AUCKLAND CITY

International Accounting Standards- the twelve standards to be commented on to ICANZ by 16 August 2002

IAS 1	**Presentation of financial Statements**
IAS 2	**Inventories**
IAS 8	**Net Profit or loss for the Period, Fundamental Errors and Changes in Accounting Policies**
IAS 10	**Events After the Balance Sheet Date**
IAS 16	**Property, Plant and Equipment**
IAS 17	**Leases**
IAS 21	**The Effects of Changes in Foreign Exchange Rates**
IAS 24	**Related Party Disclosures**
IAS 27	**Consolidated Financial Statements and Accounting for Investments in Subsidiaries**
IAS 28	**Accounting for Investments in Associates**
IAS 33	**Earnings per Share**
IAS 40	**Investment Property**

The FRSB invites constituents to comment as the strategy of the FRSB will be to follow its international convergence and harmonisation policy by, in due course, seeking to update the equivalent New Zealand financial reporting standards to reflect the final IASB outcome.

The FRSB requests constituents to comment to the FRSB on the issues that are considered to have a major impact on current New Zealand standards.

Comments should be submitted in writing to:
The Director-Accounting & Professional Standards,
Institute of Chartered Accountants of New Zealand,

PO Box 11-342,
Wellington,
Fax (04) 472 6282,
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Review of proposed improvements to IAS 1 “Presentation of Financial Statements”

Glossary

IAS	**International Accounting Standard**
IFRS	**International Financial Reporting Standard**
IFRIC	**International Financial Reporting Interpretations Committee**
SIC	**Standing Interpretations Committee**

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Presentation of Financial Statements

Presentation of Financial Statements		
Proposed Changes to IAS 1	**Equivalent New Zealand pronouncements –** **Ex Fwd:** ***Explanatory Foreword to General Purpose Financial Reporting*** **FRS- 1:** ***Disclosure of Accounting Policies*** **FRS- 2:** ***Presentation of Financial Reports*** **FRS- 7:** ***Extraordinary Items and Fundamental Errors*** **FRS- 9:** ***Information to be Disclosed in Financial Statements***	**Auckland City Council Comment**
Meaning of fair presentation- paragraph 10 Include guidance on the meaning of "**present fairly**", including that the application of IFRS and interpretations is presumed **to result in financial statements that achieve a fair presentation.**	**Statement of Concepts** 4.10 **Representational faithfulness** is achieved when transactions and events which affect the entity are presented in financial reports in a manner that corresponds with the substance of the actual underlying transactions and events are accounted for and presented in a manner that conveys their economic effect rather than necessarily their legal form.	**Agree with proposal**: Reason: It is important to have consistency .The meaning of "present fairly" needs to be clear and non-circular. The wording "to result in financial statements that achieve a fair presentation" is circular. We need a definition of "fair" that is clear.
Fair presentation override where departure from accounting standards prohibited- paragraph 15 Include a requirement that in **extremely rare** circumstances in which **compliance with** a requirement of an IFRS or an Interpretation would be so **misleading** that it would conflict with the objective of financial statements and the relevant regulatory framework prohibits departure from that requirement, the entity reduces to the minimum extent possible the perceived misleading aspects of compliance by making specified disclosures.	**FRS-1 Disclosure of Accounting Policies** 5.3 In the **rare circumstances** that application of a financial reporting standard results in inappropriate treatment of items in financial reports, additional information and explanation are to be provided in order to achieve a fair presentation.	**Agree with proposal**: Reason: The overriding consideration is "fair presentation" Refer to above comments expressing concern that we need a clear and unambiguous definition of "fair".

Presentation of Financial Statements		
Proposed Changes to IAS 1	**Existing requirements –** **1. Statement of Concepts for General Purpose Reporting** **2. Framework for Differential Reporting** **3. Explanatory foreword to General Purpose Financial Reporting** **4. FRS-1 Disclosure of Accounting policies** **5. FRS-2 Presentation of Financial Reports** **6. FRS-9 Information to be disclosed in Financial Statements.**	**Auckland City Council Comment**
Offsetting assets and liabilities- paragraph 28 Amend the permitted offsetting of assets and liabilities to circumstances **where offsetting is required** by another Standard rather than where offsetting is **required or** ***permitted*** by another Standard	**FRS-27 Right of Set-off** 5.1 Assets and liabilities shall not be set off in the presentation of the statement of financial position except as provided in para 5.2. 5.2 Where there is a right of set off for monetary assets and monetary liabilities, those monetary assets and monetary liabilities need not be disclosed separately but may be set off in the presentation of the statement of financial position.	**Agree with proposal**: Reason: This is a logical "housekeeping" change.
Offsetting revenues and expenses -paragraph 29 **Remove the ability to offset** revenues and expenses on the basis that they arise from the same or similar transactions and events and **are not material**.	**FRS-27 Right to Set-off** 5.11 Where monetary assets and monetary liabilities have been set off in accordance with this Standard, any revenues and expenses derived from those assets and liabilities shall be set off in the statement of financial performance.	**Agree with proposal:** **Reason:** In a large organisation "materiality" sanctions "hiding" otherwise known as "offsetting" amounts that are significant at a lower operating level.

Presentation of Financial Statements		
Proposed Changes to IAS 1	**New Zealand Existing Standard**	**Auckland City Council Comment**
Liquidity presentation- paragraph 53 Amend the choice between the current/non-current and liquidity presentations of assets and liabilities on the face of the statement of financial position to **specify that the entity uses a current/non-current presentation unless a liquidity presentation provides more relevant and reliable information.**	**FRS-2 Presentation of Financial Reports** **8.5The statement of financial position shall separately disclose:** (a) (I) current assets; (ii) non-current assets; (iii) current liabilities (iv) non-current liabilities; (v) equity (including minority interests); (b) where, because of the nature of the activity of the entity, it is not appropriate to disclose the classification listed in (a): (I) the major components of assets and liabilities in the broad order of their liquidity; and (ii) equity(including minority interests**)**	**Do Not Agree with the proposal:** Reason: The current/non-current presentation requires analysis and checking of accounts to determine whether or not they will be paid or received with the next twelve months. This is clear and understandable. It also assists with a quick comparison of the assets and liabilities to determine the financial health of the Entity.
Non-current liabilities- paragraphs 60 and 61 **Remove the requirement** to classify **a long-term financial liability** due to be settled **within twelve months** of the balance sheet date as **non-current** where an agreement to refinance or to reschedule payments on a long-term basis is completed **after the balance sheet** date and before the financial statements are authorised for issue.	**FRS-9 Information to be Disclosed in Financial Statements** 8.10 The following items shall be disclosed separately and appropriately described in accordance with paragraph 8.5 of FRS-2:Presentation of Financial Reports, as current and/or non-current liabilities whichever is applicable, or in the broad order of their liquidity: (a) trade creditors; (b) amounts payable, distinguishing between: (I) inter-equity(excluding those items eliminated in the preparation of the financial report) (ii) to associates or other equity accounted entities; (iii)to directors; (iv) to other related parties; (c) employee entitlements; (d) dividends payable; (e) loans, including bank overdrafts, secured over assets of the entity; and (f) unsecured loans.	**Do not Agree with proposal:** Reason: Auckland City has maturing debt of different dates, some of which can be due for roll over in the following year. There is no doubt about the fact that these debts will be rolled over. The agreement must be in writing and irrevocable. Full and appropriated disclosure should be made.

Presentation of Financial Statements		
Proposed Changes to IAS 1	**New Zealand Existing Standard**	**Auckland City Council Comment**
Breaches of covenants- paragraphs 62 64 **Remove the requirement to classify a long-term financial liability** that is payable on demand because the entity **breached** a **condition of its loan agreement** as non-current at the balance sheet date if the lender has agreed **after the balance sheet date**, and **before the financial statements are authorised for issue**, **not to demand payment** as a consequence of the breach, unless the lender has agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach.	**FRS-2 Presentation of Financial Reports** 8.7 Information in the statement of financial position can assist users to estimate the amounts, timing and uncertainty of future cash flows. Reporting which distinguishes assets by function is useful for this purpose. For example, assets held for sale are to be reported separately from assets held for use in production, because of the potential effects of each in the timing of future cash flows. In addition, assets may be grouped according to the relative certainty of their valuation, or according to an order of liquidity.	**Do not agree with the proposal:** Reason: If the lender provides a one year extension in writing then this should remain as a non-current asset.
Statement of financial performance-paragraph 76 Include in IAS 1 all requirements for the presentation of particular line items on the face of the **income statement** and remove relevant disclosures from other Standards.	**FRS-2 Presentation of Financial Reports** is not the only New Zealand Standard which specifies the presentation of particular line items on the face of the income statement. **FRS-9 Information to be Disclosed in Financial Statements** and a number of other Standards specify the items to be disclosed on the face of the Statement of financial performance.	**Agree with proposal:** Reason: Ease of reference and reduces risk of misinterpretation of Standards.
Statement of financial position-paragraph 65 Include in IAS1 all requirements for the presentation of particular line items on the face of the **balance sheet** and remove relevant disclosures from other Standards.	**FRS-2 Presentation of Financial Reports** is not the only New Zealand Standard which specifies the presentation of particular line items on the face of the income statement. **FRS-9 Information to be Disclosed in Financial** Statements and a number of other Standards specify the items to be disclosed on the face of the Statement of financial position.	**Agree with proposal:** Reason: Ease of reference and reduces risk of misinterpretation of Standards.

Presentation of Financial Statements		
Proposed Changes to IAS 1	**New Zealand Existing Standard**	**Auckland City Council Comment**
Operating Activities **Remove the requirement to disclose** the results of **operating activities** as a **line item** on the face of the income statement	**FRS-2 Presentation of Financial Reports** 6.7 The operating surplus (deficit) shall be disclosed separately.	**Agree with proposal:** Reason: The accounts are for the whole entity and lower level detail becomes cumbersome and clutters the overall view of the entity.
Extraordinary items – paragraphs 78 and 79 **Remove the definition of extraordinary items** and the requirement to disclose extraordinary items as a line item on the face of the income statement, **and specify that disclosure of 'extraordinary items' is prohibited**	**FRS-7 Extraordinary Items and Fundamental Errors** 5.14 Each extraordinary item is to be shown separately and described suitably either on the face of the statement of financial performance or in the notes to the financial report. Individual elements of revenue and expense (excluding taxation) which derive from a single extraordinary transaction or event constitute a single extraordinary item and are therefore to be aggregated. There may be circumstances when, although the net result of an extraordinary event is not significant in itself, it may be necessary to show separately the financial elements of extraordinary revenue and extraordinary expense for the financial report to give a fair presentation.	**Do not agree with proposal:** Reason: Agree with the NZ Standard , Wording is as follows There may be circumstances when, although the net result of an extraordinary event is not significant in itself, it may be necessary to show separately the financial elements of extraordinary revenue and extraordinary expense for the financial report to give a fair presentation.
Changes in equity – paragraph 91 Require **disclosure of a separate component of the financial statements showing the profit or loss for the period** (profit before minority interest) together with each item of revenue or expense recognised **directly in equity**. The existing paragraph 86 requires disclosure showing net profit or loss for the period (profit after minority interest) together with each item of revenue or expense recognised **directly in equity** as a separate component of the **financial statements**.	**FRS-2 Presentation of Financial Reports** 7.2 The statement of movements in equity shall include a reconciliation of the equity at the beginning of the period with the equity at the end of the period. 7.3 The following items shall be separately disclosed in the statement of movements in equity : (a) distributions to owners; (b) contributions by owners; (c) total recognised revenues and expenses including: (i) net surplus (deficit); (ii) increases/decreases in revaluation reserves; (iii) currency translation differences; and (d) minority interests.	**Agree with proposal:** Reason: It is logical to require disclosure of earnings after minority interest together with each item of revenue or expense recognised directly in equity.

