

FRS-44 (Diff Rep)



## **Financial Reporting Standard No. 44 (Diff Rep)**

### **New Zealand Additional Disclosures (FRS-44 (Diff Rep))**

**Issued November 2012**

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

As at 1 December 2012, the requirements in this Standard are identical to the requirements in FRS-44 *New Zealand Additional Disclosures* as applied by qualifying entities. Versions of FRS-44 applied by qualifying entities prior to adoption of this Standard are available on the Archived Standards page of the External Reporting Board (XRB) website at [xrb.govt.nz](http://xrb.govt.nz)

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ISBN 978-1-927237-38-0

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Financial Reporting Standard No. 44 (Diff Rep) *New Zealand Additional Disclosures* (FRS-44 (Diff Rep)) is set out in paragraphs 1–15 and Appendix A. All the paragraphs have equal authority. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary.

FRS-44 (Diff Rep) should be read in the context of its objective and the New Zealand *Conceptual Framework for Financial Reporting (Diff Rep)* (NZ Framework (Diff Rep)). NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

This Standard uses the terminology adopted in International Financial Reporting Standards (IFRSs) to describe the financial statements and other elements.

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## HISTORY OF AMENDMENTS

### Table of Pronouncements – FRS-44 (Diff Rep) *New Zealand Additional Disclosures*

This table lists the pronouncements establishing and substantially amending FRS-44 (Diff Rep).

| <b>Pronouncements</b>                                       | <b>Date approved</b> | <b>Early operative date</b> | <b>Effective date (annual reporting periods... on or after ...)</b> |
|---|----------------------|-----------------------------|---|
| FRS-44 (Diff Rep) <i>New Zealand Additional Disclosures</i> | Nov 2012             | Early application permitted | 1 Dec 2012  |

### Table of Amended Paragraphs in FRS-44 (Diff Rep)

| <b>Paragraph affected</b> | <b>How affected</b> | <b>By ... [date]</b>         |
|---------------------------|---------------------|------------------------------|
| Paragraph 1.1             | Inserted            | FRS-44 (Diff Rep) [Nov 2012] |
| Paragraph 7               | Amended             | FRS-44 (Diff Rep) [Nov 2012] |
| Paragraph 13–14           | Deleted             | FRS-44 (Diff Rep) [Nov 2012] |
| Paragraph 15              | Inserted            | FRS-44 (Diff Rep) [Nov 2012] |

The following tables list the pronouncements establishing and substantially amending FRS-44 as applied by qualifying entities prior to the issue of this Standard as FRS-44 (Diff Rep).

| <b>Pronouncements</b>                            | <b>Date approved</b> | <b>Early operative date</b> | <b>Effective date (annual reporting periods... on or after ...)</b> |
|--|----------------------|-----------------------------|---|
| FRS-44 <i>New Zealand Additional Disclosures</i> | March 2011           | Early application permitted | 1 July 2011   |
| Amendment to FRS-44                              | June 2011            | Early application permitted | 1 July 2011   |

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| <b>Table of Amended Paragraphs in FRS-44</b> |                     |                                 |
|--|---------------------|---------------------------------|
| <b>Paragraph affected</b>                    | <b>How affected</b> | <b>By ... [date]</b>            |
| Paragraph 2A                                 | Inserted            | Amendment to FRS-44 [June 2011] |
| Paragraph 14                                 | Inserted            | Amendment to FRS-44 [June 2011] |

## **INTRODUCTION**

FRS-44 (Diff Rep) is identical to FRS-44 applied by qualifying entities prior to the issuance of FRS-44 (Diff Rep). That is, there is no change to the recognition, measurement, presentation and disclosure requirements of FRS-44 on adoption of this Standard.

### **Reasons for issuing the Standard**

Financial Reporting Standard No. 44 (Diff Rep) *New Zealand Additional Disclosures* (FRS-44 (Diff Rep)) sets out New Zealand-specific disclosures for entities that have adopted NZ IFRS Diff Rep. The Standard supports the objective of harmonising financial reporting standards in Australia and New Zealand.

### **Main features of the Standard**

This Standard is intended to meet the information needs of users who require New Zealand-specific information not contained in International Financial Reporting Standards (IFRSs) as adopted in New Zealand.

This Standard specifies New Zealand-specific disclosures for entities applying NZ IFRS Diff Rep, but it does not prescribe the format in which those disclosures are to be presented.

