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ACCOUNTING ADVISORY SERVICES

# New Zealand financial reporting framework

June 2014

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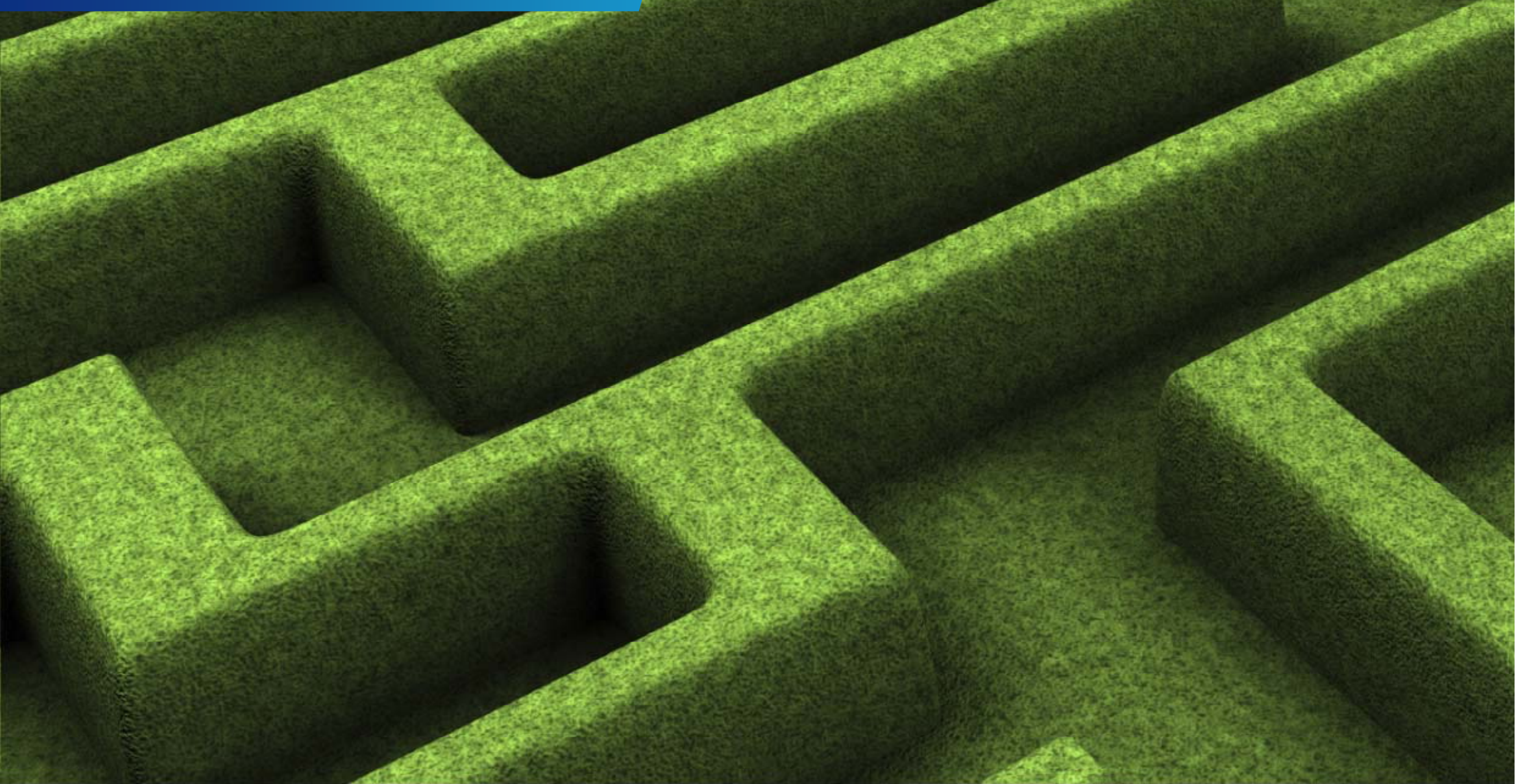

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This passion and pride is manifested in the approach with which we undertake all our work.

With KPMG you can be assured of engaging with a team of dedicated professionals who have a wide range of specialist expertise and knowledge, specifically tailored, to help make your organisation the success you dream it to be.

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# Contents

THIS GUIDANCE AIMS TO PROVIDE YOU WITH AN OVERVIEW OF THE NEW FINANCIAL REPORTING FRAMEWORK INCLUDING:

- THE STATUTORY REPORTING REQUIREMENTS; AND
- THE ACCOUNTING STANDARDS FRAMEWORK.

# The New Zealand financial reporting environment

The purpose of this guidance is to provide an overview of the new financial reporting framework and to help you assess the changes to your financial reporting obligations.

The New Zealand financial reporting framework consists of two parts:

- The statutory financial reporting framework, which sets out the types of entities that have statutory financial reporting obligations: preparation, audit, and filing requirements; and
- The accounting standards framework, which establishes the accounting standards to be applied by entities with statutory financial reporting obligations.

