Reporting News

Welcome to KPMG's *Reporting News*, a regular summary of publications on reporting matters from KPMG

Reporting News aims to keep you informed about financial reporting developments and includes the following principal newsletters:

- *Reporting Updates* published by KPMG New Zealand, which focus on the application of IFRS in the New Zealand financial reporting environment, legislative and regulatory changes, and other New Zealand-specific reporting topics.
- *Web articles* and other publications from KPMG's International Standards Group, which provide timely updates on developments concerning IFRS.

KPMG NZ Reporting Updates

Leases: Introducing IFRS 16

The International Accounting Standards Board (IASB) has now published the long awaited lease accounting standard – IFRS 16. The new standard will bring added transparency to the balance sheet, requiring companies to bring most leases on-balance sheet from 2019. Read KPMG's Reporting Update to find out more.

The New Zealand Accounting Standards Board has subsequently released NZ IFRS 16 *Leases*. This standard applies to Tier 1 and Tier 2 for-profit entities. There are currently no differences between the international version of the standard and the NZ version. NZ IFRS 16 is available on the XRB website and more information can be found in NZASB Communique 2016/6.

IN THIS ISSUE

Standards issued but not yet effective (31 December 2015)

Due to several recently issued standards and amendments, we have updated our publication of newly effective standards and standards issued but not yet effective for periods ending 31 December 2015.

This document will assist you in complying with the disclosure requirements of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 30 and PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 35.

You can access the revised publication here.

KPMG International Publications

Leases: Assessing the impact of IFRS 16

All companies need to assess how the new leases standard – IFRS 16 – will impact their business. The new requirements will affect a wide variety of sectors, from airlines to retailers. The larger the lease portfolio, the greater the impact on key reporting metrics.

Our First Impressions: IFRS 16 Leases will help you assess the impact of IFRS on your business. It explains the key requirements of the new standard, highlights areas that may result in a change in practice, and features KPMG insights into the new lease accounting.

Look out for further insight and analysis over the coming weeks and months.

Disclosure on changes in financing liabilities

IAS 7 *Statement of Cash Flows* has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements.

For some time, investors have been calling for more disclosures on net debt, a term not defined in IFRS. The Board has responded by requiring disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The NZASB is expected to issue an equivalent amendment in the next few months.

Read our web article to find out more.

Clearer accounting for deferred tax assets

During the financial crisis, a question arose on the accounting for deferred tax assets…

Can a deferred tax asset be recognised for an unrealised loss on a debt instrument for which the holder ultimately expects to collect the contractual amount?

The IASB's recent amendments to IAS 12 *Income Taxes* clarify that the answer is 'yes', if certain conditions are met.

While the initial question may have been relatively narrow, the amendments address a much broader area of accounting for deferred tax assets in general, including the question of how to determine future taxable profit for the recognition test.

The amendments are effective for annual periods beginning on or after 1 January 2017. The impact on your financial statements will depend on your tax environment and how you currently account for deferred taxes.

The NZASB is expected to issue an equivalent amendment in the next few months.

Read our web article to find out more.

Foreign currency transactions – Advance consideration

For foreign currency transactions involving an advance payment or receipt, current IFRS is unclear as to which date should be used for the currency translation of the related item.

In general, we support the IFRS Interpretations Committee's proposals to address this by clarifying the transaction date used to determine the spot exchange rate. In our comment letter, we have included some recommendations as to how the proposals could be improved further.

Download our comment letter to further understand KPMG's position. Read our web article to find out more.

KPMG supports transitional relief for insurers on IFRS

We support the IASB's efforts to address the differing effective dates of IFRS 9 *Financial Instruments* and the forthcoming insurance contracts standard.

In our view, the Board's proposals to amend IFRS 4 *Insurance Contracts* represent a targeted and proportionate response to concerns raised by constituents. In addition, we think that more insurers could benefit from the temporary exemption from applying IFRS 9 if certain improvements – such as modifications to the predominance criteria – are made.

Download our comment letter to further understand KPMG's position. To find out more, read our web article and the accompanying SlideShare presentation.

For more detailed analysis, download our New on the Horizon: Insurance amendments.

KPMG supports accounting for uncertain tax positions proposals

We support the IASB's proposals to bring clarity to the accounting for uncertain income tax treatments and believe that they should be expanded to include the related interest and penalties.