### **Differential reporting**

Qualifying entities are given several concessions to the requirements of this Standard (as identified in the Standard).

## **Financial Reporting Standard No. 44**

### ***New Zealand Additional Disclosures*** **(FRS-44 (Diff Rep))**

#### **Objective**

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- 1 The objective of this Standard is to prescribe the New Zealand-specific disclosures which are required in addition to those required under NZ IFRS Diff Rep.

#### **Scope**

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- 1.1 **This Standard applies only to Tier 3 for-profit entities.**
- 2 **An entity shall apply this Standard in preparing general purpose financial statements in accordance with NZ IFRS Diff Rep.**
- 2A **An entity is required to comply with only paragraphs 6 and 7 when preparing condensed interim financial reports.**
- 3 The requirements in this Standard are part of Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

#### **Differential reporting**

- 4 **Entities which qualify for differential reporting concessions in accordance with XRB A1 *Accounting Standards Framework* are not required to comply with the disclosure requirements in this Standard denoted with an asterisk (\*).**

#### **Disclosures**

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##### **Compliance with NZ IFRS Diff Rep**

- 5 An entity whose financial statements comply with NZ IFRS Diff Rep shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with NZ IFRS Diff Rep unless they comply with all the requirements of NZ IFRS Diff Rep.

##### **Compliance with applicable financial reporting standards**

- 6 If an entity's interim financial report is in compliance with NZ IAS 34 (Diff Rep) *Interim Financial Reporting* that fact shall be disclosed. An interim financial



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report shall not assert compliance with NZ IFRS Diff Rep, and other applicable Financial Reporting Standards, as appropriate for that entity, unless the financial statements comply with all the relevant requirements of those standards.

### **Reporting framework**

- 7 An entity shall disclose in the notes:
- (a) a statement whether the financial statements have been prepared in accordance with NZ GAAP;
  - (b) that, for the purposes of complying with NZ GAAP, it is a for-profit entity; and
  - (c) if it is eligible for and has elected to report in accordance with Tier 3 For-profit Accounting Standards:
    - (i) that it is a Tier 3 for-profit entity and has elected to report in accordance with Tier 3 For-profit Accounting Standards;
    - (ii) the criteria that establish the entity as eligible to report in accordance with Tier 3 For-profit Accounting Standards; and
    - (ii) the extent to which the entity has applied available recognition and measurement differential reporting concessions.

### **Audit fees**

- \*8.1 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:
- (a) the audit or review of the financial statements; and
  - (b) all other services performed during the reporting period.
- \*8.2 For 8.1 (b) above, an entity shall describe the nature of other services.

### **Imputation credits**

- \*9.1 The term 'imputation credits' is used in paragraphs 9.2 and 9.4 to also mean 'franking credits'. The disclosures required by paragraphs 9.2 and 9.4 shall be made separately in respect of any New Zealand imputation credits and any Australian imputation credits.
- \*9.2 An entity shall disclose the amount of imputation credits available for use in subsequent reporting periods.
- \*9.3 For the purposes of determining the amount required to be disclosed in accordance with paragraph 9.2, entities may have:
- (a) imputation credits that will arise from the payment of the amount of the provision for income tax;

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- (b) imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
  - (c) imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.
- \*9.4 Where there are different classes of investors with different entitlements to imputation credits, disclosures shall be made about the nature of those entitlements for each class where this is relevant to an understanding of them.

### **Reconciliation of net operating cash flow to profit (loss)**

- \*10 When an entity uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities to profit (loss).

### **Prospective financial statements**

- 11.1 Where an entity has published general purpose prospective financial statements for the period of the financial statements, the entity shall present a comparison of the prospective financial statements with the historical financial statements being reported. Explanations for major variations shall be given.
- 11.2 Financial Reporting Standard No. 42 (Diff Rep) *Prospective Financial Statements* defines general purpose prospective financial statements. Legislative or other requirements may require a comparison with originally published information, the most recently published information, or both.