## Step 1: The statutory financial reporting framework

**Question 1: Does your entity have a statutory financial reporting obligation?**

The requirements setting out which entities are required to prepare and file audited General Purpose Financial Reports ('GPFR') are found in the various entity and sector specific legislation. This contains financial reporting obligations, and within the following major pieces of legislation that were enacted in 2013:

- the Financial Markets Conduct Act 2013;
- the Financial Reporting Act 2013; and
- the Financial Reporting (Amendments to Other Enactments) Act 2013.

These Acts ('the Acts') will become effective progressively from 1 April 2014 with all provisions of the Acts in full force by 1 April 2017.

## Step 2: The accounting standards framework

**Question 2: Which accounting standard should your entity apply?**

If your entity has a statutory financial reporting obligation, you need to prepare GPFR in accordance with New Zealand generally accepted accounting practice ('NZ GAAP'). This is the accounting standards framework issued by the External Reporting Board (XRB).

If your entity has no statutory financial reporting obligation, you may still choose to follow the XRB accounting standards framework ('the Framework') and assert compliance with NZ GAAP. Alternatively, your entity may report on another basis and will need to comply with the requirements specified by the Inland Revenue. Such financial statements will not be able to assert compliance with NZ GAAP.

The effective dates for adoption of the Standards are summarised in Step 2: Accounting Standards framework of this guide.

THE FINANCIAL MARKETS CONDUCT ACT 2013 DEFINES A NEW TERM ‘FMC REPORTING ENTITY’. THIS NEW TERM IS BROADER THAN ‘ISSUERS’ UNDER THE FINANCIAL REPORTING ACT 1993. ENTITIES WILL NEED TO REASSESS WHETHER THEY FALL INTO THIS NEW DEFINITION OF AN FMC REPORTING ENTITY.

# Step 1: Statutory financial reporting framework

The statutory financial reporting obligations can be found in the following Acts:

- the Financial Markets Conduct Act 2013;
- the Financial Reporting Act 2013; and
- the Financial Reporting (Amendments to Other Enactments) Act 2013.

### Financial Markets Conduct Act 2013

This Act was passed into law in September 2013 and applies to reporting entities regulated by the Financial Markets Authority (FMA) from 1 April 2014.

This Act defines a new term 'FMC Reporting Entity' (refer to Appendix 1 – New terms and definitions). This new term is not identical to the definition of an 'issuer' under the Financial Reporting Act 1993 as it covers a broader group of entities. Entities will need to reassess whether they fall into this new definition of an FMC Reporting Entity.

'FMC Reporting Entities' includes issuers of financial products, all registered banks, buildings societies, and credit unions (Previously the term 'issuer' only included certain building societies and credit unions), and certain entities licensed by the FMA. However, companies issuing voting shares that have fewer than 50 shareholders or 50 share parcels are excluded from this definition. This is a change from the existing exception to the term 'issuer', which only applies to companies having fewer than 25 shareholders.

The other significant change is that operators of retirement villages who only issue occupancy agreements will not be FMC Reporting Entities (previously all retirement villages were issuers).

The Financial Markets Conduct Act 2013 (FMC Act 2013) requires all FMC Reporting Entities to prepare GPFR. The preparation and filing deadline has been reduced from five months and 20 days to four months.

**Contains core financial reporting obligations on the preparation, audit and filing requirement for FMC reporting entities.**

**Defines financial products as debt security, equity security or a managed investment product or a derivative.**

### Financial Reporting Act 2013

From 1 April 2014, the Financial Reporting Act 2013 (FRA 2013) repealed and replaced the original Financial Reporting Act 1993 (FRA 1993).

This means that:

- financial reporting for periods beginning on or after 1 April 2014 will need to comply with the FRA 2013; while
- financial reporting for periods beginning on or before 31 March 2014 will continue to comply with the FRA 1993.

The FRA 2013 establishes a framework for financial reporting by setting out requirements that are generally applicable across a range of entities, such as the definitions of 'financial statements', 'group financial statements', 'large', and 'generally accepted accounting practice'. Amendments to the statutory financial reporting obligations to prepare, audit, and file financial statements were made directly to the various statutes governing the different types of entities (as discussed below).

Whilst the majority of the provisions of the new Acts came into force on 1 April 2014, the provisions that amend the Charities Act 2005 will come into force a year later, effective for periods beginning on or after 1 April 2015.

**Contains core financial reporting principles and definitions:**

- **Meaning of financial statements**
- **Meaning of GAAP**
- **Auditor qualifications**
- **Balance date requirements**
- **Meaning of large**
- **Meaning of specified not-for-profit entity.**

### Financial Reporting (Amendments to other Enactments) Act 2013

In addition to the FMC Act 2013 and the FRA 2013, the Financial Reporting (Amendments to Other Enactments Act) 2013 effected changes to the applicable legislations that govern the statutory financial reporting requirements of specific entity types.

It is these specific pieces of legislation that establish the financial reporting obligations for the various types of entity. When assessing what your entity's reporting obligations are, you will need to consider which legislation is applicable to your entity.