We also believe that further clarifications are necessary to support consistent application of the proposals, including to areas relating to the collective assessments of uncertain tax treatments, events after the end of the reporting period and the definition of the term 'probable'.

Download our comment letter to further understand KPMG's position. Read our web article and the accompanying SlideShare presentation to find out more.

IFRS Newsletter: The Bank Statement, Issue 20

Banks' efforts on implementing IFRS 9 *Financial Instruments* are showing that determining classification is not as straightforward as they may have initially expected.

They are also finding that the classification and measurement phase is closely related to the impairment phase, and that they need to work on both together.

This quarter's newsletter shares lessons learned in the field. It also discusses the changing requirements of Pillar 3 of the *Basel Framework* and the increasing focus of the regulators on comparability of disclosures between Pillar 3, financial statements and other public disclosures.

Also in this issue: updates on other IFRS 9 themes, and on the IASB's projects.

For more detail, read our IFRS Newsletter: The Bank Statement.

IFRS Newsletter: Insurance, Issue 51

The IASB has completed its planned technical redeliberations and moved closer towards publishing a new insurance contracts standard.

At its January meeting, the Board considered the level of aggregation for onerous contracts and allocation of contractual service margin and continued its discussion regarding discretionary cash flows.

In February, the Board intends to discuss whether it has complied with all of the required due process steps and whether the staff can begin the balloting process for the forthcoming insurance contracts standard.

Assuming that the final insurance contracts standard is completed around the end of 2016, the expected effective date of the final insurance contracts standard remains 1 January 2020 or 2021.

Read our IFRS Newsletter: Insurance for a summary of recent developments

New insurance standard set for balloting

The IASB has instructed the staff to begin the balloting process for the forthcoming insurance contracts standard, paving the way for the final standard to be issued around the end of 2016.

In the meantime, the IASB will decide on the effective date and complete targeted external reviews to ensure the wording in the standard is interpreted consistently with the Board's objectives.

Companies should begin assessing the potential impact on their business and closely follow issues that may arise during the balloting process.

Read our web article to find out more, and our visual guide to understand what to start thinking about now.

Visit our IFRS – Insurance hot topics page for the latest developments in the insurance contracts project

Other IFRS News

Effective date of amendments to NZ IFRS 10 and NZ IAS 28

These amendments defer the mandatory effective date of amendments to NZ IFRS 10 and NZ IAS 28 that were originally made in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) issued in October 2014. The effective date is deferred from annual reporting periods beginning on or after 1 January 2016 to annual reporting periods beginning on or after 1 January 2020.

The IASB's amending standard deferred indefinitely the effective date of *Sale or Contribution of Assets*, pending the completion of its equity accounting project. The Financial Reporting Act 2013 requires all accounting standards issued in New Zealand to have an effective date.

The amending standard is available on the XRB website.

Public Benefit Entity News

Donated goods amendments to PBE IPSAS 23

The New Zealand Accounting Standards Board as recently issued *Donated Goods* (Amendments to PBE IPSAS 23).

This Standard is a welcome response to concerns raised by a number of constituents involved with charity/opportunity shops expressing over the requirements in the PBE Standards for the recognition and measurement of donated second-hand goods received for resale (goods in-kind).

The Standard amends PBE IPSAS 23 *Revenue from Non-Exchange Transactions*:

- Entities are not required to recognise goods in-kind at the date of acquisition if these donated goods meet the definition of inventories in PBE IPSAS 12 Inventories, and it is not practicable to measure reliably the fair value of those goods at the date of acquisition because the costs of recognising the goods outweigh the benefits;
- In the case where goods in-kind are sold, the entity recognises revenue when they are sold; and
- In the case where goods in-kind are distributed free of charge, the entity does not recognise revenue.

The Standard is effective for annual periods beginning on or after 1 January 2016, and early application is permitted

The Standard is available here and on the XRB Website.

Does your Public Benefit Entity have an interest in another entity?

If you are involved in accounting for interests in other entities, you may be interested in commenting on the New Zealand Accounting Standards Board (NZASB) proposals which affect the accounting for interests in other entities.

The proposals are relevant for public benefit entities (PBEs) in Tiers 1 and 2. They will also be relevant to Tier 3 PBEs to the extent they have interests in other entities. The proposals are not relevant to Tier 4 PBEs.