Presentation of Financial Statements		
Proposed Changes to IAS 1	**New Zealand Existing Standard** FRS-38 Accounting for Investments in Associates 5.21 The investors share of the post acquisition net surplus or deficit of the associate is to be included in the investor's operating surplus before tax on a net of tax and extraordinary items basis .The consequence is that the amounts of tax and extraordinary items recognised in the investor's statement of financial performance will exclude amounts of tax and extraordinary items relating to associates. 5.22 The investor's share of other post-acquisition revenues and expenses of the associate to be recognised in the investor's statement of movements in equity will include the investor's share of movements in any asset revaluation or foreign currency translation reserves maintained by the associate and the investor's share of adjustments arising from any fundamental errors.	**Auckland City Council Comment**
Disclosure of judgements made by management in applying accounting policies- paragraph 108 & 109 **Require disclosure** of the **judgements made by management in applying accounting** policies that have the most significant effect **on the amounts of items** recognised in the financial statements.	New Zealand Standards contain no requirement to disclose "judgements of management in applying accounting policies that have the most significant effect on amounts of items recognised in the financial statements"	Agree with proposal Reason: The accounts are statements of stewardship by the Board of Directors and not management.

Presentation of Financial Statements		
Proposed Changes to IAS 1	**New Zealand Existing Standard**	**Auckland City Council Comment**
Sources of measurement uncertainty- Paragraphs 110 to 115 **Require disclosure of key assumptions about future events,** and other sources of measurement uncertainty, that have a **significant risk** of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.	New Zealand standards have no requirement to disclose key assumptions about future events. FRS-15 Provisions Contingent Liabilities and Contingent Assets is close. 5.14 An entity must not recognise a contingent liability. An entity must not recognise a contingent asset. 11.3 Unless the possibility of any outflow in settlement is remote., an entity must disclose for each class of contingent liability at the balance date, a brief description of the nature of the contingent liability and, where practicable: (a) an estimate of its financial effect (b) an indication of the uncertainties relating to the amount or timing of any outflow; and (c) the possibility of any reimbursement.	Agree with proposal : Reason: This is close to NZ FRS-15, contingent liabilities and if there is a significant risk this needs to be disclosed to assist the reader of the accounts in forming a fair view.
Country of incorporation and address of registered office – paragraph 117(a) **Remove the requirement** to disclose the entity	Not required under NZ standards	Do not agree with the proposal. Reason: Of benefit to know this information..
Number of employees **Remove the requirement** to disclose the number of an entity's employees.	Not required under NZ standards	Do not agree with the proposal. Reason: This is a requirement under "Triple Bottom Line" reporting.

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Review of proposed improvements to IAS 2 “Inventories”

Inventories

Inventories		
Proposed changes to IAS 2	**Existing requirements-** FRS-4 Accounting for Inventories	**Auckland City Council Comment**
Scope- paragraph 1 The scope exception relating to agricultural and forest products, mineral ores and agricultural produce to the extent they are measured at net realisable value in accordance with well established practices would be **extended to non-producers such as brokers and dealers.**	FRS-4 1.3 This Standard does not apply to; (a) inventories accumulated under construction contracts(see FRS-14 Accounting for Construction Contracts); (b) forest crops; **(c)** farm produce and livestock **held by the producer;** (d) assets available for hire; and (e) financial instruments. 4.4 Inventories include the work in progress of an entity. For an entity that is a service provider, inventories include those partially completed services rendered but not yet recognised as service revenue. 5.1 Inventories shall be measured at the lower of cost or net realisable value. (a)	Agree with proposal: Reason: It is still the same inventory whether owned by brokers or farmers.
Service providers- paragraph 16 New commentary would note that: • when revenues related to services provided have not been recognised a service provider has inventories; and • the cost of inventories of a service provider does not include profit margins or non-production costs that are often factored into prices.		Agree with proposal: Reason: Unless the concept of inventory is used the true cost and revenue matching will not occur in any year.

Inventories		
Proposed changes to IAS 2	**Existing requirements**- FRS-4 Accounting for Inventories	**Auckland City Council Comment**
Cost formulas- paragraphs 21 & 21A Incorporate SIC 1 "Consistency-Different Cost Formulas for inventories" requirement that the same cost formula be used for all inventories having the same nature and use to the entity.	5.3 Items are to be written down by groups, for example, where items of inventory relating to the same product line have similar purposes or end uses, or are produced and marketed in the same geographical area and cannot practically be evaluated separately from other items in that product line.	Agree with proposal: Reason: This will ensure consistency.
LIFO – paragraphs 23 & 24 The allowed alternative cost formula of last in first out (LIFO) would be removed.	5.18 The application of the formulas of last-in, first-out (LIFO) or base stock is **not permitted** by this Standard.	Agree with proposal: Reason: LIFO is not used in NZ.
Write-down disclosures-paragraphs 30 & 31 The Invitation to Comment asks whether IAS2 should continue to require: • reversal of write-downs when circumstances that previously caused inventories to be written down below cost no longer exist; and • the amount of any reversal of any write down to be recognised as a reduction in the amount of inventories recognised as an expense.	5.27 The amount of any write-down of inventories to net realisable value and all other losses of inventories shall be recognised as an expense in the period when the write-down or the loss occurs. 5.28When circumstances which previously caused inventories to be written down below cost no longer exist, the inventories shall be reinstated to the extent that the new carrying amount of those inventories is not more than the lower of original cost or the net realisable value in the current period.	Agree with the proposal: Reason: The overriding rule is "lower of cost or net realisable value". If the net realisable value increases it follows that the valuation should reflect this.
Cost of Inventories -paragraph 37 The requirements to disclose (a) cost of inventories as an expense or (b) operating costs classified by nature, as these are covered in IAS 1.	FRS-4 , 5.29(b) requires disclosure of the total value of inventories.	Agree with the proposal: Reason :Improves information available to users. Para 73 (c) of IAS 1 states "inventories are sub-classified, in accordance with IAS 2,Inventories, into classifications such as merchandise, production supplies, materials, work in progress and finished goods" Unless the main accounts are sub-classified into "Cost of Production", "Cost of Sales" then this information is unable to be put into context.

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Review of proposed improvements to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

Accounting Policies, Changes in Accounting Estimates and Errors		
Proposed changes to IAS 8	**Existing requirements –FRS-7 Extraordinary items and Fundamental Errors**	**Auckland City Council Comment**
Definitions-paragraph 3		
Errors Include a definition of errors	FRS-7 4.2"Fundamental error" An error is considered to be fundamental where it is so significant that it destroys the fair presentation of the financial report taken as a whole.	**Agree with proposal**: Reason: This will help with consistency and understanding. The NZ Standard covers this
Fundamental errors Remove the distinction between fundamental errors and other material errors and consequently delete the definition of fundamental errors (see, in particular, old paragraph 6).	FRS-7 1.3 Fundamental errors which have been made in prior periods require retroactive adjustment of the financial reports of those periods.	**Agree with proposal:** Reason: IAS 8 "old Para 6" Definition of Fundamental errors "Fundamental errors are errors discovered in the current period that are of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue." As long as "other material errors" include the meaning included in the definition of Fundamental errors.
Retrospective/prospective application of a change in accounting policy- paragraph 3 Include definition of "retrospective application" and "prospective application "of a change in accounting policy.	No such definitions in NZ	**Agree with proposal:** Reason: This will improve consistency and understanding
Application of IFRS[3] and Interpretations- paragraph 4 Identify the order in which components of an IFRS (the Standard and Appendices that do not form part of the Standard) and an Interpretation should be applied in determining an accounting policy to which an IFRS or Interpretation applies.	ED-92 Preface to Reporting Standards 4.5 Other sources of authoritative support for all entities in the preparation of general purpose financial reports are: IFRSs issued by the IASB and the International Public Sector Accounting Standards ("IPSASs") issued by the International Federation of Accountants Public Sector Committee ("PSC");	**Agree with proposal:** Reason: This will improve consistency and understanding

Accounting Policies, Changes in Accounting Estimates and Errors		
Proposed changes to IAS 8	**Existing requirements –FRS-7 Extraordinary items and Fundamental Errors**	**Auckland City Council Comment**
Hierarchy of pronouncements-paragraph 6 Identify a hierarchy of pronouncements to apply, and authoritative non-mandatory guidance to consider, when selecting accounting policies in the absence of a specific IFRS or Interpretation.	Not in NZ. The Explanatory Foreword to General Purpose Financial Reporting 4.5 Other sources of authoritative support for all entities in the preparation of general purpose financial reports are: • New Zealand financial reporting standards which are applicable to analogous items or matters; • Guidance notes to New Zealand financial reporting standards; • *Statement of Concepts for General Purpose Financial Reporting;* • exposure drafts of financial reporting standards issued by the Financial Reporting Standards Board; • interpretations by the Financial Reporting Standards Board of financial reporting standards; • technical practice aids and technical guidance bulletins issued by the Financial Reporting Standards Board; • research bulletins published by the Society; • accounting standards published by the Australian Accounting Standards Board; • international standards published by the International Accounting Standards Committee; • accounting standards published by other well-organised bodies with the authority to promulgate financial reporting standards in other jurisdictions; and • practice widely accepted as appropriate and prevalent for the industry or sector concerned.	**Agree with proposal:** Reason: This will improve consistency and understanding

Accounting Policies, Changes in Accounting Estimates and Errors **Proposed changes to IAS 8**	**Existing requirements –FRS-7 Extraordinary items and Fundamental Errors**	**Auckland City Council Comment**
	4.6 It is a matter for professional judgement in the circumstances of the entity as to which items above should be considered, and how conflicts between sources of authoritative support should be resolved, in determining generally accepted accounting practice. Professional judgement needs also to take account that the extent of authoritative support accorded particular sources may be affected by an absence of, or incomplete, due process.	
Consistency of accounting policies- paragraph 7 Clarify that, if more than one accounting policy is permitted under a Standard or an Interpretation, the entity must choose and apply consistently one of those policies, unless the Standard or Interpretation specifically requires or permits categorisation of items for which different policies may be appropriate.	FRS-1Disclosure of Accounting Policies 5.15 Accounting policies adopted by an entity are normally consistent from one period to another, and are to be applied to all items of a similar nature.	**Agree with proposal:** Reason: This will improve consistency and understanding If the hierarchy of standards is defined then this will need to ensure that there is no conflict with para 7. The standard consistently applied should be the one of "more than one accounting policy"
Changes in Accounting Policies		
Implementation of a new standard-paragraph 7 Require disclosure that the change in accounting policy is made in accordance with the transitional provisions of a Standard, together with a description of those provisions affecting future periods, when applying the transitional provisions of a Standard that may have an effect on future periods.	No similar NZ Standard	**Agree with proposal:** Reason: This will improve consistency and understanding

