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Chief Financial Officers/ Finance Managers of For-Profit Entities

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CROWN REPORTING: IMPACT OF CHANGES TO NZ IFRS STANDARDS ON FOR-PROFIT ENTITIES IN 2013/14

1. This circular applies to the following entities designated as for-profit entities for financial reporting purposes:
    - State-owned enterprises (unless designated as a public benefit entity);
    - 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 other Crown entity designated as a for-profit entity
2. Late last year we signalled in Treasury Circular TC 2013/13 that the new multi-sector reporting framework, which introduced new public benefit entity (PBE) accounting standards, would impact entities designated as for-profit entities within a PBE group.
3. The new framework opens the possibility that for-profit entities will be required to make adjustments to their CFISnet schedules for group reporting purposes creating differences between what an entity reports for consolidation and its individual financial statements.
4. To some extent this is happening already where individual entity's accounting policies are different to Crown accounting policies. However, the introduction of the new framework increases the risk of further differences.

5. The purpose of this circular is to:

- inform you of the methodology we applied to evaluate and identify the required adjustments;
- update you on some of the new adjustments you may need to make in your CFISnet schedules for group reporting in 2013/14; and
- remind you what the new multi-sector reporting framework means for reporting to the Crown in 2014/15 and beyond.

Methodology for identifying adjustments

6. There have been a number of changes to NZ IFRS standards that are either required to be implemented by for-profit entities in 2013/14 or could be early-adopted by for-profit entities in 2013/14.

7. We determined that eleven of the changes resulted in accounting treatment that was potentially different to the treatment allowed under PBE standards.

8. To minimise adjustments for group reporting purposes, we adopted the following two-step approach:

   (a) We investigated whether the change in a NZ IFRS which must be applied by for-profit entities in their individual reporting, is permissible under Crown accounting policies and PBE accounting standards; and

   (b) If the change in NZ IFRS is not permissible, we determined whether the effect of the change is likely to be material at the Financial Statements of Government (FSG) level.

9. Where we find 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.

10. A summary of the eleven changes including the results of our assessments, is included in Appendix 1. Our analysis of those changes is explained further in our paper which can be found on

    http://www.treasury.govt.nz/publications/guidance/reporting/ipsas/for-profit

Adjustments required for 2013/14 group reporting

11. While we sought to minimise adjustments by working with our for-profit entities and FSG auditors to seek pragmatic solutions, we found that seven out of the eleven changes to standards will result in for-profit entities having to adjust their CFISnet schedules in 2013/14 (where those changes are applicable).

12. However, not all of those seven changes to standards are effective in 2013/14 and some adjustments will only be required if your entity has chosen to early-adopt a standard.

13. If you are considering early-adopting a standard it is important to the weigh the costs and benefits including the costs of making adjustments for group reporting purposes. This means, for example, if you choose to early-adopt NZ IFRS 9 *Financial Instruments*, you will need to consider the cost of applying hedge accounting under both this standard and the relevant PBE standards.

14. Another area we wish to highlight is the classification of your controlled entities and joint ventures (items 1 & 2 of Appendix 1). When you are considering a change of status in an existing subsidiary or joint venture, or considering whether you control a new entity, we recommend that you make those judgements against both the NZ IFRS standard and the applicable PBE standard. While in most cases we would expect the assessment of control to be the same under both sets of standards, in some circumstances interpretation of the new guidance in NZ IFRS 10 *Consolidated Financial Statements* could lead to a different assessment. Where the assessment is the same no adjustment for group reporting will be required.

15. We have yet to reach a conclusion on changes to NZ IFRS 13: *Fair Value Measurement* with regard to credit risk due to implications for the wider public sector, but will inform you when we have completed our assessment.

16. As you implement new NZ IFRS changes in 2013/14, please let us know if you become aware of other potential for-profit-entity adjustments for group reporting purposes not identified in Appendix 1.

Future Developments

17. The Treasury will continue to keep you up-to-date with changes to NZ IFRS and PBE accounting standards – highlighting when an adjustment to your CFISnet schedules will be required. This will be done via circulars and dedicated pages on the Treasury web site

    http://www.treasury.govt.nz/publications/guidance/reporting/ipsas/for-profit

18. In addition, for transactions common to both sectors, we are hopeful that future changes to PBE standards will result in increased alignment with NZ IFRS, reducing the number of adjustments required. The effects of changes to PBE standards will also be communicated via our dedicated pages on the Treasury web site.

    http://www.treasury.govt.nz/publications/guidance/reporting/ipsas

19. We have already compared the new PBE standards that will apply to the Crown from 1 July 2014 with the current NZ IFRS (PBE) standards (which the Crown currently reports against). Our detailed analysis of the differences is published here:

    http://www.treasury.govt.nz/publications/guidance/reporting/ipsas/comparison-nzifrs

20. Our analysis revealed very few significant differences, and therefore we do not expect the PBEs in our group to report major changes to the recognition and measurement of items when the Crown adopts PBE standards in July. Similarly, we would expect very few adjustments in the CFISnet schedules of for-profit entities as a result of the transition.

