Reporting News

IN THIS ISSUE

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

None this issue.

KPMG International Publications

The Great Accounting Challenge – Responding to revenue and lease accounting changes

The new revenue recognition and leasing standards pose operational and financial challenges for many companies. Since the implementation efforts for both sets of rules overlap, many companies are currently tackling how to best implement both standards with the highest level of efficiency and the least amount of disruption.

KPMG US recently surveyed over 140 US companies – more than three-quarters of which are public – representing a wide range of industries to gauge where they stand in the compliance process.

While the survey reflects the current experiences in the US, many of the findings and key messages are equally relevant to NZ entities that are either still assessing the impact of these new standards or have not yet begun their assessment.

Key findings:

- Seventy-one percent of respondents are still assessing the impact of the revenue recognition rules, and only 7 percent have begun to implement the rules. Why? They are challenged by competing internal business priorities, human resource constraints and financial limitations.
- Lease implementation is also lagging, with few companies having conducted an inventory of their leases. Having adequate IT systems in place was recognized as the most significant challenge. While collecting data and completing

their inventory of leases ranked lower on the challenge scale, companies may not realize the amount of time that exercise requires.

Companies should act quickly to make sure that they are on track to meet their implementation deadlines. Download the report to learn what steps you should be taking in the near term.

Accounting for insurance contracts is changing

The final insurance contracts standard is expected to be issued around the end of this year. Implementing the new requirements will be very complex, so it's time to engage.

Our latest publication – *Accounting for insurance contracts is changing* – can help you assess the extent of the impact, so that you can address the wider business implications and meet the expectations of stakeholders and regulators.

There's a version for life insurers, and one for general insurers. Also available is our one-page visual guide to the new insurance contracts standard.

Accounting for revenue is changing – impacts for insurers

The new revenue standard – effective from 1 January 2018 – is likely to affect the way insurers account for non-insurance revenue. But it is more than just an accounting change.

Assessing the impact should already be a priority, as well as engaging with investors and other stakeholders to build expectations of how your key performance indicators or business practices may change.

To help you with these assessments and discussions, read our Accounting for revenue is changing, which reflects the final version of IFRS 15. It focuses on the impacts of the new requirements on sector-specific contracts such as those that include insurance and non-insurance components and those that provide non-insurance services.

IFRS 9 for corporates

How corporates account for financial assets will change from 1 January 2018, when the new financial instruments standard comes into effect.

The challenges reach beyond accounting and may require changes to systems and processes. So if you haven't already made a start, it's time to engage and assess the impact of IFRS 9 for your business.

To help you with this assessment, read IFRS 9 for corporates.

Implementing IFRS 9 – guidance for banks

For banks, implementing the new impairment requirements of IFRS 9 *Financial Instruments* may be complex and expensive. With the effective date only 18 months away, audit committees need to engage now to fulfil their key oversight role.

In a rare move, the Global Public Policy Committee – which comprises representatives from BDO, Deloitte, EY, Grant Thornton, KPMG and PwC – has published a joint paper that seeks to help audit committees meet their responsibilities.

We encourage bank executives and board members to read the paper and consider how to incorporate its recommendations into their IFRS 9 implementation plans. Our quick guide summarises the implementation challenges and key focus areas of the paper, and poses ten key questions for audit committees to use to focus their discussions with management.

Employee benefits: Clarifying share-based payment accounting

Resolving some long-standing ambiguities in share-based payment accounting, the IASB has published amendments to IFRS 2 *Share-based Payment*.

The amendments will improve consistency in the following three accounting areas:

- measurement of cash-settled share-based payments;
- classification of share-based payments settled net of tax withholdings; and
- accounting for a modification of a share-based payment from cash-settled to equity-settled.

Once a company applies the amendments, the timing and amount of expense recognised for new and outstanding awards could change.

The amendments are effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

Read our web article to find out more.

Non-GAAP measures – Moving towards global transparency

GAAP rarely tells the whole story of a company's performance. To bridge the gap, companies and investors communicate through key performance indicators, alongside the GAAP numbers. A few KPIs are the subject of agreed, usually sector-specific, definitions; but many are not.