### **Elements in the statement of service performance**

- 12.1 Where a statement of service performance is presented it shall describe and disclose the *outputs* of an entity. Similar individual outputs may be aggregated.
- 12.2 This Standard refers to the statement in paragraph 12.1 as a “statement of service performance”. The statement might, however, be differently named in legislation. The aim of such statements, by whatever name called, remains the providing of:
- (a) narrative and statistics on the entity’s performance in supplying goods and services; and
  - (b) information on the effects on the community of the entity’s existence and operations.
- 12.3 An entity not required by legislation to prepare a statement of service performance is encouraged to include a statement of service performance in its financial statements where:
- (a) the entity receives significant revenue intended to benefit third parties without giving reciprocal benefit or consideration to the party providing the revenue; or

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- (b) the entity has non-financial objectives of such importance that non-financial performance reporting is significant to users of the financial statements.
- 12.4 The elements of service performance are *inputs*, *outputs* and *outcomes*. Where relevant and appropriate for users of the entity's financial report, each output disclosed in the statement of service performance is to be described in terms of the output's:
- (a) quantity;
  - (b) quality;
  - (c) time; and
  - (d) location.
- The cost of each output is to be described and disclosed.
- 12.5 The information used to describe service performance is to be selected so as to provide a complete description of delivery of each output (or aggregation of outputs) reported, but without undue emphasis on easily measured dimensions, and without resulting in an overload of only partially relevant statistics.
- 12.6 For each output disclosed in a statement of service performance, where practical and appropriate, the outcome(s) to which the output is intended to contribute is to be disclosed.
- 12.7 The statement of service performance shall present both projected service performance and actual service performance.
- 12.8 Projected service performance is described by presenting projected outputs at the beginning of the period which an entity aimed to produce by the end of the period. These projected outputs will often be derived from the annual or corporate plan.
- 12.9 To report the degree of success in achieving objectives, it is necessary to present both projected and actual results together with full disclosures of any changes in objectives during the period.
- 12.10 Actual and projected service performance are to be reported consistently with one another. The information is to be sufficiently specific for performance to be assessed.

## Effective date

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- 13–14 [Deleted]
- 15 This Standard applies to annual periods beginning on or after 1 December 2012. Early application is permitted. This Standard replaces FRS-44 as applied by qualifying entities prior to the issuance of this Standard. There are no changes to the requirements of FRS-44 as it applied to qualifying entities.

## **Appendix A**

### **Defined terms**

*This appendix is an integral part of the Standard.*

|                 |   |
|-----------------|---|
| <b>inputs</b>   | The resources used to produce the goods and services which are the outputs of the entity.                     |
| <b>outcomes</b> | The impacts on, or consequences for, the community resulting from the existence and operations of the entity. |
| <b>outputs</b>  | The goods and services produced by the entity.  |

**FRSB Basis for Conclusions on  
FRS-44 *New Zealand Additional Disclosures***

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## **Basis for Conclusions on FRS-44 (Diff Rep) New Zealand Additional Disclosures**

*This Basis for Conclusions accompanies, but is not part of, FRS-44 (Diff Rep).*

### **Introduction**

BC1 This Basis for Conclusions summarises the Financial Reporting Standards Board's (FRSB) considerations in reaching its conclusions on FRS-44 *New Zealand Additional Disclosures* (FRS-44) in 2010. It also provides a context of the FRSB's decision about harmonising the disclosure requirements. It focuses on the issues that the FRSB considers to be of greatest significance. Individual FRSB members gave greater weight to some factors than others.

### **Location of additional disclosures**

BC2 The FRSB and the Australian Accounting Standards Board (AASB) discussed the merits of locating the additional domestic disclosure requirements in a separate disclosure standard compared with locating them within topic-based standards, which is the current practice. Some members supported a separate disclosure standard largely on the basis that it would facilitate the topic-based standards being identical to IFRSs. Other members expressed a preference for locating additional disclosures within topic-based standards for ease of use. On balance, the Boards decided to locate the additional disclosures in separate disclosure standards on the basis that they view bringing the wording of New Zealand and Australian Standards closer to IFRSs as one of the greatest benefits of the trans-Tasman Convergence project.

### **Background**

BC3 On 20 August 2009 a Prime Ministerial Joint Statement of Intent outlined a range of trans-Tasman outcome proposals, the benefits to be achieved or problems to be solved, and the relevant timeframes. The revised *Memorandum of Understanding between the Government of New Zealand and the Government of Australia on the Coordination of Business Law* was signed by Hon Simon Power and Hon Chris Bowen on 23 June 2010. This Memorandum recognises the Single Economic Market Outcomes Framework endorsed by the Prime Ministers in their Joint Statement of Intent on 20 August 2009.

