



THE TREASURY
Kaitohutohu Kaupapa Kawa

Transition to NZ equivalents to International Financial Reporting Standards

Media/analyst briefing

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Outline

The purpose of this technical briefing is help you navigate the NZ IFRS numbers in Budget 2007

- NZ IFRS and the Budget 2007
- Why we have to adopt and cut-over dates
- What's changed – the numbers
- What's changed – the presentation
- Fiscal strategy implications
- Questions

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Provisional budget numbers



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Budget points...

- Budget will predominantly contain NZ IFRS numbers (New GAAP) and NZ IFRS format
- Old GAAP and New GAAP clearly identified

Old GAAP		Old GAAP		Old GAAP		New GAAP		New GAAP		New GAAP		New GAAP	
2006		2007		2007		2007		2008		2009		2010	
Actual		Previous Budget		Forecast		Forecast		Forecast		Forecast		Forecast	
2005/06 results		2006 Budget forecasts		Current year forecasts				New GAAP forecasts only					

- Fiscal indicators updated

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Budget points...

- Budget annex reconciles difference between Old GAAP and New GAAP for 2006/07
- Forecasting policies unchanged
- And, of course, we are available to help navigate through the changes

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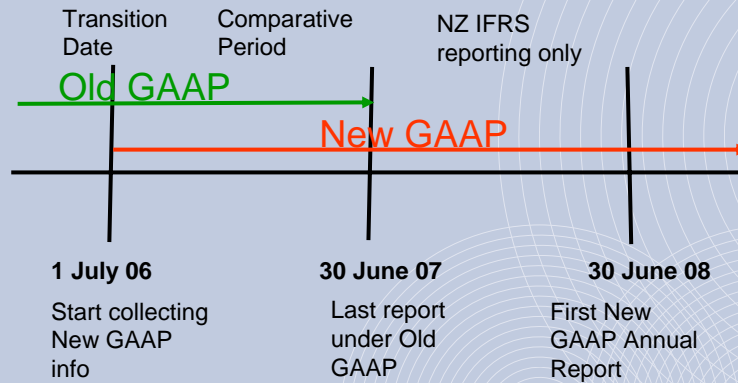
Why adopt New GAAP?

- Because all NZ reporting entities must adopt by 2007 but there are benefits ...
- International comparability for NZ corporate sector – helps investors understand NZ reporting, enhances domestic capital market transparency and accountability
- Best practice – more comprehensive, more widely accepted and robustly tested
- Sector neutrality – government reports to similar standard as required of other reporting entities

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Timetable

New GAAP is fully adopted from 1 July 2007:





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Health warning

The following analysis is based on provisional numbers to December 2006 and may therefore be subject to change

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The bottom-line

<u>Bottom line</u>	<u>Was</u>	<u>Change</u>	<u>New GAAP</u>
Net Worth	\$86.2b		\$87.7b
Operating Balance	\$4.5b		\$4.3b
Cash flow movement	\$0.1b	Minimal	\$0.1b

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What's changed: Government Superannuation Fund (GSF)

New accounting standard for reporting this liability requires:

1. Remeasurement - reduces liability

- Under New GAAP on a pay-as-needed basis
- Under Old GAAP based on amount to be paid into the Fund today to fully fund future pension payments
- The only differences is the treatment of investment taxes

net worth


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What's changed: Government Superannuation Fund (GSF)

New accounting standard for reporting this liability requires:

	<u>Was</u>	<u>Now</u>	<u>No</u>
2. Netting-off	Assets	Assets	impact on net worth
	\$4.0	\$0.0b	
	Liabilities	Liabilities	
	\$15.4b	\$11.4bn	

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What hasn't changed - GSF

Accounting treatment changed only.

No change to:

- GSF member entitlements (i.e. the amount that members will receive)
- Government's underwriting of these entitlements
- Amount of tax paid/expense by GSF

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What's changed: ACC

New accounting standard for reporting this liability requires:

1. Remeasurement due to NZ IFRS requiring risk margin and adequacy test
2. Netting-off insurance receivables/payables



Impact
on net
worth

No
impact
on net
worth

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What hasn't changed - ACC

NZ IFRS will not change:

- ACC entitlements
- Levy setting process

Accounting treatment change only

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What's changed – financial instruments (cont.)