Accounting Policies, Changes in Accounting Estimates and Errors		
Proposed changes to IAS 8	**Existing requirements –FRS-7 Extraordinary items and Fundamental Errors**	**Auckland City Council Comment**
Future implementation of a new standard-paragraph 19 Require, rather than encourage, disclosure when an entity chooses not to early-adopt a new Standard of the nature of a future change in accounting policy, the planned date of adoption, and an estimate of the effect of the change on the entity's financial position, unless such an estimate cannot be made without undue cost or effort.	FRS-1 Disclosure of Accounting Policies 5.20 Where an entity elects either: (a) to apply a financial reporting standard before the application date contained in that financial reporting standard; or (b) to apply revocation of a financial reporting standard before the application date of that revocation; (c) the entity's decision is to be disclosed.	**Agree with proposal:** Reason: This will improve consistency and understanding Consistent with NZ FRS-1
Voluntary changes in accounting policies-paragraph 20 Remove the allowed alternative treatment for voluntary changes in accounting policies (old paragraphs 54 to 57). A voluntary change in an accounting policy would be accounted for retrospectively by adjusting the opening balance of retained earnings for the earliest period presented and restating comparative information.	FRS-7 Extraordinary Items and Fundamental Errors 5.3 When an entity changes an accounting policy in order to comply with a financial reporting standard or a statutory requirement either of which specifically requires the making of an initial accounting entry to give retroactive effect to the changed policy, any resulting revenue or expense shall be adjusted directly against equity at the beginning of the accounting period in which the change is made and adequate disclosure shall be made in the financial report. 5.24 This Standard adopts the view that the financial effect of all changes in accounting policy which impact upon the measurement of financial performance is to be recognised in the statement of financial performance in the period in which the decisions to change the policies are made and applied except for an adjustment against opening equity where this is required in accordance with paragraph 5.2.Where material, such adjustments are to be disclosed separately. This standard therefore emphasises the qualitative characteristics of relevance and reliability in general purpose financial reporting over the requirement to produce information that is consistent from one period to another.	**Agree with proposal**: Reason: This will improve consistency and understanding Consistent with NZ FRS-7

Accounting Policies, Changes in Accounting Estimates and Errors		
Proposed changes to IAS 8	**Existing requirements –FRS-7 Extraordinary items and Fundamental Errors**	**Auckland City Council Comment**
Presentation Remove the requirement to include the effect of a change in an accounting **estimate** in the same income statement classification as was used for the estimate (old paragraph 28). "28. The effect of a change in an accounting estimate would should be included in the same income statement as was used previously for the estimate."	FRS-7 Extraordinary Items and Fundamental Errors Changes in Accounting Estimates 5.21 Items which relate to prior periods other than fundamental errors are to be dealt with in the statement of financial performance of the period in which they are recognised. They arise mainly from the corrections and adjustments which are the natural result of estimates inherent in accounting and more particularly in the preparation of periodic financial reports.	**Agree with proposal:** Reason: This change is consistent with NZ FRS-7
Correction of errors		
Recognition-paragraph 32 Remove the allowed alternative treatment for the corrections of errors (old paragraphs 38 to 40). The correction of an error would be accounted for retrospectively, by either restating the comparative amounts for the prior period(s) in which the error occurred or, when the error occurred before the earliest prior period presented, adjusting the opening balance of retained earnings for that period with restatement of comparative information. Para 32 states "On rare occasions, an error has such a significant effect on the financial statements of one or more prior periods that those financial statements can no longer be considered to have been reliable at the date of their issue. The errors are referred to as fundamental errors. An example of a fundamental error is the inclusion in the financial statements of a previous period of material amounts of work in progress and receivables in respect of fraudulent contracts that cannot be enforced. The correction of fundamental errors that relate to prior periods requires the restatement of the comparative information or the presentation of additional pro forma information.	FRS-7 Extraordinary Items and Fundamental Errors 5.16 The after-tax effects of fundamental errors shall be accounted for by adjusting the opening balance of equity and, where practicable, restating the comparative figures for the previous period. In a historical summary, the amounts relating to prior periods shall be restated where practicable and the fact of their restatement disclosed. 5.20 In exceptional circumstances a financial report may have been issued containing an error which is of such significance as to destroy its fair presentation. That financial report would have been withdrawn had the error been recognised at the time. The correction of such a fundamental error is to be accounted for, not by inclusion in the statement of performance of the current period, but by restating the prior period(s) with the result that the opening balance or retained earnings will be adjusted accordingly.	**Agree with proposal:** Reason: This change is consistent with NZ FRS-7

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Review of proposed improvements to IAS 10 “Events after the Balance Sheet Date”

Events After the Balance Sheet Date		
Proposed Changes to IAS 10	**Existing NZ Standard – FRS-5 Events After Balance Date**	**Auckland City Council Comments**
Dividends-IAS 10, paragraph 12 Add commentary relating to the declaration and authorisation of dividends, with reference to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. Add Example 12 to Appendix C of IAS 37 to illustrate that dividends declared before the balance date are not recognised as liabilities if they are subject to approval by the shareholders after the balance date.	FRS-5 Events after Balance Date 5.7 Disclosure of dividends that were proposed or declared after balance date but before the financial report was authorised for issue an be made either: (a) on the face of the statement of financial position as a separate component of equity; or (b) in the notes to the financial statements.	Agree with proposal: Reason: Consistent with NZ Standard FRS-5

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Review of proposed improvements to IAS 16 "Property, Plant & Equipment"

Property, Plant and Equipment (PP&E)		
Proposed changes to IAS 16	**Existing NZ Standard FRS-3**	**Auckland City Council Comments**
Definition and review of residual value- paragraphs 6 & 46 Amend the definition of "residual value" and require the residual value of an asset to be reviewed as at each reporting date, regardless of whether the asset is measured at cost or at a revalued amount. Presently, paragraph 46 comments that, when the cost basis of measurement is used, the residual value is estimated at acquisition date and is not subsequently increased for changes in prices	FRS-3 Accounting for Property Plant and Equipment 4.42 The estimate of residual value of an item of property plant and equipment is based on the net amount that could be recovered for similar items that have reached the end of their useful lives and that have operated under conditions similar to those under which the acquired item will operate. The estimate of residual value is expressed in terms of the amount expected as at the date of making the estimate, for example, as at the date of acquisition, construction or revaluation, and is not some future value that takes into account inflation. 8.18A The estimate of residual value is based on the net amount to be recovered for similar items which have reached the end of their useful lives and which have operated under similar conditions. In general, when an item of property, plant and equipment is not revalued, the estimate of residual value is expressed in terms of the amount expected as at the date of acquisition and not some future value which would take into account the effect of inflation on prices. Residual values may still be decreased or increased for reasons other than changes in prices. For example, **the residual value may need to be reduced where it becomes evident that the carrying amount of an item is above its recoverable amount**. Also, the residual value may need to be increased where there is a reduction in the estimated useful life of an item of equity because that entity decides it will dispose of the item earlier than originally planned.	Agree with proposal: Reason: This is consistent with FRS-3 and is logical.

Property, Plant and Equipment (PP&E)		
Proposed changes to IAS 16	**Existing NZ Standard FRS-3**	**Auckland City Council Comments**
Component approach to depreciation- paragraph 12 Clarify that a component approach to depreciation and to the treatment of expenditure to renew a component of an item of PP&E is applied to all PP&E, thereby achieving greater consistency with existing commentary about identifying separate assets based on them having different useful lives (see paragraph 22B, previously paragraph 27)	FRS-3 Accounting for Property Plant and Equipment 5.18When the components of property, plant and equipment have different useful lives or provide benefits to the entity in different depreciation rates and methods ,the cost of the item must be allocated to its components and each component must be accounted for separately	**Agree with proposal:** Reason: The practice that this change seeks to clarify ie- component level accounting for PP&E, is standard practice in NZ. The clarification is not needed in NZ.
Cost of an item of PP&E-paragraph 15 Insert additional guidance that the directly attributable costs included in the cost of an item of PP&E: • are those to bring the asset to the location and working condition necessary for it to be capable of operating in the manner intended by management; and are determined after **deducting the net proceeds from selling any items produced when brining that asset to** that location and condition (such as samples produced when testing equipment). Presently, paragraph 15 states that the cost of an item of PP&E comprises its purchase price, including import duties and non refundable purchase taxes and any directly attributable costs of bringing the asset to working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price.	FRS-3 Accounting for Property Plant and Equipment Not in NZ Standard 5.8 to5.14	**Do not agree with proposal:** If the item of PP&E has produced saleable product, the proceeds of sale should be recorded, as sales not reduced from the cost of the plant. Samples produced in testing equipment will incur a production cost and it is this cost which should be offset by the sale of samples.
Revenue and related expenses incidental to construction or development-paragraph 17B Add guidance that the revenue and related expenses of operations that are incidental to the construction or development of an item of PP&E (for example, revenue earned through using a building site as a car park until construction commences) are recognised in profit or loss/result before outside equity interest for the period.	FRS3-Accounting for Property Plant and Equipment Not in NZ Standard 5.8 to 5.14	**Agree with proposal:** This is consistent with the opinion expresses above in regards to para 5.

Property, Plant and Equipment (PP&E)		
Proposed changes to IAS 16	**Existing NZ Standard FRS-3**	**Auckland City Council Comments**
Dismantling, removing and restoration costs- paragraphs 20A & 20B Delete existing paragraph 15(e) and add paragraphs 20 A and 20B[which expand on the principle in the existing paragraph 15 (e)] to provide additional guidance on the principle that the cost of an item of **PP&E includes the costs of dismantling and removing the asset and restoring the site on which the asset is located** as measured in accordance with IAS 37"Provisions, Contingent Liabilities and Contingent Assets".	FRS-3 Accounting for Property Plant and Equipment 6.5 Subsequent expenditure that is capitalised in accordance with paragraph 6.1(b) of this Standard also includes the estimated cost of dismantling an item of property, plant and equipment and restoring the site, where this is recognised during the life of the asset as a provision under the Financial Reporting Standard dealing with provisions. Such cost is necessary to realise the future economic benefits embodied in the item and the expenditure would have been included in the initial cost of the item if a liability for such cost had been incurred when the item was acquired. In this context, expenditure is deemed to have been incurred at the point when a liability for such costs arises. 6.1(b) the expenditure incurred was necessarily incurred to enable the future economic benefits embodied in the item to be obtained and the expenditure would have been included in the cost of the item when the item was initially recognised had the expenditure been incurred at that time. 5.6 The cost of an item of property, plant and equipment comprises its purchase price plus any other costs directly attributable to bringing the item to working condition for intended use. Directly attributable costs also include the estimated cost of dismantling and removing the item of property, plant and equipment and restoring the site, to the extent that it is recognised as a provision under the Standard dealing with provisions.	Agree with proposal: Reason: This will improve consistency and understanding

