 - Need to carefully consider the business model for holding bond investments as this affects how instrument is measured
 - For share investments not held for trading, need to designate at fair value through OCI if you don't want to measure at fair value through profit/loss
 - Whether concessionary loans pass the SPPI test will need careful consideration
 - Expected credit loss model for loan portfolios may be complex
 - Need to decide whether to restate comparatives
 - Entities may need to seek external accounting advice on complex issues
-

IFRS 9 Financial Instruments - Impairment



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

Revenue and non-exchange expenses

- For-profits must apply a new revenue standard, NZ IFRS 15, from 31 December 2018 year ends
- No IFRS 15 PBE equivalent under development in NZ, but...
 - 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
- NZ IFRS 16 requires lessees to recognise most leases on the balance sheet
 - Lease liability on the balance sheet, with associated “right to use” asset
 - Lessor accounting largely unchanged from NZ IAS 17 *Leases*
- No NZ IFRS 16 PBE equivalent under development in NZ, but..

IPSASB Leases Project Update

- Status of IPSASB work:
 - They have a leases project.
 - Release of exposure draft (ED 64) January 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 Update

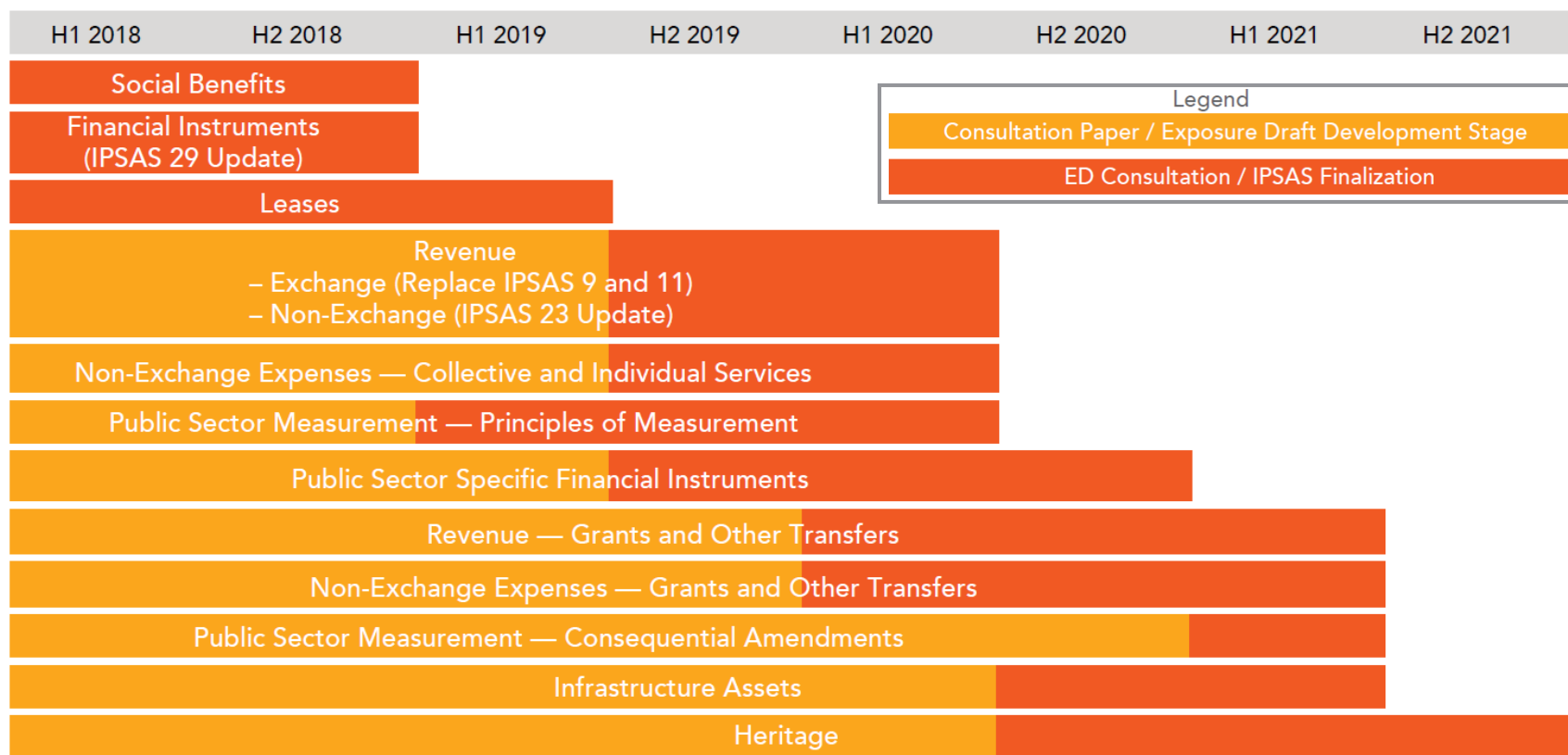
- Lessee accounting: same approach as IFRS 16
- Lessor accounting
 - Book a receivable and deferred revenue liability
 - Spread deferred liability over the lease term
 - Recognise underlying asset in entirety as per normal
- Includes guidance on concessionary leases.
- If you have significant leases 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

ED on Social Benefits

- IPSASB Exposure Draft addressing the accounting for benefits such as Government super, unemployment benefits, and benefit schemes funded from contributions (e.g. ACC)
- Controversial area of accounting
- Proposals are broadly consistent with current accounting
- An insurance approach option is proposed for schemes intended to be fully funded from contributions, subject to satisfaction of criteria
 - Insurance accounting proposed to follow IFRS 17 *Insurance Contracts*

IPSASB Work Plan

Figure 1: Projected timelines for the IPSASB's current projects



Questions?