**Contains amendments on the preparation, audit, and filing requirements of these statues governing the relevant types of entities:**

- **Building Societies Act 1965**
- **Charities Act 2005**
- **Companies Act 1993**
- **Financial Markets Conduct Act 2013**
- **Friendly Societies and Credit Unions Act 1982**
- **Gambling Act 2003**
- **Income Tax Act 2007**
- **Industrial and Provident Societies Act 1908**
- **Limited Partnerships Act 2008**
- **Partnership Act 1908**
- **Retirement Villages Act 2003**
- **Te Ture Whenua Māori Act 1993.**

## Summary of statutory financial reporting obligations by entity types

The following table provides a general summary of the statutory financial reporting obligations for the common types of entities under the Financial Reporting Act 2013, effective for annual periods beginning on or after 1 April 2014:

| ENTITY TYPE | PREPARATION | ASSURANCE | REGISTRATION/DISTRIBUTION |
|---|---|---|---|
| **FMC reporting entities** | | | |
| **All FMC reporting entities** | **General Purpose Financial Reporting** | **Audit** | **File** |
| **Companies – non-FMC reporting entities** | | | |
| **Large NZ companies, that are not subsidiaries of an overseas entity**<br>• Large defined as: assets >$60 million or revenue >$30 million | **General Purpose Financial Reporting** | **Audit**<br>(but may opt-out with 95% of votes, unless the constitution of the company expressly prevents this; or required to file audited GPFRs<br>Note: all filed financial statements must be audited | **No Filing**<br>(but Yes, required to file – if 25% or more of overseas ownership) |
| **Large NZ companies, that are subsidiaries of overseas entity**<br>(incl. subsidiaries of an ultimate overseas entity)<br>• Large defined as: assets >$20 million or revenue >$10 million | **General Purpose Financial Reporting** | **Audit**<br>Unless, the entity:<br>• Has more than 25% overseas ownership and is a subsidiary of a NZ company which files audited group financial statements; or<br>• Is a wholly-owned subsidiary of a NZ company (or a large overseas company) which files audited group financial statements | **File**<br>Unless, the entity:<br>• Has more than 25% overseas ownership and is a subsidiary of a NZ company which files audited group financial statements; or<br>• Is a wholly-owned subsidiary of a NZ company (or a large overseas company) which files audited group financial statements |

| ENTITY TYPE | PREPARATION | ASSURANCE | REGISTRATION/DISTRIBUTION |
|---|---|---|---|
| **Large overseas company or Large NZ Branch of an overseas company**<br>• Large defined as: assets >$20 million or revenue >$10 million | **General Purpose Financial Reporting** | **Audit**<br>(cannot opt-out) | **File**<br>(unless, the entity is a subsidiary of a NZ company, which files audited group financial statements) |
| **Non-large companies**<br>(with 10 more shareholders) | **General Purpose Financial Reporting**<br>(may opt-out) | **Audit**<br>(may opt-out) | **No Filing** |
| **Non-large companies**<br>(with fewer than 10 shareholders) | **Special Purpose Financial Reporting**<br>(may opt-in to GPFR) | **No Audit**<br>(may opt-in) | **No Filing** |
| **Partnerships** | | | |
| **Large limited partnerships**<br>• Large defined as: assets >$60 million or revenue >$30 million | **General Purpose Financial Reporting** | **Audit**<br>(but may opt-out, subject to partnership agreement) | **No Filing**<br>Distribute to all partners |
| **Non-large limited partnerships** | **Special Purpose Financial Reporting** | **No Audit**<br>(may opt-in, subject to partnership agreement) | **No Filing**<br>No distribution (subject to the partnership agreement) |
| **Large unlimited Partnerships**<br>• Large defined as: assets >$60 million or revenue >$30 million | **General Purpose Financial Reporting** | **Audit**<br>(but may opt-out, subject to partnership agreement) | **No Filing or Distribution**<br>(but depends on the partnership agreement) |

| ENTITY TYPE | PREPARATION | ASSURANCE | REGISTRATION/DISTRIBUTION |
|---|---|---|---|
| **Non-large unlimited partnerships** | **Special Purpose Financial Reporting** | **No Audit**<br>(may opt-in, subject to partnership agreement) | **No filing or distribution**<br>(but depends on the partnership agreement) |
| **Other entities** | | | |
| **Retirement villages** | **General Purpose Financial Reporting** | **Audit** | **File**<br>(with Registrar of Retirement Villages) |
| **Māori entities**<br>(specified not-for-profit entity) | **General Purpose Financial Reporting** | **Audit** | **File**<br>(with Māori Land Court Registrar) |
| **Friendly Societies**<br>(specified not-for-profit entity) | **General Purpose Financial Reporting**<br>(may opt-out, except if each of the two preceding periods, the total operating expenditure is >$30 million) | **Audit**<br>(unless opted-out of preparation) | **File**<br>(with the Registrar of Friendly Societies and Credit Unions)<br>**Distribute**<br>(on application by a member) |
| **Friendly Societies**<br>(other) | **Simple Format**<br>(non-GAAP standard)<br>(may opt-out, except if each of the two preceding periods, the total operating expenditure is >$30 million) | **No Audit**<br>(unless rules of the registered society or branch require) | **File**<br>(with the Registrar of Friendly Societies and Credit Unions)<br>**Distribute**<br>(on application by a member) |
| **Credit Unions** | **General Purpose Financial Reporting** | **Audit** | **File**<br>(with the Registrar of Friendly Societies and Credit Unions)<br>**Distribute**<br>(on application by a member) |