Revaluation of long-term receivables (taxes and fines)

net worth

0.4b



Other financial changes:

- All derivatives reported on balance sheet
- Greater use of fair values

net worth

0.1b



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What's changed – financial instruments

Financial instrument standards that provide for such instruments to be ...

- measured in a variety of ways (fair value, amortised cost, hedge accounted) and
- presented in a variety of ways (some fair value movements to equity, some to operating statement)

...according to detailed, complex rules.

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What's changed - Presentation

Changes to terminology and layout, with more detail and disclosures (particularly for annual reports)...

but structure and concepts pretty much the same...

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Presentation - cash flow statement

Old GAAP

Cash Flows From Investing Activities	
Cash was provided from	
Sale of physical assets	174
Total cash provided from investing activities	174
Cash was disbursed to	
Purchase of physical assets	2,980
Net increase in advances	903
Net purchase/(sale) of marketable securities, deposits & equity investments	5,605
Capital contingency provision	-
Total cash disbursed to investing activities	9,488
Net Cash Flows From Investing Activities	(9,314)

New GAAP

Cash flows from investing activities	
Cash was provided from	
Sale of share investments and other securities	8,377
Sale of physical assets	185
Proceeds from loans and advances	288
Disposal of investment in associates	6
Total cash provided from investing activities	8,856
Cash was disbursed to	
Purchase of share investments and other securities	(13,713)
Purchase of physical assets	(2,931)
Purchase of intangible assets	(67)
Repayment of loans and advances	(1,403)
Acquisition of investment in associates	(292)
Total cash disbursed to investing activities	(18,406)
Net cash flows from investing activities	(9,550)

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Presentation – balance sheet

Old GAAP

Assets	
Cash and bank balances	3,997
Marketable securities, deposits & shares	49,581
Advances	3,635
Receivables	15,358
Inventories	972
Other investments	352
Property, plant & equipment	5,511
Investment in TEIs	549
Commercial forests	622
Intangible assets	
Forecast for new capital	
Total Assets	177,645
Liabilities	
Payables and provisions	15,798
Currency issued	3,958
Borrowings – sovereign guaranteed	32,407
Borrowings – non-sovereign guaranteed	10,619
GSF Pension liability	15,486
ACC liability	33,329
Total Liabilities	91,597
Net Worth	
Taxpayer funds	37,990
Revaluation reserve	47,965
Minority interest	293
Net Worth	86,248

New GAAP

Assets	
Cash and cash equivalents	3,506
Receivables	13,692
Marketable securities	27,266
Share investments	12,654
Derivatives in gain	2,162
Advances	13,031
Prepayments	387
Assets held for sale	130
Inventory	791
Agricultural assets	731
Investment property	80
Property, plant and equipment	90,222
Equity accounted investments (incl TEIs)	6,313
Intangible assets and Goodwill	1,531
Total Assets	172,495
Liabilities	
Issued currency	4,042
Payables	8,779
Deferred revenue	886
Derivatives in loss	683
Settlement deposits with the Reserve Bank	8,781
Other borrowings	33,786
Insurance liabilities	15,373
Defined benefit retirement plan liabilities	8,441
Provisions	3,970
Total Liabilities	84,741
Net Worth	
Taxpayer funds	39,870
Revaluation reserve	47,306
Cashflow hedge reserve	273
Available for sale financial asset reserve	13
Total Net Worth attributable to the Crown	87,461
Net Worth attributable to minority interest in Air NZ	293
Total Net Worth	87,755

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Presentation – operating statement

Old GAAP

Revenue	
Taxation revenue	25,273
Levies, fees, fines and penalties	1,700
Sales of goods and services	6,483
Investment income	3,582
Other revenue	1,040
Total Crown Revenue	38,078
Expenses	
Subsidies and transfer payments	9,019
Personnel expenses	7,906
Operating expenses	14,199
Finance costs	1,571
Net foreign-exchange	
Net foreign-exchange (gains)/losses	280
Movement in total GSF liability	255
Movement in total ACC liability	414
Total Crown Expenses	33,644
Net surplus TEIs	36
Operating Balance (including minority interest)	4,470

