

AC-3-58

25 November 2013

Treasury Circular 2013/13

Unrestricted Distribution

Chief Executives
Directors of Finance/Chief Accountants

Contacts for Enquiries: Joanne Clough (04) 917 6017
Joanne.clough@treasury.govt.nz

Angela Ryan (04) 917 6102
angela.ryan@treasury.govt.nz

CROWN REPORTING: IMPACT OF NEW PBE STANDARDS FOR THE PUBLIC SECTOR ON FOR-PROFIT ENTITIES

1. The purpose of this circular is to:
 - inform you of the strategy and high level timetable for incorporating the new Public Benefit Entity¹ (PBE) Standards into Crown reporting; and
 - signal what the new PBE standards mean for entities designated as “for-profit” within a PBE group.
2. This circular applies to the following entities designated as for-profit for financial reporting purposes:
 - State-owned enterprises;
 - Mixed ownership model companies (Schedule 5 companies);
 - Air New Zealand Limited;
 - New Zealand Superannuation Fund;
 - Television New Zealand Limited;
 - New Zealand Lotteries Commission; and
 - any Crown entities designated as for-profit.

¹ Public benefit entities are reporting entities whose primary objective is to provide goods or services for community or social benefit and where equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

3. As many of you are aware a new multi-standards financial reporting framework is being introduced in New Zealand by the External Reporting Board (XRB). This will result in separate suites of accounting standards for the following three sectors:
 - for-profit
 - public sector PBE, and
 - private not-for-profit PBE (e.g. registered charities).
4. The framework changes will mean that from 1 July 2014, public sector PBEs, including the Government reporting entity, will report against the new suite of PBE standards. This new suite is made up of mainly International Public Sector Accounting Standards (IPSASs), modified where appropriate for the New Zealand context. The suite also includes five NZ International Financial Reporting Standards (NZ IFRS) and four domestic standards (FRSs).

Reporting to the Crown

5. The consolidated Financial Statements of the Government (FSG) will need to be prepared using the new PBE standards from the financial year 2014/15. This means that information reported to us must be based on the new standards.
6. Broadly speaking, we understand the new suite of PBE standards is currently highly converged with existing NZ IFRSs as applied by PBEs. Therefore, applying these new standards is not expected to result in significant change to our reporting requirements on transition.
7. While not expected to be a major change, we still need to consider whether any changes are required to the Crown accounting policies, disclosures and CFISnet data collection processes.
8. Reporting under the new PBE standards commences with the following CFISnet submissions (with indicative submission dates shown in brackets):
 - Five year forecasts for Budget 2014 (March 2014).
 - Monthly forecast tracks (for applicable entities) (August 2014).
 - Monthly actual results starting with the results for three months ending 30 September 2014 (October 2014).
9. If there are any material adjustments on transition to the new PBE standards, entities will need to prepare an opening position as at 1 July 2013 and restate their 2013/14 comparatives.
10. The high level transition project is set out below.

<p>Phase 1 November 2013</p>	<p>We will produce a table of key differences between NZ IFRS (as applied by PBEs) and the new PBE Standards.</p> <p>We intend to make this table of key differences available on the Treasury website in December.</p>
<p>Phase 2 December 2013</p>	<p>Publish a list of changes to NZ IFRS in the last year, noting effective dates for those changes, and if early adoption by for-profit entities is permitted.</p> <p>Engage with for-profit entities to establish if there are significant changes to NZ IFRS (for individual reporting purposes) that won't be reflected in the new PBE standards and Crown accounting policies (which could lead to adjustments to CFISnet schedules to align with Crown accounting policies).</p>
<p>Phase 3 January to March 2014</p>	<p>Using the information collected during phases 1 and 2 we will:</p> <ul style="list-style-type: none"> • identify any significant changes to Crown accounting policies; • seek your assistance to quantify any significant adjustments to the financial statements as a result in changes to the accounting policies; and • confirm how we would like you to incorporate impacts (if any) into your financial forecasts submitted via CFISnet schedules for Budget 2014.
<p>Phase 4 April to June 2014</p>	<p>During this phase, we will perform a more detailed review of disclosure differences between the standards and update the pro-forma financial statements and accompanying notes for the Financial Statements of the Government for the year ended 30 June 2015.</p> <p>We will contact you and work with the FSG auditors to agree on the contents of any new disclosures.</p> <p>We will also consider if changes to the CFISnet schedules are required for the first submission in 2014/15 (i.e. the interim financial statements for the three months ending 30 September 2014, including adjusted 2013/14 comparatives if required)</p>

Impact on for-profit entities

11. While all entities need to submit their CFISnet schedules for consolidation reflecting the Crown accounting policies, entities designated for-profit will continue to report their individual financial statements using NZ IFRS.
12. Applying the new reporting framework opens the possibility that for-profit entities will be required to make adjustments to CFISnet schedules for group reporting purposes creating differences between what is reported for consolidation and individual financial statements.
13. To some extent this is happening already where individual entity accounting policies are currently different to Crown accounting policies.
14. Assuming there will be no major changes to the FSG on transition to new PBE standards, we expect the adjustments to CFISnet submissions will be broadly consistent with adjustments currently made under the existing framework.
15. We expect that any adjustments required to CFISnet schedules to align with Crown accounting policies would be material ones only.

Response to future divergence

16. We cannot predict the extent of divergences that will arise between the different suites of standards over time. The Treasury is concerned about the potential for adjustments to increase in the future resulting in additional costs of Crown reporting.
17. Divergence may happen in the following two ways:
 - A change in PBE standards where the change is not replicated in NZ IFRS.
 - A change in NZ IFRS that is not replicated in the PBE Standards.
18. The Treasury is committed to minimising the consolidation adjustments by working with our for-profit entities and FSG auditors to seek pragmatic solutions if possible where significant differences arise. You will also need to be vigilant when making changes to your individual accounting policies to determine whether they still align with Crown accounting policies.
19. We will also be actively monitoring the activities of the NZASB to track differences between the suites of standards as they develop over time. We are encouraged that the NZASB is committed to:
 - considering the impact of mixed groups and the costs borne by preparers within mixed groups as part of their deliberations when developing the suite of PBE Standards²; and

² In September 2013 the XRB issued a policy paper entitled "Policy Approach to Developing PBE Standards". The paper establishes an approach, based on a "development principle" and a series of "rebuttable presumptions", which will be used by the NZASB to determine whether, and when, to make changes to the suite of PBE Standards. This policy provides constituents with some certainty about the likely future direction of the PBE Standards suite, and provides a basis for assessing proposals for changes to the PBE Standards as they are issued by the NZASB.

http://xrb.govt.nz/Site/Financial_Reporting_Strategy/Accounting_Standards_Framework.aspx

- maintaining a table of differences between NZ IFRS and PBE standards for Tier 1 entities.
20. Where the NZASB issue proposals in the future that could lead to a significant mixed group reporting issue, the Treasury intends to submit on the relevant exposure draft. This submission process may involve seeking the views of for-profit entities that are part of the Government group to form a position on the issue.
 21. We will keep you regularly informed on progress in the transition project through a dedicated page on the Treasury website and Treasury circulars. If you have any questions in the meantime, please do not hesitate to contact Joanne Clough or Angela Ryan (contact details are on the first page of this circular).

Nicola Haslam
Manager, Fiscal Reporting
For Secretary to the Treasury