Reporting News - Issue 8, 2017

12 December 2017

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

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

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

KPMG New Zealand Reporting Updates

FMA urges FMC reporting entities to engage on new accounting standards

The Financial Markets Authority has recently expressed concern that many FMC reporting entities still haven't started a proper assessment of the potential impact of the new accounting standards - NZ IFRS 9 *Financial Instruments* and NZ IFRS 15 *Revenue from Contracts with Customers* - despite the implementation date being less than a month away for many entities. They are urging directors and management of FMC reporting entities to actively engage with each other - and their auditors - to ensure readiness for the new standards from 1 January 2018.

The FMA will continue to review disclosures of known or reasonably estimable information about the possible impact on FMC reporting entities' financial statements, as required under the relevant standard. Where necessary, we will engage with FMC reporting entities about their assessment implementation processes.

For more information on the pre-transition disclosure requirements see our previous [Reporting Update: Pre-transition disclosure on impact of new accounting standards].

IN THIS ISSUE

For relevant KPMG guidance on the new standards see our hot topics pages:

- KPMG's hot topics - IFRS 15 *Revenue from Contracts with Customers*
- KPMG's hot topics - IFRS 9 *Financial Instruments.*

The IASB – which is responsible for developing and issuing IFRS Standards – has also prepared some useful information to support implementation and application of these standards:

- IASB's supporting materials for IFRS 15 *Revenue from Contracts with Customers*
- IASB's supporting materials for IFRS 9 Financial Instruments.

KPMG International Publications

IFRS 16 Leases – Detailed guidance on lease payments

IFRS 16 *Leases* requires lessees to bring most leases onto the balance sheet. The lease liability is measured at the present value of the lease payments. But which lease payments should be included in the lease liability, initially and subsequently?

The answer to this question will determine the scale of the impact of the new standard for lessees. The impact is less dramatic for lessors, but could involve some sensitive disclosures.

Our new publication Lease payments provides an overview of how to determine lease payments, with lots of worked examples to help you prepare to adopt the new standard.

Other IFRS 16 resources:

For more insight on lease accounting under the new standard visit our IFRS – Leases hot topics page where you can also find detailed publications covering the following aspects of the new standard:

- Lease definition
- Discount rates
- Transition to the new leases standard

IFRS 16 Leases – What didn't the new leases standard tell us?

"Now that companies are starting to make headway on their IFRS 16 conversion projects, we're making some unexpected discoveries about how the new leasing standard is being implemented in practice.

Some companies have found that the standard enhances some key earnings metrics and others have concluded that some of the practical expedients are not as advantageous as they first thought."

Our latest blog post, from Mag Stewart and Jeff King of KPMG in Canada, offers some early learnings from the front line of lease conversion projects, including some things to think about as companies kick off their IFRS 16 projects.

IFRS 16 Leases – What's the impact for telcos?

Telecommunication companies should not underestimate the potential impact of the new leases standard that applies from 1 January 2019.

The new leases standard will require companies to bring most leases on-balance sheet from 2019. For telcos, getting a complete list of leases will be a real challenge and a number of sector-specific arrangements will be affected, including:

- dedicated lines; and
- transmission assets.

Read Accounting for leases is changing: What's the impact on telecommunication companies? for more information on how IFRS 16 will affect telcos, and how we can help.

IFRS 15 Revenue – New revenue disclosures to impact all

All companies are impacted by the disclosure requirements of IFRS 15, the new revenue standard, which is effective in a matter of weeks.

It introduces extensive quantitative and qualitative requirements, which apply regardless of the impact of the new standard on your revenue line.

Our illustrative disclosures supplement will help you to navigate the new requirements and enable you to focus on the information that is relevant to users of financial statements.

For an illustration of the pre-implementation disclosures that need to be included in 2017 financial statements, see our Guide to annual financial statements – Illustrative disclosures.

IFRS 9 elections – An essential pre-holiday job

There are only a few weeks to go until the holiday season. Before the festivities and parties start in earnest, there are a couple of important actions you need to take – particularly if you're intending to hedge account in 2018.