| For annual periods beginning on or after 1 April 2015 | | | |
|---|---|---|---|
| **Registered Charities** | **General Purpose Financial Reporting** | **Audit**<br><br>(as proposed under the Accounting Infrastructure Reform Bill)<br><br>Also:<br><br>Operating expenses between $500,000 to $1 million = option to do either audit or review<br><br>Operating expenses <$500,000 = no assurance required | **File**<br><br>(with Registrar of Charities) |

## Other significant changes

The Acts also made a number of other changes that impact the financial reporting requirements in relation to parent financial statements, the ability to opt in and out of preparation and/or audit, and reporting timeframes. Changes for companies and partnerships are summarised below.

### Companies

- Parent entity financial statements will no longer be required if group financial statements are prepared;
- Preparation and filing deadline is four months for FMC entities and five months for non-FMC reporting companies after balance date;
- Opt-in/Opt-out rules only apply to companies which are not FMC Reporting Entities:

| NON-LARGE COMPANIES (that are not FMC reporting entities) | PREPARATION OR AUDIT (or both) | CRITERIA |
|---|---|---|
| ≥10 owners | Opt-out | Agreed to by owners representing not less than 95% of the majority voting rights, entitled to vote and voting on the question |
| <10 owners | Opt-in | Agreed to by shareholders representing not less than 5% of the voting shares |

The ability to opt-out will not apply if the constitution of the company expressly precludes the application of this; or if there is a legislative requirement to register the large company's financial statements.

The opting period for shareholders to opt in/or opt out of preparation or audit or both requirements must be done within six months of the start of the accounting period or by the close of the Annual General Meeting (AGM) that is held during the reporting period (whichever is earlier).

### Partnerships

| PARTNERSHIPS | PREPARATION OR AUDIT (or both) | CRITERIA |
|---|---|---|
| Large | Opt-out<br>(Audit only) | By resolution of partners who hold at least 95% of the capital of the firm |
| Non-large | Opt-in | By vote from partners who contribute at least 5% of capital |

## Special purpose financial reporting

The financial reporting obligations for many small to medium-sized entities (SMEs) have been simplified following the passage of the FRA 2013, which is effective for accounting periods beginning on or after 1 April 2014.

On 10 March 2014, an Order in Council was issued that specifies for tax purposes, the minimum financial reporting requirements for companies. This means, all active companies that no longer have a statutory financial reporting obligation to prepare GPFR, and which do not elect to prepare GPFR, will be required to prepare financial statements at least to a special purpose level as specified by Inland Revenue.

The minimum requirements for the preparation of financial statements required by the Order in Council are as follows:

- Balance sheet and profit & loss (plus accounting policies).
- Based on double entry accrual accounting.
- Use tax values (where possible), historical cost or market values (if they provide better valuation basis).
- Reconciliation of financial statements to taxable income.
- Fixed asset register.
- Related party disclosures (from 1 April 2015).
- Comparative figures for the prior year must be disclosed.

Small companies and non-active companies are exempt from the Inland Revenue's minimum requirements. Small companies are those that are not part of a group and have income and expenses of less than $30,000 during the year. Non-active companies are those which, in respect of an income year, are not required to prepare a tax return in respect of the income under section 43A of the Tax Administration Act 1994.

The New Zealand Institute of Chartered Accountants (NZICA) has released additional guidance to SMEs on special purpose financial reporting (SPFR), with wider users (e.g. banks and potential investors) in mind.

This NZICA guidance is optional for preparers of special purpose financial reports.

## Changes for entities registered under the Charities Act 2005

**Significant changes to the statutory financial reporting obligations for entities registered under the Charities Act 2005 will take effect for periods beginning on or after 1 April 2015.**

Under the amendments to the Charities Act 2005, registered charities will:

- be required to follow the XRB accounting standards framework; and
- be permitted to use cash accounting if annual operating payments are < $125,000 (i.e. a non-specified not-for-profit entity).

### Non-registered charities

Other not-for-profit entities which are not registered charities, not registered companies and not governed by other relevant legislation specifying preparation requirement, will continue to have no statutory financial reporting obligations to prepare GPFR in compliance with NZ GAAP although there may be a requirement to prepare some form of financial statements. Such entities may report on basis of own choice (i.e. SPFR) or choose to follow the XRB accounting standards framework.