To date, varied regulatory approaches to non-GAAP measures have resulted in inconsistent requirements. But there seems to be a consensus building globally. The final statement issued this month by IOSCO, the international association of regulators, brings its approach further in line with the guidelines issued a year ago by ESMA, the European regulator.

The question for investors is whether the level of consistency, transparency and reliability is sufficient and, more generally, how GAAP needs to change to address investor demands.

Read our web article to find out more.

KPMG survey – Room for improvement in business reporting

Corporate reports need to provide more in-depth discussion of strategy, backed by relevant operational KPIs, according to a new global survey from KPMG's Better Business Reporting team. Now in its second edition, the survey analyses the reports of 270 listed companies from across 16 countries, highlighting weaknesses and good practices in the presentation of business strategy and performance.

We encourage you to read the survey to gain some insights on opportunities for improving your corporate reporting.

IFRS Newsletter: Insurance, Issue 54

The IASB has finished its discussions on the differing effective dates of IFRS 9 *Financial Instruments* and the forthcoming insurance contracts standard.

Among the final details agreed in this month's meeting are:

- a grace period for entities that apply the temporary exemption and subsequently cease to be eligible for it, to give them time to implement IFRS 9;
- permission for qualifying first-time adopters of IFRS to use the amendments; and
- confirmation of a fixed expiry date of 1 January 2021 for the temporary exemption.

The balloting process will now begin and the amendments to IFRS 4 Insurance Contracts are expected to be published in September 2016.

Find out more in this month's IFRS Newsletter: Insurance.

Other IFRS News

IASB webinar: Amendments to the current insurance contracts standard

In this webinar Martin Edelmann and Sue Lloyd, members of the Board, and Joanna Yeoh, senior technical manager, provide an overview of the forthcoming amendments to IFRS 4.

Responding to some companies' concerns about the timing of the implementation of IFRS 9 *Financial Instruments* (IFRS 9) and the forthcoming insurance contracts standard and the related consequences, the Board has, following public consultation, confirmed that it will issue amendments to IFRS 4 that:

- give companies that issue insurance contracts the option to remove from profit or loss the volatility that may be caused by certain changes in the measurement of financial assets when applying IFRS 9 before the new insurance contracts Standard; and
- give companies whose predominant activities are insurance-related an optional temporary exemption from applying IFRS 9 until 2021.

The webinar (28:25 mins) is accessible here.

IASB webinar: Disclosure initiative

The International Accounting Standards Board is planning to publish a Discussion Paper on *Principles of Disclosure* by the end of 2016.

In this webinar, Suzanne Morsfield, senior technical manager, and Arjuna Dangalla, assistant technical manager, give you an overview of the Disclosure Initiative and detail the content of the *Principles of Disclosure* Discussion Paper.

The webinar (6:15 mins) can be accessed here.

Public Benefit Entity News

NZASB Communiqué 2016/18 - 19 May 2016

Exposure draft issued – PBE IFRS 9 Financial Instruments

The NZASB is seeking feedback on ED NZASB 2016-7 PBE IFRS 9 *Financial Instruments* (the ED) which would apply to public benefit entities (PBEs) in Tiers 1 and 2. The ED is based on IFRS 9 *Financial Instruments* and would be available for voluntary adoption by PBEs when NZ IFRS 9 *Financial Instruments* becomes in the for-profit sector in 2018.

The aim is to assist mixed groups reduce the potentially significant compliance costs associated with consolidation adjustments that may otherwise occur. The accompanying invitation to comment also seeks views on whether the Board should proceed with finalising this standard or await the conclusion of the equivalent project being conducted by the International Public Sector Accounting Standards Board (IPSASB).However this project is unlikely to conclude before NZ IFRS 9 becomes operative.

Comments are due to the NZASB by 30 September 2016.

Access the Exposure Draft and the Invitation to Comment here.

