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Chief Executives
Directors of Finance/Chief Accountants

Contacts for Enquiries: Angela Ryan (04) 917 6102
 Angela.Ryan@treasury.govt.nz

 Emma Taylor (04) 890 7291
 Emma.Taylor@treasury.govt.nz

CROWN REPORTING: IMPLEMENTATION OF NEW NZ PBE (PUBLIC BENEFIT ENTITY) STANDARDS BY FOR-PROFIT ENTITIES

1. The purpose of this circular is to give an update on the status of the Crown's transition to NZ PBE standards, to provide you with resources to assist you to complete Crown reporting, and to inform you of the year reporting requirements to capture any transition adjustments.
2. This circular applies to government reporting entities that are designated as for-profit for financial reporting purposes. In particular:
 - State-owned enterprises;
 - Mixed ownership model companies (Schedule 5 companies);
 - New Zealand Superannuation Fund;
 - Television New Zealand Limited;
 - New Zealand Lotteries Commission; and
 - Crown entities (CEs) designated as for-profit.
3. As many of you are aware the new PBE standards were applicable from 1 July 2014. This means that the financial statements of the Government (FSG) for the year ended 30 June 2015 must fully comply with the new standards (including restatement of comparatives where appropriate).
4. As a result the information you provide for Crown reporting purposes (using NZ PBE standards) may differ from your company financial reports (using NZ IFRS standards).

Transition update

5. We have completed our analysis of the recognition and measurement differences between the previous and new accounting standards which suggests there is currently a high convergence between the standards. We do not therefore expect there to be significant changes to your CFISnet submissions. However, you will need to determine the impacts on your own entity. Some entities may have significant issues to consider.
6. We are currently finalising the updated Crown accounting policies that will be applicable for the current financial year. We don't expect there to be any major changes to the policies themselves, rather the changes are likely to be more editorial in nature. We plan to complete the work in May.
7. There are two substantive outstanding issues with regards to the FSG that we are currently discussing with the Office of the Auditor-General:
 - Initial recognition of non-exchange receivables (e.g. tax receivables)
 - Related party disclosures in the FSG for Ministers of the Crown.
8. With regard to these outstanding issues, the Treasury is recommending no change to current practice.
9. We will publish information on the resolution of these issues, and the finalised Crown accounting policies, on the website (<http://www.treasury.govt.nz/publications/guidance/reporting/ipsas>) over the coming weeks. The updated accounting policies will also be included in the year end Treasury circular.

Transition guidance

10. The Treasury website includes a number of useful tools to enable you to quickly determine any potential areas of difference (<http://www.treasury.govt.nz/publications/guidance/reporting/ipsas/for-profit>).
11. These resources include:
 - A comparison between NZ IFRS and NZ PBE standards at the transitions date (1 July 2014)
 - An analysis of NZ IFRS changes which may have a mixed group impact.
 - An analysis of the changes to both NZ IFRS and NZ PBE standards between June 2011 and November 2014. This analysis shows there have been some minor amendments to the transition suite of PBE standards but nothing significant impacting the current financial year. This analysis also shows there are a number of changes to NZ IFRS which could have a substantial impact on your separate financial reports, especially if you early adopt them e.g. the new IFRS hedge accounting requirements approved and effective in 2018/19.

12. In July we will be providing an updated analysis of accounting standards changes between December 2014 and June 2015 (again any changes to PBE standards are expected to be minor in the short term, but changes to NZ IFRS may be more significant).
13. You should take particular note of accounting standards that you have early adopted as these are unlikely to comply with Crown accounting policies.
14. Where a change in NZ IFRS is not permissible under Crown accounting policies and PBE accounting standards and the effect of the change is likely to be material at the FSG level, for-profit entities affected by the change will need to make an adjustment to their CFISnet schedules for group reporting purposes.
15. We strongly recommend that you engage with your auditors early on the new Crown reporting requirements, if you have not already done so.

Year end reporting requirements

16. Your year end June submission (due mid July) is expected to fully comply with Crown accounting policies.
17. However, we do not expect you to adjust for any PBE differences where the cumulative effect of all differences is not material (i.e. less than \$10 million).
18. We are aware that some entities may not currently fully comply with Crown accounting policies in their CFISnet submissions (e.g. early adoption of IFRS 9). We would like to work with you on a transition plan to ensure your CFISnet submissions are fully compliant as soon as possible. Please contact either Angela or Emma to discuss how this may be achieved.
19. We would also like to take the opportunity to align the submissions with the Crown accounting policy in relation to capitalised interest. For some time the Crown accounting policy has been to expense borrowing costs incurred to complete and prepare assets for their intended use. A number of for-profit entities, however, capitalise these costs. We have been adjusting centrally based on information provided by individual entities but this is prone to error and is inefficient. We will be contacting the companies who provide information to us with a view to incorporating this into the CFISnet submission going forward.
20. Any opening equity adjustments required for the transition to PBE standards should be recorded in CFISnet schedule 1:51:0, line 6045 (other movements). It will be important to include a text description identifying the adjustment as relating to the PBE transition.
21. At this stage we do not require restated comparative information for 2013/14 as a result of transitioning to the new NZ PBE standards. However, if we find that, in total, the adjustments are material at a whole-of-Crown level we may seek more information from you to allow us to make an adjustment to the 2013/14 results.
22. In addition, if you find that when completing your own analysis you have material changes¹ to your comparative information, please contact either Angela or Emma (contact details are above).

¹ More than \$10 million to an individual line in your annual report.

23. We will continue to update the Treasury website on a regular basis. If you have any questions please feel free to contact Angela or Emma (contact details are at the beginning of this circular).

Nicola Haslam
Manager, Fiscal Reporting
For Secretary to the Treasury