## Audit requirements for entities registered under the Charities Act 2005

**The Accounting Infrastructure Reform Bill 2013 which is currently before the NZ Parliament is expected to be passed and to take effect for reporting periods beginning on or after 1 April 2015.**

The Bill proposes assurance requirements for registered charities as follows:

| CHARITY SIZE | CRITERIA<br><br>(in each of the two preceding accounting periods of the entity) | ASSURANCE REQUIREMENT |
|---|---|---|
| Large | Total Operating Expenses >$1 million | Audit |
| Medium | Total Operating Expenses ≥$500,000 | Audit or Review |
| Other | Total Operating Expenses <$500,000 | None |

**There is a proposed requirement for auditors to be qualified accountants and that the audit or review must be conducted in accordance with the applicable auditing and assurance standards in New Zealand, as set by the XRB and New Zealand Auditing and Assurance Standards Board (NZAUASB).**

**It is also proposed that no constitution or formation document may override the statutory financial reporting requirements for assurance.**

# Step 2: Accounting standards framework

The accounting standards framework in New Zealand is based on a multi-standards approach. This requires different sets of accounting standards to be applied by for-profit entities and public benefit entities (PBE).

### Key terms of the XRB accounting standards framework

The assessment of whether an entity meets the definition of a PBE is important in determining which set of accounting standards apply, because entities that are not PBEs will be deemed to be for-profit.

The following table sets out the key terms:

| TERM | DEFINITION |
|---|---|
| Public Benefit Entities (PBEs) | Reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders. |
| For-profit Entities | Reporting entities that are not public benefit entities. |
| Public Sector PBEs | Public benefit entities that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament. |
| Not-for-profit PBEs | Public benefit entities that are not Public Sector public benefit entities. |

## For-profit entities accounting standards framework

The following table provides a summary of the criteria of the different reporting tiers of the accounting standards framework which are applicable to for-profit entities for reporting periods beginning on or after 1 December 2012:

| | FOR-PROFIT: CRITERIA OF TIERS | ACCOUNTING STANDARD | KEY DATES |
|---|---|---|---|
| TIER 1 | • Publicly accountable<br>• Large for-profit public sector entities (i.e. annual expenses >$30 million)<br>• FMC entities, with 'Higher level of public accountability' | **NZ IFRS** | **Effective date:**<br>Now |
| TIER 2 | • No public accountability<br>• Required to prepare GPFR and elects to be in Tier 2<br>• FMC entities, with 'Lower level of public accountability' | **NZ IFRS (RDR)** | **Effective date:**<br>Available now |
| TIER 3 | • Entities that currently qualify for NZ IFRS differential reporting framework | **NZ IFRS (Diff Rep)** | **Transition period:**<br>Withdrawn for reporting periods beginning on or after 1 April 2015. Entities need to move to Tier 1 or Tier 2 if required to or chooses to continue to follow NZ GAAP |
| TIER 4 | • Entities that currently qualify for old NZ GAAP | **Old NZ GAAP** | |

**The decisions at a glance**

The Accounting Standards Framework – NZ Financial Reporting Framework (flowchart) in Appendix 2 provides an easy way to determine the tier and standards applicable to a for-profit entity.

## Public Sector public benefit entities accounting standards framework

The following table provides a summary of the criteria of the different reporting tiers of the accounting standards framework which are applicable to public sector PBEs effective for reporting periods beginning on or after 1 July 2014:

| | PUBLIC SECTOR: CRITERIA OF TIERS | ACCOUNTING STANDARD | KEY DATES |
|---|---|---|---|
| TIER 1 | • Publicly accountable<br>• Large (i.e. annual expenses >$30 million) | **PBE Standards** | **Effective date:**<br>Periods beginning on or after 1 July 2014<br>**Early adoption:**<br>Not permitted |
| TIER 2 | • No public accountability<br>• Expenses over $2 million upto $30 million | **PBE Standards (RDR)** | |
| TIER 3 | • No public accountability<br>• Expenses ≤$2 million | **PBE Simple Format (Accrual)** | |
| TIER 4 | • No public accountability, and permitted by legislation to report on a cash basis<br>• Operating payments <$125,000 | **PBE Simple Format (Cash)** | |

**The decisions at a glance**

The Accounting Standards Framework – NZ Financial Reporting Framework (flowchart) in Appendix 2 provides an easy way to determine the tier and standards applicable to a public sector PBE.