Property, Plant and Equipment (PP&E)		
Proposed changes to IAS 16	**Existing NZ Standard FRS-3**	**Auckland City Council Comments**
Exchanges of items of PP&E-paragraphs 21,21A & 22 Amend paragraph 21,add paragraph 21A and delete paragraph 22 so that exchanges of items of PP&E (regardless of whether the assets are similar) are measured at fair value, except that when the fair value of neither of the assets exchanged can be determined reliably, the cost of the asset acquired in the exchange is measured at the carrying amount of the asset given up.	FRS-3 Accounting for Property Plant and Equipment 5.38 When an item of property, plant and equipment is exchanged for a similar item of property, plant and equipment, the cost of the acquired item must be the carrying amount of the item given up. 5.40 When an item of property, plant and equipment is acquired in exchange or part exchange for an item of property, plant and equipment that is not similar, the cost of the acquired item must be measured at the fair value of the consideration given, including any costs directly incurred by the entity in bringing the item to working condition for its intended use. Where the fair value of consideration given is not readily ascertainable, reference must be made to the fair value of the item acquired.	Agree with proposal: Reason: This will improve consistency and understanding Consistent with NZ Standard FRS-3
Component approach to renewal or replacement costs-paragraph 22A Require that expenditure incurred in replacing or renewing a component of an item of PP&E be accounted for as the acquisition of a separate asset and that the replaced or renewed component be written off.	FRS-3 Accounting for Property Plant and Equipment New Zealand practice is to capitalise renewals. 4.51 In estimating the useful life of an item of property, plant and equipment, expected ongoing maintenance is to be taken into account. However, any future expenditure that is likely to increase the level of economic benefits embodied in the item beyond that most recently assessed, and that would therefore be capitalised in accordance with paragraph 6.1(a) of this Standard, is not to be considered in determining the useful life of the item before the expenditure is incurred. 4.53 It is very rare for items of property, plant and equipment other than land to have unlimited lives. Although some infrastructure networks may appear to have unlimited lives, this is achieved only by the regular renewal of the major components of the networks, which have limited (although sometimes indeterminable) useful lives. Some heritage assets, such as archives, art works, and museum collections, may have very long but not unlimited useful lives.	Agree with proposal: Reason: This will improve consistency and understanding Consistent with NZ Standard FRS-3

Property, Plant and Equipment (PP&E)		
Proposed changes to IAS 16	**Existing NZ Standard FRS-3**	**Auckland City Council Comments**
Component approach to inspection costs- paragraphs 22c & 22D Where an asset requires inspection to enable its continuing use, the inspection would be treated as a separate component for depreciation purposes.	Not specifically covered in FRS-3 but 6.1 (b) describes similar circumstances. "the expenditure was necessarily incurred to enable the future economic benefits embodied in the item to be obtained and the expenditure would have been included in the cost of the item when the item was initially recognised had the expenditure been incurred at that time.	**Do not agree with proposal:** Reason: What is the difference between this and planned maintenance eg replacing parts of an aircraft at a set number of hours.
Originally assessed standard of performance- paragraph 23 Amend paragraph 23 to replace **"the originally assessed standard of performance**: with the "standard of performance assessed immediately before the expenditure was made" in describing the criterion for determining whether subsequent expenditure relating to an item of PP&E should be capitalised.	FRS-3 Accounting for Property, Plant & Equipment. 6.1 Expenditure relating to an item of property plant and equipment may be incurred subsequent to the acquisition, development or construction of the item. Such expenditure must be capitalised, either wholly or in part, when: (a) it is probable that the expenditure increases the economic benefits over the total cost of the item beyond those most recently assessed in determining the basis of the item's carrying amount;	**Do not agree with proposal:** Reason : The assessment of standard performance should be made at the time of placing the asset in the books as commissioned. Pipes will be based on engineer's estimates and machines based on rated throughput adjusted for any technical changes made in installation eg, lower burning temperature of NZ gas compared to US in the case of heating a furnace.
Periodic review-paragraphs 49 & 52 Clarify that review "periodically" means that reviews of the useful life and depreciation method of an item of PP&E must occur at least each financial year-end.	FRS-3 Accounting for Property ,Plant & Equipment 8.16 The useful life of an item of property, plant and equipment must be assessed annually to determine whether there is any indication that it is inappropriate. If any such indication exists, the depreciation charge for the current period and future periods must be reviewed and adjusted if necessary.	**Agree with proposal:** Reason: Logical and consistent with NZ Standard FRS-3
Recognition of compensation from third parties- paragraphs 53A & 53B Require compensation from third parties for items of PP&E that were impaired, lost or given up, in the period in which it is received, to be included in profit or loss/result for that period and be disclosed separately.	Not covered in NZ Standards	Do not completely agree with this proposal: Reason: The compensation should be recognised in the same statement of financial performance as the impairment being compensated for is recognised.

Property, Plant and Equipment (PP&E)		
Proposed changes to IAS 16	**Existing NZ Standard FRS-3**	**Auckland City Council Comments**
Depreciation of assets temporarily idle or retired from active use and held for disposal-paragraph 59 Include guidance that depreciation of an item of PP&E does not cease when it becomes temporarily idle or is retired from active use and held for disposal unless the asset's depreciable amount has been allowed fully.	Frs-3 Accounting for Property, Plant & Equipment 10.4 An item of property, plant and equipment that is withdrawn from use and held for disposal may be classified as a current asset or non-current asset. Where the item is readily recognisable and intended to be held for not more than one year, classification as a current asset is appropriate. For an item intended for sale to be classified as a current asset, there is to be evidence of intent to sell including authorisation by the governing body listing for sale or similar evidence. Where these criteria are not met, the item intended for sale is to be classified as a non-current asset.	**Do not completely agree with proposal:** Reason: Guidance is required, but if the plant is retired from active use it will have a value as a "fair market" value this is independent from the historical depreciation regime applied to the asset and more in line with the market for similar items of PP&E. Assets held for disposal are more akin to investment assets and should be recognised at their estimated disposal value. If temporarily idle it should be depreciated using the twin tests of "carrying value" and "impairment".
Exemption from disclosing comparative information-paragraph 60 Remove the exemption from disclosing comparative information for reconciliation of the carrying amounts at the beginning and end of the period for each class PP&E.	FRS-3 Accounting for Property ,Plant & Equipment 11.3 The financial report must disclose, in respect of each class of property, plant and equipment, and in total for all classes: (a) the gross carrying amount, the accumulated depreciation charges (including accumulated impairment losses), and the carrying amount; (b) the carrying amount of property plant and Equipment not in current use with separate disclosure of: (i)items that have been withdrawn from use and are not in regular use; and (ii)items under construction; (c) the total depreciation charge for the period; (d) the total of impairment losses recognised during the period; (e) the total of impairment losses reversed during the period; (f) the amount of borrowing costs capitalised during the period.	**Agree with proposal:** Reason: Logical change. Consistent with NZ Standards FRS-3

Property, Plant and Equipment (PP&E)		
Proposed changes to IAS 16	**Existing NZ Standard FRS-3**	**Auckland City Council Comments**
Accounting policy-paragraph 61(b) Remove the requirement that the financial statements disclose the accounting policy for the estimated costs of restoring the site of items PP&E. This disclosure is required in IAS 37.	FRS-15 Provisions ,Contingent Liabilities and Contingent Assets 11.1 For each class of provision and entity must disclose: (a) the carrying amount at the beginning and end of the period; (b) additional provisions made in the period, including increases to existing provisions; (c) amounts used (ie. incurred and charged against the provision) during the period; and (d) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate. (e) 11.2 An entity must disclose the following for each class of provision: (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits; (b) and indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity must disclose the major assumptions made concerning future events, as addressed in paragraph 6.13;and (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.	Agree with proposal: Reason: This is just a “housekeeping “ change.

Property, Plant and Equipment (PP&E)		
Proposed changes to IAS 16	**Existing NZ Standard FRS-3**	**Auckland City Council Comments**
Revalued assets- paragraphs 64(d) & 64(e) Require additional disclosures for items of PP&E stated at revalued amounts: • the methods and significant assumptions applied in estimating the assets" fair values; and • the extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent transactions on arm's-length terms or were estimated using other valuation techniques.	FRS-3 Accounting for Property Plant and Equipment 11.4 When a class of property plant and equipment is stated at revalued amounts the following must be disclosed in respect of that class; (a) the revaluation surplus; (b) the intervals at which valuations take place; (c) the dates and amounts of valuations supporting the recognised valuations; (d) the name and qualifications of the valuer(s); (e) the bases of valuations; (f) any significant assumptions or limiting conditions upon which the valuations are based; (g) where the cyclical basis of valuation has been adopted, that fact and an explanation of the basis used.	**Agree with proposal:** Reason: Consistent with NZ Standards FRS-3 Improves understanding of financial information.

AUCKLAND CITY

Review of proposed improvements to IAS 17 ”Leases”

Leases		
Proposed Changes to IAS 17	**Existing NZ Standard SSAP-18**	**Auckland City Council Comments**
Classification of leases –paragraphs 11A to 11C		
Separate Elements-paragraph 11A Clarify that, for a lease involving land and buildings, the land and buildings elements are considered separately for lease classification purposes unless it is expected that title will be assessed to the lessee at the end of the lease term. Where title to land has an infinite economic life is not expected to be passed to the lessee, the land element is to be classified as an operating lease and the building element is to be classified as an operating lease or a finance lease in accordance with the substance of the transaction.	SSAP-18 Accounting for Leases and Hire Purchase Contracts 4.28 Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite useful life and, if title is not expected to pass to the lessee by the end of the lease term, the lessees do not receive substantially all of the risks and rewards incident to ownership. Such a lease should therefore be properly classified as an operating lease. A premium paid for such leasehold represents pre-paid rental charges, which should be amortised over the lease term.	Agree with the proposal: Reason : On the assumption that a finance lease will require separate accounting for land and buildings for depreciation purposes.
Allocation –paragraph 11B Require that the minimum lease payments including any up-font premium be allocated between the land and the buildings elements in proportion to their relative fair values at the inception of the lease. If the minimum lease payments cannot be allocated between the land and buildings elements reliably, the entire lease would be classified as a finance lease unless it is clear that both elements are operating leases, in which case, the entire lease would be classified as operating lease.	SSAP-18 Accounting for Leases and Hire Purchase Contracts No split between land and buildings in NZ. NZ requires these to be treated as operating leases. 4.29 Many buildings that are leased have a useful life that is expected to extend well beyond the end of the lease term. Moreover, long-term leases for buildings often contain provisions whereby rents are regularly adjusted to market rates, the lessor retains a significant part of the risks and rewards incident to ownership and such leases should therefore normally be classified as operating leases.	Agree with proposal Reason: Agree provided these allocations can be made. This concept could be difficult in NZ.