21. We will provide you with a summary of potential impacts resulting from the changeover from NZ IFRS (PBE) standards to PBE IPSAS standards as part of the Crown's transition preparations in the next couple of months.

22. However, as a for-profit subsidiary of a PBE group (referred to as a "mixed group"), you will need to remain vigilant when making changes to your individual accounting policies to determine whether they still align with Crown accounting policies.

23. We appreciate your patience and assistance as we continue to work through what it means to be reporting in a mixed group. In the meantime, please do not hesitate to contact Angela Ryan or Joanne Clough (contact details on the first page of this circular) if you wish to discuss any of the matters in this circular or update us on a mixed group issue that you have identified.

Nicola Haslam
Manager, Fiscal Reporting
For Secretary to the Treasury

Appendix 1 Summary of Treasury analysis of the impact of NZ IFRS changes on the FSG

In the table below, a “yes” in the “adjustment required?” column means that where the change is applicable, a for-profit entity, will be required to make an adjustment to its CFISnet schedules for group reporting purposes to ensure they comply with Crown accounting policy and PBE standards. A more detailed analysis of the eleven items in the table can be found on our website http://www.treasury.govt.nz/publications/guidance/reporting/ipsas/for-profit.

Applicable Year	No	Item	Standard	Adjustment Required?	Comment
2013/14	1	Single control model	NZ IFRS 10	**Yes**	NZ IFRS 10 establishes a single control model that applies to all entities including 'special purpose entities' (SPEs). In most cases we expect classification under both IFRS and PBE standards will be consistent. However, where the application of NZ IFRS 10 brings about a change in the assessment of control of an existing investee, or a new investee is assessed differently under IFRS and PBE control criteria, an adjustment will be required.
	2	Joint ventures	NZ IFRS 11	**Yes**	The classification of joint arrangements carried on via a separate entity may differ between NZ IFRS 11 and PBE standards in certain circumstances. However, where the application of NZ IFRS 11 brings about a change in the classification of an existing joint arrangement or the assessment of a new joint arrangement under IFRS and PBE criteria results in differing classification, an adjustment will be required.
	3	Ask v bid prices	NZ IFRS 13	**No**	NZ IFRS 13 removes the requirement to use the bid or ask price and instead requires the price within the bid-ask spread that is most representative of fair value in the circumstances to be used. However, the use of bid prices for assets and ask prices for liabilities is still permitted under NZ IFRS 13, but is not required. This will not result in a CFISnet adjustment because the effect of adopting a price other than bid/ask will not be material.
	4	Credit value adjustment	NZ IFRS 13	**–**	This is still under consideration
	5	Employee benefits – defined benefit scheme	NZ IAS 19	**No**	There are some measurement and disclosure requirements which are different to PBE standards. However, these are not material to the FSG and no adjustment is therefore required.
	6	Stripping costs – mining	NZ IFRIC 20	**No**	IASB clarification of NZ IAS 2 *Inventories* and NZ IAS 16 *Property, Plant and Equipment*. Permissible under PBE standards as authoritative support.
2014/15	7	Novation of derivatives	NZ IAS 39	**Yes**	This amendment offers an exception to terminating a hedge where a derivative is required to be novated (in certain circumstances). Under PBE standards a novated hedge must be terminated so an adjustment will be required if this exemption is applied.
	8	Investment entities	NZ IFRS 10	**Yes**	This amendment allows an ‘investment entity’ as defined in the standards to account for its subsidiaries at FVPL rather than applying line-by-line consolidation. Not permissible under PBE standards.
2018/19	9	Hedging	NZ IFRS 9 (2013)	**Yes**	NZ IFRS 9 brings in new hedging criteria, including: what can be hedged; what can be used to hedge; and what is an effective hedge. Adjustments will be required where PBE IPSAS 29 criteria are not met.
	10	Financial liabilities	NZ IFRS 9 (2010)	**Yes**	This amendment requires the gains or losses resulting from credit risk on own-debt designated at fair value to be presented in OCI (unless it would create an accounting mismatch). An adjustment will be required for FSG reporting.
	11	Financial assets	NZ IFRS 9 (2009)	**Yes**	There are a number of changes affecting recognition, measurement and disclosure options. Adjustments will be required where PBE IPSAS 29 criteria are not met.