## Not-for-profit sector public benefit entities accounting standards framework

The following table provides a summary of the criteria of the different reporting tiers of the accounting standards framework which are applicable to not-for-profit PBEs effective for reporting periods beginning on or after 1 April 2015:

| | NOT-FOR-PROFIT: CRITERIA OF TIERS | ACCOUNTING STANDARD | KEY DATES |
|---|---|---|---|
| TIER 1 | • Publicly accountable<br>• Large (i.e. annual expenses >$30 million) | **PBE Standards**<br>(with NFP enhancements) | **Effective date:**<br>Periods beginning on or after 1 April 2015<br>**Early adoption:**<br>Permitted, however until NFP versions are issued, must use the public sector version of the PBE Standards (i.e. without NFP enhancements) |
| TIER 2 | • No public accountability<br>• Expenses over $2 million upto $30 million | **PBE Standards (RDR)**<br>(with NFP enhancements) | |
| TIER 3 | • No public accountability<br>• Expenses ≤$2 million | **PBE Simple Format (Accrual)**<br>(Not-for-profit) | |
| TIER 4 | • No public accountability, and permitted by an Act (of Parliament) to report on cash basis<br>• Operating payments <$125,000 | **PBE Simple Format (Cash)**<br>(Not-for-profit) | |

**The decisions at a glance**

The Accounting Standards Framework – NZ Financial Reporting Framework (flowchart) in Appendix 2 provides an easy way to determine the tier and standards applicable to a not-for-profit PBE.

# Implications of the proposed changes

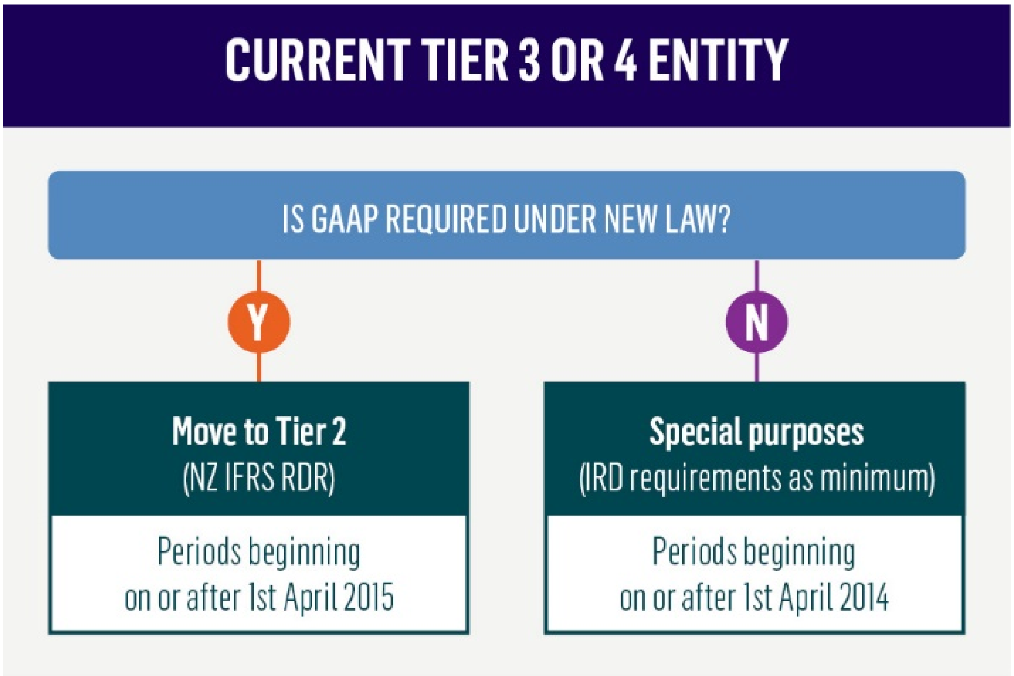
## For-profit entities

For those for-profit entities that will continue to have a statutory financial reporting requirement to prepare GPFRs the impact will differ by entity. The following table presents a general overview of the likely impacts on most common transitions between the reporting tiers and their respective accounting standards.

| TRANSITION | | IMPACT ON ADOPTION |
|---|---|---|
| Currently reporting under: | **Transitioning to:** | **Impacts: High, Medium, Low** |
| NZ IFRS<br>(TIER 1) | **NZ IFRS RDR**<br>**(TIER 2)** | **Low Impact**<br>No impact on recognition and measurement. Less disclosures required in notes to the financial statements. |
| NZ IFRS Diff Rep<br>(TIER 3) | **NZ IFRS RDR**<br>**(TIER 2)** | **Medium Impact**<br>Impact likely to be more significant for these entities as there were some recognition and measurement concessions for NZ IFRS Diff Rep which are no longer available under NZ IFRS RDR.<br>New requirement to preparing cash flow statement under NZ IAS 7 and account for deferred tax under NZ IAS 12.<br>Some changes to disclosures in financial statements and notes e.g. some new disclosures and some existing disclosures no longer required.<br>First–time adoption of NZ IFRS (under NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards)* which requires restated comparatives for the previous year. |
| Old NZ GAAP<br>(TIER 4) | **NZ IFRS RDR**<br>**(TIER 2)** | **High Impact**<br>Impact likely to be significant.<br>Differences in recognition and measurement as well as significantly increased disclosure requirements.<br>First-time adoption of NZ IFRS (under NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards)* which requires restated comparatives for the previous year. |

### Implications for entities currently reporting under Tier 3 NZ IFRS Diff Rep or Tier 4 Old NZ GAAP (FRSs and SSAPs)

If your entity is a for-profit entity with continual statutory financial reporting requirements under the new Acts; or if your entity chooses to prepare financial statements in compliance with NZ GAAP, then there is a requirement for your entity to adopt NZ IFRS no later than reporting periods beginning on or after 1 April 2015.