The objective of these proposals is to replace the current IPSAS-based PBE Standards dealing with interests in other entities (PBE IPSASs 6-8) with new standards based on more recent IPSASs. IPSASs 34-38 were released by the IPSASB in January 2016. The five exposure drafts (EDs) of the proposed new PBE Standards (PBE IPSASs 34-38) are based on the more recent IPSASs, and have been modified where necessary for the New Zealand environment. The recent IPSASs on which they based are drawn primarily from the equivalent IFRS standards (IFRS 10, 11 and 12, IAS 27 and 28). Some of the main changes between the existing PBE Standards and the proposals are:

- A new definition of control, but there is still a need to consider both power and benefits;
- More guidance for assessing control; and
- New categories of entities, e.g. investment entities and structured entities.

The new definition of control may impact your previous assessments of control, and therefore whether certain entities should be consolidated or not.

The five EDs are:

- ED NZASB 2016-1 PBE IPSAS 34 *Separate Financial Statements*;
- ED NZASB 2016-2 PBE IPSAS 35 *Consolidated Financial Statements*;
- ED NZASB 2016-3 PBE IPSAS 36 *Investments in Associates and Joint Ventures*;
- ED NZASB 2016-4 PBE IPSAS 37 *Joint Arrangements*; and
- ED NZASB 2016-5 PBE IPSAS 38 *Disclosure of Interests in Other Entities*.

If you are involved in accounting for interests in other entities, you may be interested in commenting on some or all of the proposals in these EDs.

Your view is very important to us. Your comment can be in an e-mail or a letter. You could comment on all the questions in a formal communication. However, we also encourage less formal communications which state whether or not you approve of the proposals and briefly explain why in a short response.

Comments are due to the NZASB by 30 June 2016 and can be in the form of a formal letter or e-mail, or a less formal communication stating whether or not you approve of the proposals and briefly explaining why in a short response.

Further information on the proposals is available from the XRB website.

Should accounting for a combination of entities be treated as an amalgamation or an acquisition?

In the absence of an IPSAS dealing with public sector combinations, PBEs in New Zealand have been required to apply PBE IFRS 3 *Business Combinations* to address this question. PBE IFRS 3 assumes the majority of combinations should be treated as an acquisition, which is not always appropriate for PBE combinations under common control.

If you are involved in accounting for PBE combinations, you may be interested in commenting on the International Public Sector Accounting Standards Board's (IPSASB) proposals published in Exposure Draft 60: *Public Sector Combinations*.

The purpose of the proposals is to promote consistency and comparability in how public benefit entity combinations are reported in the financial statements. The proposals also address the concerns raised by respondents in the IPSASB's 2012 Consultation Paper, Public Sector Combinations.

The proposals classify combinations as either an amalgamation or an acquisition, subject to control and other factors, and the applicable accounting for these combinations.

The exposure draft is relevant for Tier 1 and Tier 2 public benefit entities, because the XRB has a policy that establishes a rebuttable presumption that the NZASB will adopt a new or amended IPSAS as a PBE Standard. Therefore, it is important that Tier 1 and Tier 2 public benefit entities take this opportunity to consider how the proposals would affect their accounting in future, and, if appropriate, comment on the proposals.

Further information on the combinations proposals is available from the XRB website, including a copy of Exposure Draft 60 *Public Sector Combinations* and the "At a glance" summary.

Comments are due to the NZASB by 27 May 2016, or directly to the IPSASB by 30 June 2016, with a copy to the NZASB.

Have your say on how Tier 1 and 2 PBEs tell their story

The New Zealand Accounting Standards Board (NZASB) has published for public comment Exposure Draft ED NZASB 2016-6 *Service Performance Reporting*. This is your chance to provide feedback on the proposals about how Tier 1 and Tier 2 PBEs tell their story.

The Exposure Draft proposes that:

- Tier 1 and Tier 2 public sector PBEs with existing legislative requirements to present service performance information would be required to comply with the proposed standard;
- Tier 1 and Tier 2 public sector PBEs without existing legislative requirements to present service performance information would be encouraged, but not required, to comply with the proposed standard; and
- Tier 1 and Tier 2 not-for-profit PBEs would be required to comply with the proposed standard.

By definition, public benefit entities have a primary objective of providing goods and services for community or social benefit. It is therefore appropriate that they report on what they have done and why. In the absence of a standard, entities have provided service performance information in a variety of ways, including in a statement of service performance.