Leases		
Proposed Changes to IAS 17	**Existing NZ Standard SSAP-18**	**Auckland City Council Comments**
Single unit-paragraph 11C Require that, where the value of the land element is immaterial at the inception of the lease, the land and buildings elements may be treated as a single unit for the purpose of lease classification. The economic life of the buildings would be regarded as the economic life of the entire leased asset.	SSAP-18 Accounting for Leases and Hire Purchase Contracts 4.39 Assets held for use in operating leases should be included as fixed assets in the balance sheet. The amount of these leased assets presented by each major class of asset should be disclosed together with any related accumulated depreciation or amortisation.	Agree with the proposal: Reason : As above in NZ rents are not capitalised. Lease terms are for shorter periods eg 3 years with rights of renewal.
Definition of initial direct costs-paragraphs 3, 29A & 44 Define initial direct costs as "incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessors". Paragraph 29A and paragraph 44 comment that initial direct costs include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging the lease.	4.18 Initial direct costs, such as commissions and legal fees, are often incurred by lessors in negotiating and arranging a lease. For finance leases, these initial direct costs are incurred to produce finance income and should be either expensed immediately or allocated against this income over the lease term. The above is for Finance Leases	Agree with the proposal: Reason: NZ does not capitalise these costs. Refer SSAP-18.
Lessor (manufacturers or dealers) accounting for initial direct costs under finance leases- paragraph 34 Require costs incurred by a manufacturer or a dealer lessor in connection with negotiating and arranging a lease to be recognised as an expense in the income statement at the inception of the lease. Paragraph 38 comments that these costs are recognised as an expense at the commencement of the lease term because they relate to the earning of the manufacturer's or dealer's selling profit.	Same as above.SSAP-18 4.18 4.23 Lessors sometimes quote artificially low rates of interest to attract customers. The use of such a rate would result in an excessive portion of the total income from the transaction being recognised at the time of sale in which case the selling profit should be restricted to that which would apply if a commercial rate of interest were charged. 4.24 Initial direct costs are usually charged to income at the inception of the lease because they are mainly related to earning the selling profit.	Agree with proposal: Reason: It is logical and is in line with NZ Standard SSAP-18

Leases		
Proposed Changes to IAS 17	**Existing NZ Standard SSAP-18**	**Auckland City Council Comments**
Lessor (other than manufacturers or dealers) accounting for Initial direct costs under finance leases- paragraph 29A Require that initial direct costs be included in the initial measurement of the finance lease receivable and amortised over the lease term.	SSAP-18 Accounting for Leases and Hire Purchase Contracts 4.18 Gives the option of expending or writing off over the lease term 4.18 Initial direct costs, such as commissions and legal fees, are often incurred by lessors in negotiating and arranging a lease. For finance leases, these initial direct costs are incurred to produce finance income and should be either expensed immediately or allocated against this income over the lease term.	Agree with the proposal: Reason: This is consistent with accounting for the creation of an item of PP&E.
Lessor accounting for initial direct costs under operating leases- paragraph 44 Require a lessor to recognise initial direct costs over the lease term.	SSAP-18 Accounting for Leases and Hire Purchase Contracts Operating Leases 4.26 Costs including depreciation, incurred in earning the rental income should be charged to income. Rental income (excluding receipts for services provided such as insurance and maintenance) should normally be recognised on a straight line basis over the lease term, even if the receipts are not on such a basis, unless another systematic basis is more representative of the time pattern of the earnings process contained in the lease.	**Agree with proposal:** Reason : In line with NZ Standard SSAP-18

AUCKLAND CITY

Review of proposed improvements to IAS 21 “The Effects of Changes in Foreign Exchange Rates”

The Effects of Changes in Foreign Exchange Rates		
Proposed changes to IAS 21	**Existing NZ Standard FRS-21**	**Auckland City Council Comment**
Scope-paragraph 1 Remove foreign currency derivatives that are within the scope of IAS 39 "Financial Instruments :Recognition and Measurement" from the scope of IAS 21	NZ FRS-21 Accounting For The Effects Of Changes in Foreign Currency Exchange Rates 1.2 This Standard does not deal with accounting for hedging transactions other than the classification of certain exchange differences arising in connection with the hedging of a net investment in an independent foreign operation. Reference should be made to SSAP21: Accounting for the Effects of Changes in Foreign Exchange Rates for guidance on accounting for certain hedging transactions. In this respect, compliance with SSAP-21 is still required.	**Agree with proposal:** Reason : This is only a "housekeeping" change.
Functional currency –paragraph 6 Replace the notion of "reporting currency" with two notions: functional currency (the currency in which the entity measures the items in its financial statements), and presentation currency (the currency in which the entity presents its financial statements, which may be the functional currency). Each entity (including a stand alone entity, a parent and an operation within the group such as a subsidiary, associate or branch) would be required to determine its functional currency and measure its financial performance and financial position in that currency. The proposed definition of functional currency is of the primary economic environment in which the enterprise operates"	FRS-21 Accounting for the Effects of Changes in Foreign Currency Exchange Rates. 4.12 "Reporting currency "is the currency used in presenting the financial report. 4.6 "Foreign currency" is a currency other than the reporting currency of the entity reporting.	**Agree with the proposal**: Reason: Simple to understand

The Effects of Changes in Foreign Exchange Rates		
Proposed changes to IAS 21	**Existing NZ Standard FRS-21**	**Auckland City Council Comment**
Determination of functional currency- paragraphs 7 to 12 Determination of the entity's functional currency gives greater emphasis to the currency of the economy that determines the pricing of transactions as opposed to the currency in which transactions are denominated. The existing guidance for distinguishing a foreign operation integral to the operations of the reporting entity is used in paragraph 9 to assist in determining the functional currency of a foreign operation.		Agree with proposal: Reason: Simplifies understanding.
Change in functional currency- paragraphs 33 to 35 Require all items to be translated into the new functional currency using the exchange rate at the date of the change. Translation produces applicable to the new functional currency are applied from the date of the change (that is, prospectively).	FRS-21Accounting for the Effects of Changes in Foreign Currency Exchange Rates 6.14 The financial statements of an integrated foreign operation shall be translated in the same way as if the underlying transactions had been entered into by the entity reporting.	Agree with proposal: Reason Logical and simplifies understanding.

The Effects of Changes in Foreign Exchange Rates		
Proposed changes to IAS 21	**Existing NZ Standard FRS-21**	**Auckland City Council Comment**
Presentation currency- paragraphs 36 to 41 Permit the entity to present its financial statements in any currency (or currencies).Where the functional currency differs from the presentation currency, require translation from the functional currency to the presentation currency (or currencies) using a method similar to the existing method of translating reports of foreign entities as follows: • assets, liabilities and equity items other than those resulting from income and expenses recognised in the period, translate at the closing rate; • income and expenses recognised in the period, translate at the transaction rate; and • recognise resulting exchange differences as a separate component of equity.		Agree with proposal: Reason: This is consistent with best practice.
Foreign operations Remove the distinction between foreign operations integral to the operations of the reporting entity and foreign entities. An entity that was previously classified as a foreign operation integral to the operations of the reporting entity will have the same functional currency as the reporting entity.	See above NZ Standard FRS-21 has a distinction 6.1 The method used to translate the financial statements of a foreign operation for the purpose of the entity reporting depends on the way in which the operation is financed and operates in relation to the entity reporting. In this Standard, foreign operations are classified as either; (a) independent foreign operations, or (b) integrated foreign operations. If the activities of a foreign operation are an integral part of those of the entity reporting, the operation is described as an integrated foreign operation; otherwise it is described as an independent foreign operation.	**Agree with the proposal:** Reason: Logical and practical.

The Effects of Changes in Foreign Exchange Rates		
Proposed changes to IAS 21	**Existing NZ Standard FRS-21**	**Auckland City Council Comment**
Translation of foreign operations to presentation currency-paragraphs 42 to 44 Foreign operations would be translated directly from the functional currency of the foreign operation into the presentation currency of the reporting entity for inclusion in the financial report of the reporting entity.	FRS-21 Accounting for the effects of Changes in Foreign Currency Exchange Rates 5.1 Except as permitted by paragraph 5.3 of SSAP-21: Accounting for the Effects of Changes in Foreign Currency Exchange Rates, transactions measured in a foreign currency shall be reported, on initial recognition in the reporting currency by applying to the foreign currency amount the spot rate at the transaction date or a rate approximating that rate.	Agree with proposal: Reason: Logical and practical.
Foreign operations : translation of equity- paragraph 36 Translation of equity items: • other than those resulting from income and expenses , at the closing exchange rate: and • income and expense items, at the exchange rates at the dates of the transactions.	FRS-21 Accounting for the effects of Changes in Foreign Currency Exchange Rates 5.4 Except as permitted by paragraph 5.3 of SSAP-21: Accounting for the Effects of Changes in Foreign Currency Exchange Rates, at each reporting date: (a) foreign currency monetary items shall be translated using the closing rate ; (b) non-monetary items that are carried at historical cost and measured in a foreign currency shall be translated using the spot rate at the transaction date or a rate approximating that rate; and non-monetary items that are carried at other than historical cost and measured in a foreign currency shall be translated using the spot rate that existed when the values of those non-monetary items were determined.	**Agree with proposal:** Reason: Logical, in line with NZ Standard FRS-21.
Foreign operations: translation of goodwill and fair value adjustments- paragraphs 42 to 45 Remove the choice in translation of goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign operation, and require both goodwill and fair value adjustments to be treated as assets and liabilities of the foreign operation and translated at the closing rate.	FRS-21 Accounting for the effects of Changes in Foreign Currency Exchange Rates 6.12 Any goodwill arising from the acquisition of an independent foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as either: (a) assets and liabilities of the independent foreign operation and translated at the closing rate; or assets and liabilities of the entity reporting which are either already expressed in the reporting currency, or are non-monetary foreign currency items which are reported using the exchange rate at the date of the transaction.	**Agree with the proposal:** Reason: Improves understanding and removes options.

The Effects of Changes in Foreign Exchange Rates		
Proposed changes to IAS 21	**Existing NZ Standard FRS-21**	**Auckland City Council Comment**
Hedging of the net investment in a foreign entity-paragraph 3 Transfer requirements relating to the hedging of a net investment in a self –sustaining foreign operation to IAS 39: Financial Instruments: Recognition and Measurement".	NZ Standard SSAP-21	Agree with the proposal: Reason: Housekeeping.
Capitalisation of certain exchange differences Remove the allowed alternative treatment in the existing IAS 21, paragraphs 20 to 22, that permit capitalisation of exchange differences arising from a severe devaluation of a currency against which there is no practical means of hedging and that affects liabilities which cannot be settled and which arise directly on the recent acquisition of an asset invoiced in a foreign currency.	FRS-21 Accounting for the effects of Changes in Foreign Currency Exchange Rates Not allowed in NZ	Do not agree with proposal. Reason: Capitalisation of exchange losses from a severe devaluation should not be allowed too risky.
Comparative information –paragraphs 40 and 41 For an entity whose functional currency is not the currency of a hyperinflationary economy, comparative information reflects amounts presented in the prior year financial statements. For an entity whose functional currency is the currency of a hyperinflationary economy, and for which the comparative amounts are being translated into the currency of a hyperinfationary economy, all balance sheet and income statement items are translated at the most recent closing rate. For an entity whose functional currency is the currency of a hyperinflationary economy, and for which comparative amounts are being translated into the currency of a non-hyperinflationary economy, all amounts are those presented in the prior year financial statements.	Not covered by NZ Standards	Agree with proposal: Reason: This is a commonsense proposal.

The Effects of Changes in Foreign Exchange Rates		
Proposed changes to IAS 21	**Existing NZ Standard FRS-21**	**Auckland City Council Comment**
Convenience translations-paragraph 55 Where an entity displays its financial statements in a currency that is different from its functional currency or presentation currency, require: • identification of the information as supplementary information; and • disclosure of the currency in which the supplementary information is displayed, the entity's functional currency and the method used to translate the supplementary information	Not covered by NZ Standards	Agree with proposal: Reason: BUT THE ABOVE PROPOSAL para 42-44 requires the translation to take place.