### Public benefit entities

All PBEs will transition to a new suite of accounting standards which are based on International Public Sector Accounting Standards (IPSAS). In general, IPSAS is derived from IFRS but there are still some differences.

Depending on the current accounting standards applied by your entity, the impact of adoption will differ. The following table gives a general overview of the likely degree of impacts of the transition between the reporting tiers and their respective accounting standards:

| TRANSITION | | IMPACT ON ADOPTION |
|---|---|---|
| Currently reporting under: | **Transitioning to:** | **Impacts: High, Medium, Low** |
| NZ IFRS<br>(TIER 1) | **PBE Standards**<br>**(TIER 1)** | **Low Impact**<br>Few major differences between NZ IFRS and PBE Standards, but there are significantly large number of minor differences.<br>Expected differences may be in the areas of revenue, impairment, and interests in other entities. |
| NZ IFRS (PBE) Diff Rep<br>(TIER 3) | **PBE Standards RDR**<br>**(TIER 2)** | **Medium Impact**<br>Significant differences in recognition and measurement. Concessions under NZ IFRS Diff Rep will also not be available under PBE Standards (RDR). |
| Old NZ GAAP<br>(TIER 4)<br>Or<br>Special Purpose Reporting (an alternative basis of own choice) | **PBE Standards RDR**<br>**(TIER 2)** | **High Impact**<br>Impact expected to be significant.<br>First-time adoption of PBE Standards (RDR) with differences in recognition and measurement as well as increased disclosure requirements. |

# How KPMG can help your entity

**KPMG methodology approaches transition in manageable phases...**

### PHASE 1 – RAISE AWARENESS

**Mobilise organisation behind implementation**

- Conversion Room workshop
- Perform Quick Scan
- Analyse implementation complexity
- Prepare and present Quick Scan and Complexity Meter to Audit Committee and to senior management
- Staff training sessions

### PHASE 2 – ASSESS

**Assess impact and plan implementation**

- Accounting matrix and disclosure matrix
- IT gap analysis
- Financial impact assessment
- Training needs assessment and plan
- Business impact assessment
- High level project and implementation plan

### PHASE 3 – DESIGN

**Build the tools**

- Mobilise key players and communication
- Detailed planning
- Develop tactical solutions
- Design new business processes
- Design new financial policies and procedures

### PHASE 4 – IMPLEMENT

**Roll out and run parallel process**

- Implement new processes and system changes
- Implement training, communication, policies and procedures
- Draft financial statements

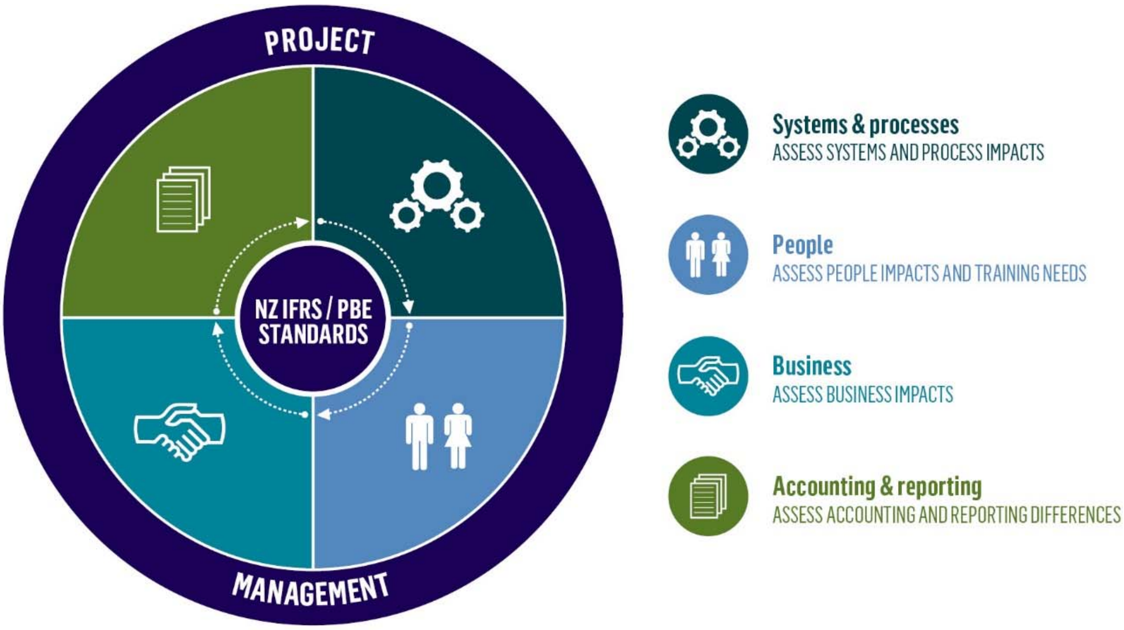
Programme management, communication, knowledge sharing and issue tracking and resolution

Training / Education

**...so you remain in full control from start till finish**

## Where we can assist your entity

KPMG Accounting Advisory Services team can 'cut through the complexity' to help you assess the impact on your financial reporting obligations.