Why? Because for those organisations with a 31 December year end who don't have the relevant documentation in place before 1 January 2018, hedge accounting may not be possible – even if you have previously been hedge accounting under IAS 39.

This is an easy problem to fix, and this blog post will explain how.

Long-term interests in associates and joint ventures

An amendment to IAS 28 *Investments in associates and joint ventures* will affect companies that finance these entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). This is common in the extractive and real estate sectors.

The amendment requires the dual application of IAS 28 and IFRS 9 Financial instruments, which is complex and will require careful consideration. In effect, companies will have to apply a three-step process at each reporting date.

To learn more about the amendments, read our web article.

IFRS Newsletter: Financial Instruments

At its November meeting, the Board agreed that the accounting model for dynamic risk management (DRM) should improve transparency, address the capacity issue and provide a simple and reliable performance metric while reflecting the fluid nature of DRM.

The Board did not make any decisions, but directed the staff to concentrate their effort on further developing a model based on cash flow hedge mechanics and begin involving preparers and users of financial statements in their discussions at an early stage.

For more detail on the discussions, read Issue 43 of our IFRS Newsletter: Financial instruments.

IFRS Newsletter: Banking

Accounting for modifications of financial instruments has been a topic of discussion for some time. IFRS 9 *Financial Instruments* has put an additional spotlight on it, so in this quarter's banking newsletter we discuss the accounting under IFRS 9.

Also in this issue, we look at banks' disclosures relating to the implementation of IFRSs 9, 15 and 16 in their 2017 interim financial statements.

And we have our usual updates on IFRS 9 and the IASB's activities, including the amendments to IFRS 9 relating to prepayment features with negative compensation that are expected to be published on 12 October.

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

Public Benefit Entity News

New standard on Service Performance Reporting

The New Zealand Accounting Standards Board (NZASB) has recently published PBE FRS 48 *Service Performance Reporting*.

It establishes new requirements for the selection and presentation of service performance information.

The standard applies to:

- All Tier 1 and Tier 2 not-for-profit public benefit entities; and
- Tier 1 and Tier 2 public sector public benefit entities required by legislation to provide information in respect of service performance in accordance with generally accepted accounting practice (GAAP).

It is effective for annual financial reports covering periods beginning on or after 1 January 2021, with early application permitted.

Go to the XRB website for further information.

Amendments to XRB A1 for Tier 4 PBE entities

The NZASB recently published amendments to XRB A1 *Application of the Accounting Standards Framework* which clarify that the size criteria for a PBE to report in accordance with Tier 4 PBE Accounting Requirements is based on the total combined operating payments of the entity and its controlled entities. This may be different from interpretations that have been applied previously and could have implications for which tier of reporting your entity applies.

This amendment becomes effective for periods beginning on or after 1 January 2018 (earlier application is permitted).

See the XRB's NZASB Update for more information.

IPSASB and XRB seek comments on Social Benefit Accounting proposals

The International Public Sector Accounting Standards Board (IPSASB) has published for comment ED 63 *Social Benefits*. Social benefits are benefits payable to citizens to lessen the effect of circumstances that could adversely affect their welfare, such as unemployment benefits and universal superannuation. Currently, IPSASs do not provide guidance on how to account for social benefits.

The ED proposes requirements for the recognition and measurement of social benefits and disclosure requirements to provide additional information for users to evaluate the effects of social benefits on government finances. The NZASB is interested in gathering views on the implications of the IPSASB's proposals for both public sector and not-for-profit PBEs in New Zealand. For example, the definition of social benefits in the ED would capture some, but not all, of the benefits provided by the Government of New Zealand to citizens.

Comments are due to the IPSASB by 31 March 2018 and to the NZASB by 23 February 2018.

Read more and access the consultation documents on the XRB website.

Other

New paper helps directors understand financial reporting obligations

A new guidance paper has been released by CA ANZ to help directors better understand and meet their obligations when it comes to financial reporting. The paper, called Directors Responsibilities for Financial Reporting: What You Need to Know, is designed to help directors avoid the pitfalls of financial reporting. The work is a joint publication between Chartered Accountants Australia and New Zealand (CA ANZ) and ACCA (the Association of Chartered Certified Accountants).

Read more here or download the full report.

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

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