AUCKLAND CITY

Review of proposed improvements to IAS 24 "Related Party Disclosures"

Related Party Disclosures		
Proposed changes to IAS 24	**NZ Standard SSAP-22**	**Auckland City Council Comments**
Scope-paragraph 2 Explicitly states that disclosure will not be required of management compensation, expense allowances and similar paid in the ordinary course of an entity's operations .[see also *Separation of Disclosures* below]	Not covered by SSAP-22 Note that the Companies Act 1993 requires disclosure of the names of the directors and remuneration paid to each director; and The number of employees who were paid more than $100,000 in bands of $10,000 (sections 208-212)	Agree with the proposal. Reason: Post Enron and others tis is topical as is accounting for share options.
Exemptions- parent entities and wholly owned subsidiaries-paragraph 3 Exempt the financial statements of a parent or wholly owned subsidiary that are published with the consolidated financial statements from related party disclosure requirements. It is proposed that old paragraphs 4(a),(b) & (c) be deleted. The existing exemption from disclosure in consolidated financial statements (old paragraph 4(a)) is not repeated in (new)paragraph 3 but will effectively be retained by commentary in (new) paragraph 4, noting that intra-related party transactions and balances are eliminated on consolidation.	SSAP-22 Related Party Disclosures 4.17 Group financial statements present information regarding the parent, subsidiaries and associates as a single reporting entity. It is therefore not necessary to disclose in the group financial statements those transactions between the members of the group, which have been eliminated in preparing those statements.	Agree with proposal: Reason: Housekeeping change.
Exemptions-state controlled enterprises Remove the exemption for financial statements of state-controlled enterprises from disclosing transactions with other state-controlled enterprises [old paragraph 4(d)]. It is proposed to retain the explanation in paragraph 11 (old paragraph 6) that the normal dealings of public utilities, government departments and agencies with an entity will not cause them to be related parties of the entity.	Not covered in NZ Standard	Agree with proposal: Reason: It simplifies reporting.

Related Party Disclosures		
Proposed changes to IAS 24	**NZ Standard SSAP-22**	**Auckland City Council Comments**
Definition of control-paragraph 9 Aligns definition of control to accord with that in IAS 27 “Consolidated Financial Statement and Accounting for Investments in Subsidiaries” and IAS 28”Accounting for Investments in Associates”. The existing definition of control in IAS 24 differs from that in IAS 27 and IAS 28, in that it refers to ownership and does not refer to benefit to the controller.	SSAP-22 Related Party Disclosures 3.2Control is the power to govern directly or indirectly the financial and operating policies of another party so as to obtain benefits from the activities of that party. Compare with the definition of control under FRS-37 Consolidating Investments in Subsidiaries. 4.13 “Control’ by one entity over another entity exists in circumstances where the following parts (a) and (b) are both satisfied; (a) the first entity has the capacity to determine the financing and operating policies that guide the activities of the second entity, except in the following circumstances where such capacity is not required; (i) where such policies have been irreversibly predetermined by the first entity or its agent ;or (ii) where the determination of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the second entity. (b) the first entity has an entitlement to a significant level of current or future ownership losses, which arise from the activities of the second entity.	Agree with proposal : Reason: Housekeeping change.

Related Party Disclosures		
Proposed changes to IAS 24	**NZ Standard SSAP-22**	**Auckland City Council Comments**
Definition of Related Party-paragraph 9 Makes definition "black letter' and adds: 1. parties with joint control over the entity 2. joint ventures in which the entity is venturer 3. post-employment benefit plans for the benefit of employees of the entity or of any related entity 4. non-executive directors (in KMP category) (these parties were "examples" in old paragraph 3) Re 1: Paragraph 11(b) will be added to explain joint venturers will not be related to each other simply because of joint control over a venture. Re 4: The existing description of KMP of the entity has been extended by adding "or its parent". The proposed description of KMP does not mention close family members because these would be relocated to (e) in paragraph 9 (see also below).	SSAP-22 Related Party Disclosures Definitions 3.1 Related Party. Parties are considered to be related if one party has the ability, directly or indirectly, to control or exercise significant influence over the other party in making operating, investing and financing decisions to the extent that one of the parties might be prevented from fully pursuing its own separate interests. Parties are also considered to be related when they are subject to common outside control or significant influence. In considering each possible related party relationship, attention should be directed to the substance of the relationship and not merely the legal form	Agree with the changes: Reason: Clarifies reporting.
Definition of Related Party and Close Members of Family – paragraph 9 Explicitly include, as a separate class (e) in the definition of related party, close members of the families of (a) owners and (d) KMP. Add a definition of "close members", which includes the individual's marital partner and children, children of the marital partner and other dependants of the individual or marital partner. Paragraph 10 provides generic direction to consider in determining the substance of a relationship, not merely its legal form.	SSAP-22 Related Party Disclosures 4.6 In considering each possible related party relationship, attention should be directed to the substance of the relationship and not merely to the legal form. Related parties of a reporting entity would normally include: (a) entities that directly or indirectly through one or more intermediaries, exercise control, or are controlled by, or are under common control with, the reporting entity; and similarly the corresponding set of entities when the relationship is based on significant influence.(Included are holding companies, subsidiaries and associates and fellow subsidiaries and associates, joint ventures and other contractual arrangements):	Agree with proposal: Reason: In line with NZ Standard, SSAP-22.

Related Party Disclosures **Proposed changes to IAS 24**	**NZ Standard SSAP-22**	**Auckland City Council Comments**
	(b) individuals and their close family members or controlled trusts owning directly or indirectly, an interest in the voting power of the reporting entity that gives them significant influence over that entity.(Close members of the family of an individual are those that may be expected to influence, or be influenced by, that person in their dealings with an entity.); (c) Key management personnel, that is those persons having authority and responsibility for planning , directing and controlling the activities of the reporting entity including directors and officers of companies and close members of the families of such individuals; and (d) Entities in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (b) or (c) or over which such a person is able to exercise significant influence.(This includes entities owned by directors or major shareholders of the reporting entity.)	
Examples of transactions-paragraph 16 Add a further example of a related party transaction in paragraph 16, namely; settlement of liabilities on behalf of the entity or by the entity on behalf of another party. More significantly, the description of what these examples are illustrating has changed. The old paragraph 19 description implied these were situations that may give rise to related party disclosures. The proposed description says they are examples of transactions to be disclosed if the other party is related.	SSAP-22 Related Party Disclosures No similar NZ list	Agree with proposal. Reason: Assists in understanding the accounts.
Pricing methods Remove discussion of methods used to price transactions between related parties (old paragraphs 11 to 16). These paragraphs have been deemed to be unnecessary since IAS 24 does not require remeasurement of related party transactions.	SSAP-22 Related Party Disclosures No similar NZ requirement	Agree with proposal: Reason: Housekeeping.

Related Party Disclosures		
Proposed changes to IAS 24	**NZ Standard SSAP-22**	**Auckland City Council Comments**
Disclosure about transactions-paragraph 14 Expand explicit disclosures to require the amount of outstanding balances. Both of these disclosures are identified in commentary in old paragraph 23, among alternatives- see next). Specify minimum disclosures to include terms and conditions, details of guarantees, provisions for doubtful debts and the expense recognised during the period for bad or doubtful debts.	SSAP-22 Related Party Disclosures 5.1 Where there have been material transactions between the reporting entity and its related party or parties, at any time during the reporting period , there should be disclosed: (a) the identity of each related party involved and the nature of the relationships; (b) the types of transactions involved; (c) the recorded value of the transactions with related parties expressed either in dollar terms or as a percentage of the value of all transactions of each type for the period; (d) the total of outstanding balances arising from related party transactions identified as to types of transactions together with an indication of the terms of settlement for those balances; (e) total dents with related parties that have been written off or forgiven during the reporting period.	Agree with proposal: Reason: Post Enron, keeping reporting above board.
Alternative disclosures Remove the alternative of disclosing the proportion of transactions or balances instead of the amount [old paragraphs 23(a) and (b)].	Not included in SSAP-22	Agree with proposal: Reason: Clarifies reporting.
Disclosure of pricing policies- paragraph 14 (b)(I) Include a requirement to disclose terms and conditions and remove the explicit requirement to disclose pricing policies [old paragraph 23(c)]	Not included in SSAP-22	Agree with proposal: Reason: Clarifies reporting.

Related Party Disclosures		
Proposed changes to IAS 24	**NZ Standard SSAP-22**	**Auckland City Council Comments**
Separation of disclosures-paragraph 15 Extend, in relation to the two "outstanding balance" amounts required by (new) paragraphs 14(b) and (c), the sub-classification required by the second half of paragraph 72 of IAS 1 "Presentation of Financial Statements". Require sub classification of the balance amounts (but not transactions) by (a) parent; (b) entities with joint control or significant influence over the entity; (c) subsidiaries (d) associates (e) joint ventures in which the entity is a venturer; (f) KMP of the entity or its parent; and (g) Other related parties.	Refer SSAP-22 5.1 above	Agree with the proposal: Reason: Clarifies reporting.
Restriction on arm's length claims – paragraph 17 Add commentary to advise that related party transactions can only be described as being on terms equivalent to arm's length of such disclosures can be substantiated.	No equivalent NZ Standard	Agree with the proposal: Reason: Clarifies reporting.

AUCKLAND CITY

Review of proposed improvements to IAS 27 “Consolidated Financial Statements and Accounting for Investments in Subsidiaries”

Consolidation and Separate Financial Statements		
Proposed changes to IAS 27	**Existing NZ Standard FRS-37**	**Auckland City Council Comment**
Scope- Ability to transfer funds –paragraph 12 A Control may be precluded when an investee is in legal reorganisation or in bankruptcy or operates under severe long-term restrictions on its ability to transfer funds to the investor.	FRS-37 Consolidating Investments in Subsidiaries 5.6 In certain circumstances it is possible for an entity to meet the definition of a subsidiary for financial reporting purposes under legislation but not meet the definition of subsidiary under this Standard. For example, when a company that is a subsidiary of another company under section 5(1) of the Companies Act 1993 is placed in liquidation, the company ordinarily remains a subsidiary of its holding company under section5(1), but	Agree with the proposal: Reason: It is a correct statement..
Scope-Type of investor-paragraph 13 A A subsidiary is not excluded from consolidation simply because the investor is a **venture capital organisation**, **mutual fund, unit trust or similar entity**.	FRS-37 Consolidating Investments in Subsidiaries 4.16 Control of an ownership form represents in-substance ownership. It includes in-substance ownership created under any scheme, arrangement, or device and is therefore not restricted to relationships that arise through the legal ownership of equity instruments. It includes all control relationships arising from any mechanism that establishes an ownership relationship between two entities including such a relationship established directly under legislation. 4.57 "Ownership is the percentage of the equity of an investee attributable to an investor, whether the equity is attributable to an investor directly, or indirectly through its subsidiaries.	Agree with the proposal: Reason: It is a correct statement and is in agreement with NZ Standard FRS-37.
Definition of subsidiary-paragraph 6 The existing Standard applies the control concept to identify a subsidiary. As part of the changes, the definition of a subsidiary is extended to specifically **include unincorporated entities such as a partnership**.	Not in FRS-37	Agree with the proposal: Reason: The capital structure of the subsidiary can be in the form a partnership or share capital.

Consolidation and Separate Financial Statements		
Proposed changes to IAS 27	**Existing NZ Standard FRS-37**	**Auckland City Council Comment**
Exclusion from consolidation- paragraph 8 Exclude a parent from preparing consolidated financial statements if it is a wholly-owned subsidiary or if minority shareholders unanimously agree that the parent need not consolidate, its securities are not publicly traded, the immediate or ultimate parent entity prepares consolidated financial statements and the entity is not in the process of publicly issuing securities.	Not covered in NZ.	**Agree with the proposal** Reason: If the receivers of the accounts do not want the subsidiary consolidated then it will a waste of time doing this.
Potential voting rights- paragraph 12B & 15A *Paragraph 12B* Include SIC-33 guidance which comments that the effect of debt and equity instruments that carry potential voting rights and that are presently exercisable or presently convertible should be considered when assessing an investor's power to govern operating and financial policies of an investee. *Paragraph 15A* Specify that, when potential voting rights exist the proportions of profit or loss and changes in equity allocated to the parent and minority interests are determined based on present ownership interests and do not reflect the possible exercise or conversion of potential voting rights. As a result, these instruments are accounted for in accordance with IAS 39.	FRS37 This is one of the power tests under5.10 5.10 (2) a unilateral power to obtain a majority voting interest through ownership of securities or other rights that are currently convertible into a majority voting interest at the option of the holder where conversion is favourable to the holder.	**Agree with the proposal:** Reason: This is logical.
Uniform accounting policies-paragraph 21 Remove the ability to not use uniform accounting policies for like transactions and events in similar circumstances in consolidated financial statements where this is not practicable.	Statement of Concepts	Agree with proposal: Reason This change improves reporting.
Classification and of minority interest-paragraph 26 Remove the implicit option to classify minority interest as a liability and require it to be presented in the consolidated balance sheet within equity, separately from the parent shareholder's equity.	FRS-2 6.8 The interest of minorities in the operating surplus (deficit) and their interest in extraordinary items shall be disclosed separately in the statement of financial performance.	Agree with proposal: Reason: Clarifies reporting.