# Appendices

## APPENDIX 1

# New terms and definitions

The following table sets out some of the definitions of the key terms in the FRA 2013 and FMC 2013 Acts that have been used in this publication:

| Term | Definition |
| --- | --- |
| Large<br><br>(NZ entities) | An entity (other than an overseas company) is large in respect of an accounting period if at least one of the following applies:<br><br>• as at balance date of each of the two preceding accounting periods, the total assets of the entity and its subsidiaries (if any) exceed \$60 million;<br><br>OR<br><br>• in each of the two preceding accounting periods, the total revenue of the entity and its subsidiaries (if any) exceeds \$30 million. |
| Large<br><br>(Overseas companies, including NZ subsidiaries of overseas companies) | An overseas company is large in respect of an accounting period if at least one of the following applies:<br><br>• as at the balance date of each of the two preceding accounting periods, the total assets of the entity and its subsidiaries (if any) exceed \$20 million;<br><br>OR<br><br>• in each of the two preceding accounting periods, the total revenue of the entity and its subsidiaries (if any) exceeds \$10 million. |
| FMC reporting entity | FMC reporting entity means—<br><br>• every person who is an issuer of a regulated product;<br><br>• every person who holds a licence under Part 6 (other than an independent trustee of a restricted scheme);<br><br>• every licensed supervisor;<br><br>• every listed issuer (but see section 351(1)(ab));<br><br>• every operator of a licensed market (other than a market licensed under section 317 (overseas-regulated markets));<br><br>• every recipient of money from a conduit issuer;<br><br>• every registered bank;<br><br>• every licensed insurer;<br><br>• every credit union;<br><br>• every building society; and<br><br>• every person that is an FMC Reporting Entity under clause 27A of Schedule 1. |
| Specified not-for-profit entity | In respect of an accounting period, if in each of the two preceding accounting periods of the entity, the total operating payments of the entity are \$125,000 or more. |

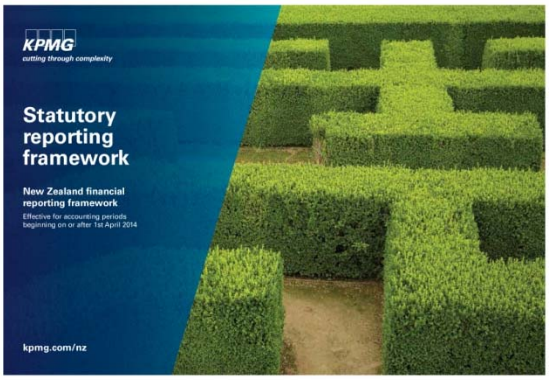
## APPENDIX 2

# Find out more

For more information on the statutory reporting framework and/or the accounting standards framework as they apply to your entity, please speak to your usual KPMG contact or visit our KPMG NZ website http://www.kpmg.com/nz

### Other KPMG publications

In addition to this guide, we have more detailed practical application flowcharts which can help you further, to determine the financial reporting obligations of your entity under the new frameworks. These are:

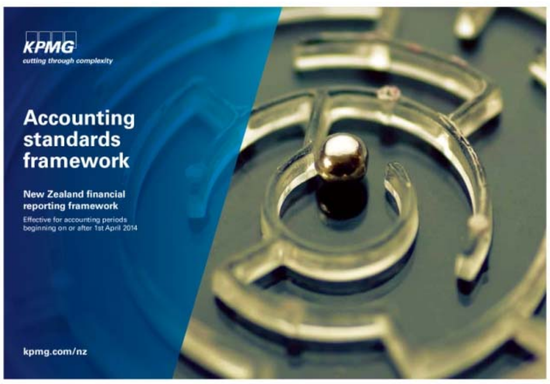



Our publication on STATUTORY REPORTING FRAMEWORK – NEW ZEALAND FINANCIAL REPORTING FRAMEWORK (FLOWCHART), presents:

- A simplified diagram which analyses the step-by-step questions to be answered to determine if a company has statutory financial reporting obligation to prepare general purpose financial statements (GPFR) in accordance with NZ GAAP.

Application of flowchart:

- Companies.
- FMC reporting entities.




Our publication on ACCOUNTING STANDARDS FRAMEWORK – NEW ZEALAND FINANCIAL REPORTING FRAMEWORK (FLOWCHART), presents:

- A simplified diagram which analyses the step-by-step questions to be answered to determine the applicable accounting standards once it's established that your entity has a statutory financial reporting obligation to prepare GPFR in accordance with NZ GAAP under any Acts of NZ Parliament.

Application of flowchart:

- All entities.

Please speak to your usual KPMG contact or one of our Accounting Advisory specialists listed on the back of this publication for assistance on determining your financial reporting obligations and to help you plan and manage the conversion process.

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