BM-1-2-1-2010-13

7 July 2010

Treasury Circular 2010/08

Unrestricted Distribution

Chief Executives
Chief Financial Officers
Directors of Finance

30 JUNE 2010 YEAR END DISCOUNT RATES AND CONTINGENT LIABILITIES AND ASSETS

1. In Treasury circular 2010/05, we signalled we would issue additional guidance in early July in relation to discount rates and contingent liabilities and assets. This circular applies for the 30 June 2010 year-end.

2. In Treasury circular 2010/05, we advised we would produce a central table of risk-free discount rates and CPI assumptions, as well as the methodology supporting these assumptions. The rates and methodology are now available on the Treasury website at
http://www.treasury.govt.nz/publications/guidance/reporting/accounting/discountrates

3. In Treasury Circular 2010/05, we considered combining the collection of related party information from Ministers with the *Ministerial Certificate of Contingent Liabilities and Assets* (Departments and Offices of Parliament only). However, we have now decided to keep the two processes separate. As a result, the contingent liabilities and assets process is the same as last year.

4. We are currently finalising the process for collecting related party information from Ministers. We will inform you of the final process in due course.

Hugh Packer
For Secretary to the Treasury

RISK-FREE DISCOUNT RATES AND CPI ASSUMPTIONS AS AT 30 JUNE 2010

5. Risk-free discount rates and CPI assumptions as at 30 June 2010 can be found on the Treasury's website at http://www.treasury.govt.nz/publications/guidance/reporting/accounting/discountrates

6. As previously notified in Treasury Circular TC 2010/05, these rates and CPI assumptions must be used in certain accounting valuations for the purpose of preparing the Financial Statements of the Government. Specifically, these rates and assumptions must be used for:
   - valuing insurance claims liabilities under NZ IFRS 4 *Insurance Contracts*;
   - valuing employee benefits such as pension obligations, long service leave and retiring leave under NZ IAS 19 *Employee Benefits*[1]; and
   - building a risk-adjusted discount rate for valuing student loans.

7. As well as the accounting valuations noted above, these rates and assumptions may be applied to other valuations where a risk-free discount rate or CPI assumption is used. In these cases the rates may either be used unadjusted, or as a building block to calculate another assumption at your discretion.

8. We have only considered inflation as measured by the CPI in this exercise. Each valuation will need to consider the appropriate inflation index to use in relation to this CPI assumption.

9. You should consider if these rates are appropriate for your entity's own annual report. Any potential differences in rates will need to be discussed with the Treasury.

10. In addition to the 30 June 2010 rates, the Treasury's methodology paper describes how we determined the assumptions and rates and is published on the Treasury's website at http://www.treasury.govt.nz/publications/guidance/reporting/accounting/discountrates/methodology

11. The Office of the Auditor-General considers that the table of risk-free discount rates and CPI assumptions as at 30 June 2010 and the associated methodology are appropriate for the New Zealand Government to:
    - value insurance claims liabilities under NZ IFRS 4 *Insurance Contracts*;
    - value employee benefits such as pension obligations, long service leave, and retiring leave under NZ IAS 19 *Employee Benefits*; and
    - build a risk-adjusted discount rate to value student loans.

12. Therefore, you can expect your auditor to accept your use of the risk-free discount rates and CPI assumptions as at 30 June 2010 to calculate insurance claims liabilities, employee benefits, and student loans for consolidation into the Government's financial statements. Your auditor will not need to carry out

---

[1] These rates must be used in the Long Service Leave and Retiring Leave Liability models the Treasury issued in June 2009 (refer Treasury Circular 2009/06).

additional audit procedures on those particular rates and assumptions for consolidation purposes.

MINISTERIAL CERTIFICATION PROCESS FOR CONTINGENT LIABILITIES AND ASSETS

13. The process with regards to contingent liabilities and assets will be the same as previous years and applies to departments and Offices of Parliament only.

14. Cabinet Expenditure Control Committee minutes ECC(91)M21/4 of 7 May 1991 require that Ministers certify that they are not aware of any contingent liabilities additional to those reported by the department. A 'nil' return is required.

15. This certification and register is used as a check against the information provided in CFISnet DataLoad schedules.

16. Once your Responsible Minister signs the certificate in Annex One, please fax it along with the *Register of Contingent Liabilities and Contingent Assets* to Don Rangi on (04) 473 1151, or alternatively scan the documents and upload into CFISnet (CFISnet home page/ Info/ Document sharing/ Upload or download a document). This certification is due by **20 August** (refer TC 2010/05).

CONTACT DETAILS

17. Please contact the following with any queries about:

- the Treasury's discount rate methodology and rates, Angela Ryan (angela.ryan@treasury.govt.nz) phone (04) 917 6102

- Contingent liabilities and assets, Don Rangi (don.rangi@treasury.govt.nz) phone (04) 917 6124, fax (04) 473 1151

ANNEX ONE

MINISTERIAL CERTIFICATION OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS (FOR DEPARTMENTS AND OFFICES OF PARLIAMENT ONLY)

Cabinet Expenditure Control Committee minutes ECC(91)M21/4 of 7 May 1991 require that Ministers certify that they are not aware of any contingent liabilities additional to those reported by the department. A 'NIL' return is required.

This certification and register is used as a check against the information provided in CFISnet DataLoad schedules.

Once your Responsible Minister signs the statement below please fax it along with the *Register of Contingent Liabilities and Contingent Assets* to Don Rangi on (04) 473 1151, or alternatively scan the documents and upload into CFISnet (CFISnet home page/ Info/ Document sharing/ Upload or download a document).

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

CONTINGENT LIABILITIES AND CONTINGENT ASSETS - 30 JUNE 2010

In accordance with Cabinet Expenditure Control Committee minute ECC(91)M21/4 of 7 May 1991, I hereby certify that I am unaware of any contingent liability or asset that has been omitted from the Statement of Contingent Liabilities and Contingent Assets as reported in the register at 30 June 2010 prepared by the Department/Ministry/Office of Parliament **[DELETE AS APPROPRIATE].**

Name of Department/Ministry/Office of Parliament: **[INSERT NAME]**

Minister: **[INSERT NAME OF RESPONSIBLE MINISTER OF DEPARTMENT/MINISTRY/OFFICE]**

Signed:

Date: **[INSERT DATE]**