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**REPORT 3**  
(1215/52/01/IM)

## **IMPLICATIONS FOR COUNCIL OF NEW AND PROPOSED FINANCIAL REPORTING STANDARDS**

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### **1. Purpose**

The purpose of this regular report is to inform the Subcommittee of new and proposed Financial Reporting Standards and their likely impact for the Council.

### **2. Recommendation**

It is recommended that the Subcommittee:

1. *Receive the information*
2. *Note the developments in New Zealand generally accepted accounting practice (GAAP) since the last regular Subcommittee meeting in June 2007.*

### **3. Background**

The Local Government Act 2002 requires the Council to comply with GAAP in preparing the Annual Report. GAAP is defined by the Accounting Standards Review Board (ASRB) to encompass all applicable Financial Reporting Standards (FRSs) and other sources of appropriate authoritative support (for example; exposure drafts of financial reporting standards, international accounting standards etc).

Council Officers have undertaken to report to the Subcommittee on a regular basis in relation to any new FRSs and any exposure drafts currently on issue by the New Zealand Institute of Chartered Accountants (the Institute). This report outlines developments in GAAP and the implications for the Council since the last regular Subcommittee meeting on 8 June 2007.

Although new accounting standards and authoritative support are unlikely to be applicable to the 2007/08 financial year (as they are effective for dates commencing post year end) early adoption is encouraged. Council may consider early adoption if this is consistent with best practice or where there is a compelling business reason.

## 4. Developments in Financial Reporting Standards

### 4.1 Submissions Made

The Council makes submissions on exposure drafts where there is potential for a significant impact on either the Council as a reporting entity or the level of funding provided by ratepayers. We also consider whether the proposals are appropriate, in our opinion, from a standard setting perspective. Whilst there were no formal submissions made during the period there were a number of exposure drafts reviewed which we have divided between exposure drafts with a potential impact for Council and those with limited or no expected impact.

#### Exposure drafts with potential impact for Council reporting:

Exposure Draft	Impact/Summary
IASB Exposure Draft of Proposed Amendments to IFRS 1 and IAS 27	<p>The portion of the exposure draft related to NZ IFRS 1 <i>First-Time Adoption of New Zealand Equivalents to International Financial Reporting Standards</i> is not applicable to Council as we have already prepared our first set of NZ IFRS financial statements.</p> <p>The exposure draft also proposes to delete the definition of the cost method in IAS 27, requires that dividends received from a subsidiary are reported as income to the parent entity in all instances and requires the parent test its investments for impairment on receipt of a dividend.</p> <p>This will require Council to formally test the investments for which it receives dividends. However there are currently no impairment issues with the investments that Council holds and therefore this exposure draft is not anticipated to require any change to Council's current reporting.</p>
IASB DP Preliminary Views on Insurance Contracts	<p>This discussion paper presents the preliminary views of the International Accounting Standards Board on the main components of an accounting model for insurance contracts.</p> <p>This is unlikely to result in any significant change for the Council as we have no material insurance contracts.</p>

IASB Exposure Draft of Proposed Improvements to IFRSs	This exposure draft comprises a variety of minor amendments to a number of IFRSs to clarify current requirements and rectify inconsistent practices and terminology.
<b>Exposure Draft</b>	<b>Impact/Summary</b>
IASB Exposure Draft 9 Joint Arrangements	<p>The Exposure Draft proposes to eliminate the option for Joint Ventures to be accounted for using proportionate consolidation and require them to be accounted for using the equity method.</p> <p>The Council currently accounts for its interests in the Porirua City Council (PCC) joint ventures using proportionate consolidation. If the equity method were required, this would mean that the net value of the investment in PCC would be recorded in one line on the financial statements rather than our share being spread across the individual asset classes.</p>
Exposure Draft of Proposed Amendments to NZ IAS 39 Financial Instruments: Recognition and Measurement-Exposures Qualifying for Hedge Accounting.	<p>The proposed amendments to NZ IAS 39 aim to clarify when an entity may designate an exposure to a financial instrument as a hedged item. The proposed amendments specify the risks that qualify for designation as hedged risks and also specify when an entity may designate a portion of the cash flows of a financial instrument as a hedged item.</p> <p>This exposure draft is not anticipated to require any change to Council's current reporting.</p>

**Exposure drafts with limited or no expected impact on Council Reporting:**

- NZ IFRIC D22 Hedges of a Net Investment in a Foreign Operation
- ED 113 Proposed Amendment to Appendix C of NZ IFRS 4-Deferred Tax and Policyholder Liabilities
- NZ IFRIC Draft Interpretation D21 Real Estate Sales
- Exposure Draft of Proposed Amendments to NZ IFRS 2 and NZ IFRIC 11-Group Cash-settled Share-based Payment Transactions
- Puttable Financial Instruments and Obligations Arising from Liquidation

**Discussion papers and other representations on recently approved standards and relevant Exposure Drafts.**

Council officers have prepared a discussion paper for Audit New Zealand on a recently approved change to NZ IAS 23 - Borrowing Costs. This change removes the option to

expense interest on “qualifying assets”. Effectively all significant capital projects will attract capitalised interest which will have the impact of increasing the cost of the asset and reducing the Council’s reported interest charged in the Statement of Financial Performance. The paper outlining the implications of NZ IAS 23 for Council is currently being considered by senior management and a summary of this paper will be provided to the June 2008 Subcommittee meeting. The new standard will be effective for reporting dates beginning on or after January 2009.

During the period Council has also made representations to the Public Benefit Entity Working Group on ED 112 Consolidated and Separate Financial Statements, however we believe the implications for Council will be limited.

#### **4.2 Exposure Drafts on Issue**

The following exposure drafts are currently open for comment:

- NZ IFRIC D24 Customer Contributions
- NZ IFRIC D23 Distributions of Non-cash Assets to Owners

We are currently reviewing these exposure drafts to determine any potential impacts on the Council. We will provide copies of any submissions made at the next Subcommittee meeting.

## **5. Conclusion**

We will circulate any key documents prepared to Subcommittee members as they become available. We will also continue to report developments to the Subcommittee on a quarterly basis.

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## Supporting Information

### 1) Strategic Fit/Strategic Outcome

*This project supports Key Achievement Area 9 Governance and Citizen Information: As per the Annual Plan, Governance and Citizen Information includes all those activities that make the Council accountable to the people of Wellington and ensure the smooth running of the city. That includes all meetings of the Council and its committees.*

### 2) LTCCP/Annual Plan reference and long term financial impact

*Relates to C534: Committee and Council process*

### 3) Treaty of Waitangi considerations

*There are no Treaty of Waitangi implications*

### 4) Decision-Making

*This is not a significant decision*

### 5) Consultation

#### a) General Consultation

*Not required*

#### b) Consultation with Maori

*Not required*

### 6) Legal Implications

*None*

### 7) Consistency with existing policy

*This report is consistent with existing Wellington City Council policy*