The Exposure Draft refers to three dimensions of service performance and puts forward proposals for reporting on all three dimensions. The three dimensions are:

(a) What did the entity do? What goods and services (referred to as outputs) did the entity provide during the period?;

(b) Why did the entity do it? What outcomes did the entity seek to influence?; and

(c) What impact did the entity have?

The Exposure Draft does not propose any changes to the requirements for statements of service performance in the Simple Format Reporting Standards for Tier 3 and Tier 4 PBEs.

The proposals are set out in *Invitation to Comment and ED NZASB 2016-6 Service Performance Reporting*. Further information is available from the XRB website.

Comments can be in an email or letter and can be formal or informal. Comments are due to the NZASB by 29 July 2016.

Are you required to account for Defined Benefit Pension Plans?

If you do, you may be interested in commenting on the International Public Sector Accounting Standards Board's (IPSASB) proposed amendments to the recognition, presentation and disclosure requirements of defined benefit pension plans. The amendments have been published in Exposure Draft 59: Amendments to IPSAS 25, *Employee Benefits*.

The purpose of proposed amendments is to maintain consistency with the underlying for-profit standard (IAS 19 *Employee Benefits*), enhance comparability between reporting entities and ensure financial statements provide useful and transparent information about defined benefit plans.

The main proposed amendments are:

- Remove the option of deferring the recognition of actuarial gains and losses arising from defined benefit plans (the "corridor approach");
- Introduce the net interest approach when determining the surplus or deficit on defined benefit plans;
- Eliminate different presentation options on actuarial gains and losses; and
- Structure the disclosures of defined benefit plans according to disclosure objectives.

The exposure draft is relevant for Tier 1 and Tier 2 public benefit entities, because the XRB has a policy that establishes a rebuttable presumption that the NZASB will adopt a new or amended IPSAS as a PBE Standard. Therefore, it is important that Tier 1 and Tier 2 public benefit entities take this opportunity to consider how the proposals would affect their accounting in future, and, if appropriate, comment on the proposals.

Further information on the proposals is available from the XRB website including a copy of Exposure Draft 59 Amendments to IPSAS 25, *Employee Benefits*, a high level summary and a marked up version of IPSAS 25.

Comments are due to the NZASB by 24 March 2016, or directly to the IPSASB by 30 April 2016, with a copy to the NZASB.

Other

NZAuASB roundtable discussions on audit quality

The New Zealand Audit and Assurance Standards Board (NZAuASB) will be holding "roundtable" discussions sessions in Auckland on 10 March 2016 and in Wellington on 9 March 2016 to understand the needs and expectations of all participants in the financial reporting supply chain about where enhancements to audit quality are needed.

The discussion will be based on issues raised in the International Auditing and Assurance Standards Board's (IAASB)'s Invitation to Comment (ITC) Paper Enhancing Audit Quality- a Focus on Professional Scepticism, Quality Control and Group Audits.

The roundtable sessions will include short presentations on the IAASB's proposals, together with small group discussions to consider and debate the issues, and will focus on key questions outlined in a companion document released by the IAASB, Overview of the ITC. The NZAuASB is keen to solicit feedback from investors, audit committees and preparers. If you have an interest in continually enhancing audit quality find out more and register via the XRB website.

NZAuASB Communique 2016/3: 11 February 2016

Have your say on auditor rotation

The International Ethics Standards Board for Accountants (IESBA) has released for re-exposure limited revised proposals with respect to long association requirements in the Code of Ethics for Professional Accountants (the Code). This follows the August 2014 exposure draft on this topic. The IESBA is seeking feedback on three remaining issues, but have completed their deliberations on a number of matters. The finalised provisions will increase the cooling-off period for engagement partners from two to five years on audits of public interest entities and add additional restrictions on the activities that can be performed during the cooling-off period. The re-exposed proposals cover the cooling off period for the engagement quality control reviewer (EQCR) and a revised approach for dealing with individuals that served as engagement partner or EQCR for only part of the seven-year period.

The NZAuASB is keen to get constituents views on the international proposals as they will affect auditors in New Zealand and local feedback will help inform the NZAuASB in considering whether there are any compelling reasons for the proposals to be modified for application in New Zealand.

Further information on the proposals is available from the XRB website or access a copy of the exposure draft here.

Comments are due to the NZAuASB by 22 April 2016, or directly to the IESBA by 9 May 2016, with a copy to the NZASB.

Further information

Please speak to your usual KPMG contact or call any of our offices should you have any questions on the above or if you would like further information on any of the matters discussed in this publication.

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