New GAAP

Revenue	
Taxation revenue	25,263
Other sovereign revenue	1,704
Sales of goods and services	6,235
Interest revenue and dividends	1,576
Other revenue	1,212
Total Revenue (before gains)	35,991
Expenses	
Social assistance and official development assistance	9,164
Personnel expenses	7,540
Depreciation and amortisation	1,522
Other operating expenses	12,376
Interest expenses	1,469
Insurance expenses (eg, ACC)	442
Total Expenses (before losses)	32,513
Operating Balance before gains/(losses)	3,478
Net gains/(losses) on financial instruments	930
Actuarial gains/(losses) on defined benefit plan liabilities	(171)
Other gains/(losses)	10
Total Gains (Losses)	770
Net surplus/(deficit) from associates and joint ventures	50
Operating Balance from continuing activities	4,298

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Presentation – operating statement (cont.)

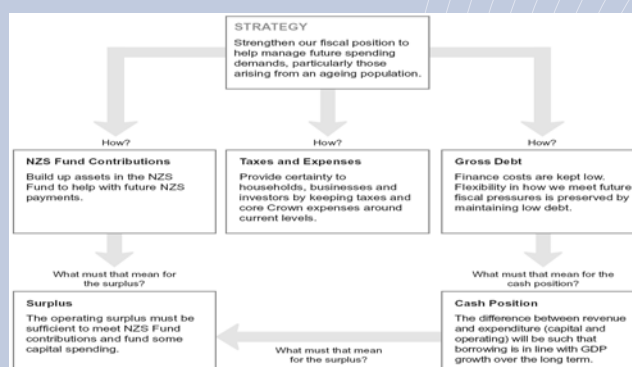
Separately reporting gains/losses will:

- Help users identify their effect on reported results and forecasts
- Reduce the 'noise' from changes in fair value of items such as share investments being income (gains) one-month and expense (losses) the next
- Better align accounting practice with other reporting frameworks, such as Government Financial Statistics

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Fiscal strategy impacts?

New GAAP does not change fiscal policy; but improved reporting helps inform/evaluate policy



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Updated fiscal indicators

Previous Fiscal Indicator	Updated Fiscal Indicator
	NZS Fund returns
Core Crown revenue	Core Crown revenue ex NZS Fund revenue
OBERAC	Operating Balance before Gains and Losses
OBERAC excluding NZS Fund returns	Operating Balance before Gains and Losses ex NZS Fund revenue
Core Crown expenses	Core Crown expenses
Residual cash	Residual cash
Gross sovereign-issued debt	Gross sovereign-issued debt
Net core Crown debt	Net core Crown debt
Net core Crown debt (inc NZS Fund)	Net core Crown debt (inc NZS Fund)

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New GAAP impact on fiscal indicators

\$ million	Old GAAP	Ratio to GDP%	New GAAP	Ratio to GDP%
NZS Fund returns	794	1.0	808	1.0
Core Crown revenue excluding NZS Fund returns	29,000	35.7	27,945	34.4
Core Crown expenses	26,456	32.5	25,051	30.8
Operating balance before gains and losses			3,478	2.1
Operating balance before gains and losses excluding NZS Fund revenue			3,278	2.0
Operating balance	4,472	2.7	4,298	2.6
Residual cash	(423)	-0.3	(402)	-0.2
Gross sovereign-issued debt	38,070	23.4	38,641	23.8
Net core Crown debt	7,085	4.4	7,666	4.7
Net core Crown debt with NZS Fund assets	(4,339)	-2.7	(3,747)	-2.3

GDP used for operating balance, cash and debt indicators (HYEFU full year forecast)

162,667

GDP for returns, revenues and expenses indicators (1/2 HYEFU forecast)

81,334

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Summary

- New GAAP provides comprehensive, internationally recognised reporting standards
- Many New GAAP changes are reclassifications, additional disclosures and presentation.
- So numbers will change on transition to New GAAP, but limited impact is expected on the “bottom-line”

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We're from Treasury and we're here to help!

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Questions

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