NZASB Communiqué 2016/14 - 19 May 2016

The New Zealand Accounting Standards Board (NZASB) has recently issued the *Public Benefit Entities' Conceptual Framework* (the PBE Conceptual Framework).

This sets out the concepts that underpin general purpose financial reporting. It defines elements, such as assets and liabilities and contains guidance on matters such as recognition and measurement.

Standard setters use a conceptual framework to develop consistent standards as well as assisting them to think about new issues. Preparers may also use them to support the development of consistent accounting policies (for example, when accounting for a specific transaction not covered by a standard).

Developing a new conceptual framework does not automatically lead to changes in accounting standards, although the NZASB intends to propose some limited consequential amendments in the near future. Other impacts of the new conceptual framework will occur over time as it influences the development of new and revised standards.

The Authoritative Notice is effective for annual financial statements covering periods beginning on or after 1 January 2017.

You can access the Authoritative Notice on the XRB website.

NZASB Communiqué 2016/14 - 19 May 2016

Other

Financial markets updates

FMA announces new exemptions for overseas issuers

The FMA have recently approved a series of class exemptions for overseas issuers which allow issuers making offers to New Zealand investors to rely on the disclosure, governance, financial reporting and audit requirements of their overseas jurisdiction where their regulatory standards are equivalent to New Zealand's.

This is relevant to overseas issuers who are intending to offer financial products in New Zealand, or who already offer financial products under a previous exemption.

The exemptions are expected to be finalised by the end of July 2016.

More information is available on the FMA website here.

FMA legislative notices supporting the FMC Act Regime

To support businesses implementing the Financial Markets Conduct Act 2013 (FMC Act), the FMA has been working, in consultation with the sector, on various legislative tools such as exemptions, frameworks, methodologies, public accountability notices, and designations (the FMA's legislative tools).

The FMA has also been working with the Ministry of Business, Innovation, and Employment (MBIE) on the amendments to the Financial Markets Conduct Regulations 2014 (FMC Regulations).

These tools and regulatory amendments are designed to help businesses and individuals comply with the requirements of the FMC Act regime.

The FMA has recently released a regulatory update summarising:

- the legislative notices that have already been issued to support the FMC Act regime;
- some recent decisions;
- the matters for which they are still exploring legislative tool solutions.

Regulatory Update: FMA legislative notices supporting the FMC Act regime

Fee disclosure by managed funds

The FMA has recently published guidance to help managers and supervisors understand how fees should be disclosed in product disclosure statements and fund updates. It includes guidance on classifying and disclosing performance-based fees, management and administration charges, and underlying fund charges.

Guidance Note: Fee disclosure by managed funds

Further changes to FMC, FA and FRA Regulations

The Financial Markets Conduct Amendment Regulations 2016 (2016 Amendment Regulations) were made on 30 May 2016 and contain further minor technical improvements to address issues that have been identified by industry.

In particular, the 2016 Amendment Regulations:

- Allow a restricted scheme's assets to be invested into a wholesale scheme managed by a professional investment manager without breaching the "in-house asset rule".
- Allow superannuation schemes that were closed to new members prior to 1997 to register as restricted schemes or legacy schemes under the FMC Act.

In addition, the following other amendment regulations have been made:

- Financial Advisers (Definitions, Voluntary Authorisation, Prescribed Entities, and Exemptions) Amendment Regulations 2016
- Financial Reporting Amendment Regulations 2016
- Financial Markets Conduct (Restricted Schemes) Order 2016

MBIE is also planning a further set of amendment regulations for later in 2016. A list of the issues being considered can be found on the MBIE website here.

FMA releases auditor regulation and oversight plan

The FMA has recently released its auditor regulation and oversight plan for 2016.

The auditor regulation and oversight plan addresses how the FMA will perform audit quality reviews, the new standards for auditor reporting and what the FMA will monitor regarding audits of FMC reporting entities.

The auditor regulation and oversight plan is relevant for auditors, preparers of financial statements and directors of FMC reporting entities.

More information and a full copy of the 2016 auditor regulation and oversight plan can be found on the FMA website here.

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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