Consolidation and Separate Financial Statements		
Proposed changes to IAS 27	**Existing NZ Standard FRS-37**	**Auckland City Council Comment**
Investor's separate financial statements –paragraphs 29 & 30 *Paragraph 29* Requires in vestments in subsidiaries, **jointly controlled entities and associates** treated in the consolidated financial statements in accordance with the relevant standard to be measured at cost or in accordance with IAS 39 in the investor's separate financial statements. *Paragraph 30* Require investments in subsidiaries, jointly controlled entities and associates that are accounted for in accordance with IAS 39 in the consolidated financial statements to be treated on that basis in the investor's separate financial statements and in the financial statements of a parent that need not present consolidated financial statements.	FRS-36 Accounting for Acquisitions Resulting in Combinations of Entities or Operations 5.1 An acquisition must be recognised at the cost of acquisition as at acquisition date. 5.2 Subject to meeting the relevant recognition criteria set out in the Statement of Concepts for General purpose Financial Reporting, the identifiable assets and liabilities corresponding to an operation or ownership interest acquired that establishes a combination of entities or operations must be recognised separately, as at acquisition date, in the financial statements of the entity which reports the combination.	Agree with the proposal Reason: Housekeeping.
Investee no longer a subsidiary-paragraph 24 Require an investee to be accounted for in accordance with IAS 39 provided that it does not become an associate or jointly controlled entity.	As for investor's separate financial statements.	Agree with the proposal: Reason: Clarifies methodology.
Disclosures: Consolidation – paragraph 32 Additional disclosures such as reasons for not consolidating a subsidiary summarised financial information for subsidiaries not consolidated, details relating to different reporting dares and the nature and extent of restrictions on transfer of funds.	Reasons not required in NZ FRS-37 Consolidating Investments in Subsidiaries 5.1 Subject to paragraphs 5.3 and 5.5, a parent that has one or more subsidiaries at its reporting date must present consolidated financial statements in accordance with this Standard. All subsidiaries must be consolidated in such consolidated financial statements unless otherwise determined by this Standard	Agree with proposal. Reason: NZ Standard requires all subsidiaries to be consolidated except for FRS-37.However the FRSB agrees with the proposal to exempt entities from preparing consolidated financial statements when all the criteria in paragraph 8 of IAS 27 are met.

Consolidation and Separate Financial Statements		
Proposed changes to IAS 27	**Existing NZ Standard FRS-37**	**Auckland City Council Comment**
Disclosures: Separate Financial Statements- paragraph 33 Require a statement of why separate financial statements are prepared, reference to consolidated financial statements, name of immediate or ultimate parent and description of methods used to account for investments in subsidiaries, jointly controlled entities and associates.	Not required in NZ	Agree with the proposal: Reason: Improves understanding

AUCKLAND CITY

Review of proposed improvements to IAS 28 "Accounting for Investments in Associates"

Investments in Associates		
Proposed changes to IAS 28	**Existing NZ Standard FRS-37,FRS-38**	**Auckland City Council Comment**
Potential Voting Rights – paragraph 5A Include SIC-33 guidance that the effect of debt and equity instruments that carry potential voting rights and that are presently exercisable or presently convertible should be considered when assessing an investor's significant influence.	FRS-37 Consolidating Investments in Subsidiaries 5.10 Rebuttable Presumptions (2) A unilateral power to obtain a majority voting interest through ownership of securities or other rights that are currently convertible into a majority voting interest at the option of the holder where conversion is favourable to the holder.	Agree with the proposal: Reason: Clarifies reporting
Severe long term restrictions- paragraph 5B **Significant influence may be precluded when an investee is in lega**l reorganisation or in bankruptcy or operates under severe long-term restrictions on its ability to transfer funds to the investor.	FRS-37 Consolidating Investments in Subsidiaries 5.5 A parent must exclude from consolidation: (a) any subsidiary for which, at the date control is obtained, the parent is obliged to relinquish control within one year; or (b) any subsidiary for which the parent has, by the earlier of three months after the date control is obtained or the date when the annual financial statements are approved, entered into a binding arrangement to relinquish control of the subsidiary within one year from the date control is obtained; (c) any entity that meedts the definition nof a subsidiary or is otherwise described as a subsidiary, under any statute or other authority or in any context, where such entity is not subject to the control, as defined in this Standard, of the parent.	Agree with the proposal: Reason: This is consistent with NZ Standard FRS-37
Investment held with view to disposal-paragraph 8 Change the criterion regarding an investment that does not qualify as an associate from held exclusively with a view to its subsequent disposal from "in the near future" to "within 12 months".	FRS-37 Consolidating Investments in Subsidiaries 5.6 A parent must exclude from consolidation: (d) any subsidiary for which, at the date control is obtained, the parent is obliged to relinquish control within one year; or	Agree with the proposal: Reason: This is consistent with NZ Standard FRS-37

Investments in Associates		
Proposed changes to IAS 28	**Existing NZ Standard FRS-37,FRS-38**	**Auckland City Council Comment**
Equity method where no consolidated statements – paragraph 8 **Require the equity method to be applied to all investments in associates.** IAS 28 presently permits an investment in an associate to be measured according to the cost method, the equity method or under IAS 39 “Financial Instruments: Recognition and Measurement”.	FRS-38 Accounting for Investments in Associates 5.1 Subject to paragraphs 5.3 and 5.5, an investor that has, as at its reporting date, one or more associates, **must apply the equity method to account for the interest in each associate either in :** 5.3 An investor is not required to apply the equity method to account for an investment in an associate when a provision exists under statute that expressly exempts the investor from the requirement to prepare consolidated financial statements and the investor does not prepare consolidated financial statements. 5.5 An investor must not apply the equity method to account for an investment in an associate in circumstances where (a)-investor obliged to relinquish significanr influence within one year (b)as above (c) market value accounting of the investment in the associate is applied and is expressly permitted or required under another financial reporting standard.	Agree with the proposal: Reason: This is consistent with NZ Standard FRS-37
Separate financial statements-paragraph 24A Require an investment in an associate to be accounted for in the investor’s separate financial statements in accordance with paragraphs 29, 30 and 33 of IAS 27 “Consolidated and Separate Financial Statements”. Those paragraphs require equity-accounted associates to be accounted for at either cost or in accordance with IAS 39 in the separate financial statements. Investments accounted for in accordance with IAS 39 in the consolidated reports must also be treated on that basis in the separate financial statements.	FRS-38 Accounting for Investments in Associates 5.9When an investment in an associate is acquired and the investment is accounted for using the equity method: (a) the investment must be recognised at its cost of acquisition; (b) the fair values of the identifiable assets and liabilities of the associate must be determined at the acquisition date; and (c) any goodwill or discount on acquisition must be identified but not separately recognised.	Agree with the proposal: Reason: This is consistent with NZ Standard FRS-37

Investments in Associates		
Proposed changes to IAS 28	**Existing NZ Standard FRS-37,FRS-38**	**Auckland City Council Comment**
Cessation of significant influence-paragraphs 11 & 11A Require an investor to discontinue the use of the equity method from the date it ceases to have significant influence over an associate and account for the investment in accordance with IAS 39 from the date it ceases to be an associate. The carrying amount of the investment at the date it ceases to be an associate would be regarded as its cost on initial measurement as a financial asset under IAS 39.	FRS-38 Accounting for Investments in Associates 5.5 An investor must not apply the equity method to account for an investment in an associate in circumstances where (a)-investor obliged to relinquish significanr influence within one year (b)as above (d) market value accounting of the investment in the associate is applied and is expressly permitted or required under another financial reporting standard. 5.6 An investment in an associate that is not accounted for using the equity method because of the requirements in paragraph 5.5 (a) and (b) of this Standard, must be disclosed as a current asset in the statement of financial position of the investor.	Agree with the proposal: Reason: This is consistent with NZ Standard FRS-37
The associate is a parent entity- paragraph 16A When an associate has subsidiaries, associates, or joint ventures, the profits or losses and net assets taken into account in applying the equity method are those recognised in the associate's consolidated financial statements (including the associate's share of the profits or losses and net assets of its associates and joint ventures), after any adjustments necessary to give effect to the investor's accounting policies.	FRS-38 Accounting for Investments in Associates 5.29 In applying the equity method in the case of an associate that is a parent entity, the investor's share of the post-acquisition movements in the assets of the associate must be based on the net assets recognised in the associate's consolidated financial statements.	Agree with the proposal: Reason: This is consistent with NZ Standard FRS-37
Elimination of unrealised profits and losses-paragraph 16B Include interpretative guidance from SIC-3 "Elimination of Unrealised Profits and Losses on Transactions with Associates". Profits and losses resulting from 'upstream' and 'downstream' transactions between an investor (including its consolidated subsidiaries) and an associate are eliminated to the extent of the investor's interest in the associate.	FRS-38 Accounting for Investments in Associates 5.35 In applying the equity method, any unrealised gains or losses arising on transactions between the investor or subsidiary of the investor and an associate or between two associates of the investor must be eliminated from the financial statements of the investor.	Agree with the proposal: Reason: This is consistent with NZ Standard FRS-37

Investments in Associates		
Proposed changes to IAS 28	**Existing NZ Standard FRS-37,FRS-38**	**Auckland City Council Comment**
Financial statements used-paragraph 18 Require the difference between investee and investor reporting dates to be no greater than 3 months. The existing IAS 28 also requires adjustments to be recognised for significant transactions or events occurring in the period between reporting dates.	FRS-38 Accounting for Investments in Associates 5.31 Where the financial information used for the purposes of accounting for an investment in an associate using the equity method does not cover the same reporting period as that of the investor's financial statements, the following requirements must be met: (a) the associate's financial information used must cover a reporting period closest to that of the investor's financial statements; and (b) (b) the difference between reporting dates must be no more than three months except in rare circumstances where: (i) statute fixes an annual balance date of an associate greater than three months from the reporting date of the investor's financial statements; and (ii) no reliable interim financial information for the associate covering a reporting period not more than three months different to that of the investor is able to be obtained; and (c) adjustments must be made for the effects of significant transactions or events that occur during the portion of those reporting periods that does not overlap where such transactions or events would otherwise have been reflected in the carrying amount of the investment in the associate had the financial statements of the associate used in applying the equity method been drawn up to the same reporting date as the investors' financial statements.	Agree with the proposal: Reason: This is consistent with NZ Standard FRS-38

Investments in Associates		
Proposed changes to IAS 28	**Existing NZ Standard FRS-37,FRS-38**	**Auckland City Council Comment**
Uniform accounting policies-paragraph 20 Require the use of uniform accounting policies for like transactions and events in similar circumstances.	FRS-38 Accounting for Investments in Associates 5.33 In applying the equity method, where the accounting policies adopted by an associate are different to those adopted by the investor and are not required to be adopted under another financial reporting standard, adjustments must be made, where possible, to achieve consistency with the accounting policies of the investor 5.34 The requirement in paragraph 5.33 applies only in circumstances when the difference in the associate's policies would materially affect the amounts to be included in the investor's financial statements through the application of the equity method.	Agree with the proposal: Reason: This is consistent with NZ Standard FRS-38
Carrying amount reduced to zero-paragraphs 22,22A & 22B Losses recognised under the equity method in excess of the investor's interest in an associate in the order of their seniority (that is, priority in liquidation). Other components of the investor's interest includes preferred shares and long-term receivables or loans, but not trade receivables or trade payables. **After the investor's interest is reduced to nil, additional losses are provided for, and a liability recognised, only to the extent that the investor has incurred obligations or made payments on behalf of the associate.**	FRS-38 Accounting for Investments in Associates 5.53 Where the equity method is applied and the investor's share of the post-acquisition reductions in net assets of an associate exceeds the cost of the investments less any amounts written off, so that the investment is reduced to zero, **the investor must discontinue applying the equity method and must not recognise as a liability any balance below zero. If the** net assets of the associate subsequently increase, the investor must resume applying the equity method only after its share of such increase in net assets equals its share of any reduction in net assets not recognised during the period the equity method was suspended. 5.54 The investment in the associate is the reporting entity's share in the net assets of the associate together with any other balances that are in effect equity. **Circumstances may arise where the investor's investment in the associate involves long-term indebtedness rather than funding solely by way of equity. The indebtedness is frequently permanent in nature, and there may or may not be interest flows attached to that indebtedness. Permanent funding, even though structured as debt, should be treated as equity for the purposes of equity accounting**	Do not agree with the proposal: Reason: This is inconsistent with NZ Standard FRS-38,

<table>
<tr><th colspan="3">Investments in Associates</th></tr>
<tr><th>Proposed changes to IAS 28</th><th>Existing NZ Standard FRS-37,FRS-38</th><th>Auckland City Council Comment</th></tr>
<tr><td>Disclosures- paragraphs 27 & 28
Require additional disclosures such as:
(i) fair value of listed associates;
(ii) summarised financial information relating to associates;
(iii) the reasons why the presumption of significant influence is overcome;
(iv) reporting date of associate if different;
(v) restrictions on transfers of funds;
(vi) the unrecognised share of net losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of the associate;
(vii) share of discontinuing operations of associates;
(viii) share of changes in the associate’s equity recognised directly in equity by the investor; and
(ix) share of contingent liabilities of the associate.</td><td>FRS-38Accounting for Investments in Associates
6.1 The disclosure requirements in this section of the Standard apply to the financial statements of the investor that include application of the equity method, unless the requirement specifically refers to the investors own financial statements
6.2 The following information in respect of each significant associate must be disclosed in the investor’s own financial statements:
(a) the associate’s legal name, country of incorporation where other than New Zealand and principal activities;
(b) the reporting date, if different from that of the investor;
(c) the investor’s ownership interest, if any ,as at the associate’s reporting date, and at the investor’s reporting date(if different);
(d) the proportion of voting power held in the associate, if different from the ownership interest held;
(e) the carrying amount of any interest in the net assets of the investor held by the associate ;and
(f) the amount of any interest in the net assets of the investor held by the associate; and
(g) the fact that the associates’ financial statements reporting date changed from that used in applying the equity method in previous years, and the effect of the change on the investor’s financial statements if appropriate.
6.7 Disclosure must be given, on an aggregate basis of the investor’s share of its associates’:
(a) contingent assets and contingent liabilities; and
(b) amounts committed for future capital expenditure.
6.8 Disclosure must be given, in the investor’s own financial statements, of the aggregate amount of all liabilities of associates for which the investor is jointly and severally liable.</td><td>Agree with the proposal:
Reason:
Will increase information available to the reader</td></tr>
</table>

Investments in Associates Proposed changes to IAS 28	Existing NZ Standard FRS-37,FRS-38	Auckland City Council Comment
	6.9 Where the equity method is applied to investments in associates, the following information must be disclosed on an aggregate basis: (a) the amount of the investor's share of the associates': (i)operating surpluses or deficits; (ii)tax expense attributable to operating surpluses or deficits; (iii)extraordinary items ;and (iv)total recognised revenues and expenses other than net surpluses or deficits; (b) the movements in the carrying amount of investments in associates, separately identifying the carrying amount as at the beginning and end of the period, the amounts of new investments, disposals, share of total recognised revenues and expenses, dividends, and other movements; (c) the amount of goodwill included in the carrying amount of investments in associates as at the beginning and end of the period; (d) the financial effects of events or transactions which have occurred after the reporting date of an associate and which could materially affect the financial position or operating performance of that associate for the subsequent accounting period; (e) where adjustments to eliminate the effect of different accounting policies cannot be made, the nature of the differences; (f) the gross amount of goodwill and the accumulated amortisation of goodwill(including accumulated impairment write-downs net of any reinstated amounts) at the end of the period; (g) the amount of any goodwill or other asset values written down due to impairment in the current period; and (h) the amount of any goodwill or other asset written down due to impairment in a previous period that has been reinstated during the current period.	

Investments in Associates Proposed changes to IAS 28	Existing NZ Standard FRS-37,FRS-38	Auckland City Council Comment
	6.11 The following information must be separately disclosed; (a)the legal name of any entity that became an associate during the reporting period, and the corresponding date; (i) the legal name of any entity that ceased to be an associate during the reporting period, and the corresponding date; (j) the legal name of any associate in which, at the investor's reporting date, he ownership interest attributable to the investor is less than 20 per cent, together with an explanation of how significant influence exists; and (k) the legal name of any entity in which, at the investor's reporting date, he ownership interest attributable to the investor is 20 per cent more but which is not an associate of that investor, together with an explanation of why significant influence does not exist.	

AUCKLAND CITY

Review of proposed improvements to IAS 33 “Earnings Per Share”

Not applicable to
Auckland City Council

Not commented on

Proposed changes to IAS 33		
Scope-paragraph 2 Delete the existing statement that only consolidated information need be presented when both parent and consolidated reports are presented together.		
Contingently issuable shares-paragraph 4 Include a definition of contingently issuable ordinary shares-“ordinary shares issued for little or no cash or other consideration upon satisfaction of certain conditions pursuant to a contingent share agreement”. More detailed commentary is also proposed (paragraphs 45 to 50).		
Dilution-paragraph 4 Include a definition of dilution –“a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible securities were converted, that options or warrants were exercised, or that ordinary shares were issued upon the satisfaction of certain conditions”.		

Preference shares-paragraph 10 Specify the purpose of calculating basic EPS that, in addition to adjusting earnings for dividends, gains or losses on settlement of preference shares that are charged or credited to retained earnings should be deducted. Additional commentary on preference shares is also proposed (paragraphs 13 to 16).		
Partly-paid shares Relocate an expanded version of the existing (paragraph 18) comments that a partly-paid share is treated as a fraction of an ordinary share to the extent that it is entitled to participate in dividends relative to a fully-paid share to Appendix A Application Guidance.		
Special dividend- paragraph 25 Add commentary explaining that a reverse split of ordinary shares combined with a special dividend will result in the need for a "bonus element" adjustment.		
Adjustment of earnings for diluted EPS- paragraph 28 Specify for the purpose of calculating diluted EPS that, in addition to deducting dividends on potential ordinary shares, adjustment should be made for "other items related to dilutive potential ordinary shares" that have been deducted in arriving at income for the period.		

Assumed issue of potential ordinary shares Move the guidance currently in commentary (paragraphs 35 & 36), explaining that the assumed issue of potential ordinary shares involves (a) certain number of shares at fair value and (b) a contract to issue shares for no consideration, to Appendix B Illustrative Examples (Example 6).		
Convertible preference shares-paragraph 41 Add commentary explaining that any excess consideration on the redemption or induced conversion of convertible preference shares is attributable to those shares, not the remaining unconverted shares.		
Contracts that may be settled in ordinary shares or cash – paragraphs 51 to 53 Require a presumption that contacts that may be settled in ordinary shares or cash would be settled in shares for the purposes of calculating diluted EPS, unless the facts show otherwise.		
Written put options –paragraph 55 Require that contracts that require an entity to repurchase its own shares be reflected in the calculation of diluted EPS where the exercise price is above the market price.		

Discontinuing operations-paragraph 60 Add requirements to disclose basic and diluted EPS from (1) continuing operations; and (2) discontinuing operations. This is in addition to the existing requirement to disclose basic and diluted EPS for "total" profit or loss.		
General disclosures-paragraph 62 (c) & (d) Add disclosures of (1) potential ordinary shares that are not dilutive and, accordingly, are not included in the calculation of diluted EPS; (2) ordinary share or potential ordinary share transactions after balance date that would significantly change the number of shares used to calculate EPS (other than bonus issues and share splits).		
Alternative amount of earnings- paragraph 65 Where an alternative earnings number is used in an EPS calculation: (1) disclose an indication of the basis on which the number is determined, including whether it is before or after tax; and (2) where the number is not a line item from the income statement, disclose a reconciliation of that number to a line item on the income statement.		

Application guidance-Appendix A Guidance has been moved from the commentary in the existing IAS 33 to the Appendix. Also, there is new guidance on 910 written put options (paragraph A8);(20 securities of subsidiaries, joint ventures and associates (paragraphs A9 & A10); and (3) participating securities and two- class ordinary shares (paragraphs A11 & A12).		
Examples-Appendix B The Appendix includes examples similar to those spread throughout the existing IAS 33.Some new examples are added dealing with: (1) non-convertible, non-redeemable, cumulative preference shares issued at a discount to face value; (2) contingently issuable shares; (3) convertible bonds that may be settled in shares or cash at the issuer's option;(4) situations where there is more than one class of ordinary shares: and (50 the presentation of EPS information in a financial report.		
Approach to year-to-date calculation-Appendix B ,examples 7 & 12 The approach adopted : • determines the number of potential ordinary shares as the weighted average number of potential ordinary shares included in each interim EPS reported and using the average market prices during the interim periods reported; and • weighs contingently issuable shares based on their inclusion in interim EPS reported. Accordingly, the year-to-date EPS, including the annual EPS will change depending on the number of times an entity reports during the year-to-date.		

AUCKLAND CITY

Review of proposed improvements to IAS 40 “Investment Property”

Investment Properties		
Proposed changes to IAS 40	**Existing NZ Standard SSAP-17,18**	**Auckland City Council Comments**
Scope-paragraphs 2 & 4 Amend the definition of investment property to permit property held by a lessee under an operating lease to qualify provided that : • the rest of the definition of investment property is met; and • the lessee uses the fair value model set out in IAS 40, paragraphs 27 to 49.	SSAP-17 Accounting for Investment Properties and Properties Intended for Sale. Not covered in SSAP-17	Agree with the proposal: Reason: Consistent treatment of investment property. However best describes a UK situation rather than NZ.
Consequential amendment-paragraph 26A Require a lessee that classifies property held under an operating lease as investment property to treat the lease as if it were a finance lease.	SSAP-18 Accounting for Leases and Hire Purchase Contracts Only requires lessors to capitalise the property.	Agree with the proposal: Reason: Provided that the value of the lease is fair value.