BC4 The specific outcome proposals relevant to FRS-44 relate to enabling for-profit entities to prepare only one set of financial statements that would be recognised in both jurisdictions. The Joint Statement of Intent noted that such an outcome would allow for a reduction in compliance costs for entities operating across the Tasman

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and it would support trans-Tasman investment through the consistency of financial statements.

- BC5 The FRSB and the AASB jointly issued FRSB ED 121/AASB ED 200A and FRSB ED 122/AASB ED 200B for the purpose of harmonising each jurisdiction's standards with source IFRSs to eliminate many of the differences between the standards in each jurisdiction relating to for-profit entities applying IFRSs as adopted in Australia and New Zealand.
- BC6 FRS-44 contains New Zealand-specific disclosure requirements which have been relocated from existing NZ IFRSs because they were considered by the FRSB to remain important in the New Zealand environment despite the harmonisation objective.
- BC7 To achieve the objective of the Prime Ministerial Joint Statement of Intent, in instances where AASB 1054 *Australian Additional Disclosures* contains a similar disclosure to FRS-44, the wording of those disclosures is harmonised to enable consistent application of those common disclosures in both jurisdictions.
- BC8 The specific paragraphs below explain the FRSB's rationale for requiring the specific disclosures.

## **Compliance with applicable financial reporting standards**

- BC9 The FRSB has retained the requirement to disclose in the entity's interim financial statements that those statements have been prepared in accordance with NZ IAS 34 *Interim Financial Reporting*. This is an important feature of New Zealand's financial reporting environment and provides a level of assurance to the users of the entity's interim financial report.

## **Audit fees (paragraphs 8.1–8.2)**

- BC10 The AASB and the FRSB have relocated and amended the audit fee disclosure requirements contained in AASB 101 *Presentation of Financial Statements* and NZ IAS 1 *Presentation of Financial Statements* to their respective separate disclosure Standards and harmonised the disclosure requirements across both jurisdictions.
- BC11 The AASB and the FRSB consider that the disclosure of audit fees is a matter of accountability and, given that the accountability environment is similar in both jurisdictions, they should have the same audit fee disclosure requirements. The Boards also took the opportunity to simplify the disclosure requirements on the basis that in recent times both preparers and users have indicated that disclosures in financial statements have become overly complex.
- BC12 The AASB and FRSB noted the usefulness of the notion of 'related practice' in audit fee disclosures in AASB 101 and decided to incorporate a similar notion that

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is common to both jurisdictions in the harmonised disclosures. Accordingly, the Boards decided to include the notion of 'network firm' from APES 110 *Code of Ethics for Professional Accountants* issued by Accounting and Professional Ethical Standards Board (APESB) (February 2008) and *Code of Ethics: Independence in Assurance Engagements* issued by New Zealand Institute of Chartered Accountants (NZICA) (September 2008). The Boards also decided not to define or provide explanatory material for 'network firm' on the basis that the notion is generally understood and preparers and auditors could refer to the relevant APESB and NZICA pronouncements.

- BC13 The AASB and FRSB note that disclosures are made in the context of the scope of the entity reporting. Accordingly, in the case of a group, disclosures made in accordance with paragraph 8.1 would include fees paid by the parent and its subsidiaries for each of the parent and its subsidiaries.
- BC14 For New Zealand entities the harmonised audit fee disclosure may require more information than was required by the previous disclosure requirements. The FRSB considers that the benefits of harmonisation outweigh the cost of requiring any additional disclosure requirements.

### **Imputation credits (paragraphs 9.1–9.4)**

- BC15 The AASB and the FRSB have relocated the imputation credit disclosure requirements contained in AASB 101 and NZ IAS 12 *Income Taxes* to their respective separate disclosure Standards and to harmonise the disclosure requirements across both jurisdictions.
- BC16 The AASB and the FRSB noted that Australia and New Zealand are among a limited number of jurisdictions that have an imputation tax regime and acknowledge the decision usefulness of information about imputation credits to users of financial information. Accordingly, the AASB and the FRSB decided that these additional disclosure requirements should be retained.
- BC17 Given that both jurisdictions have additional disclosure requirements about imputation credits, and that the imputation regimes in each jurisdiction are highly similar, the Boards have harmonised the wording across both jurisdictions. The Boards also took the opportunity to simplify the disclosure requirements on the basis that in recent times both preparers and users have indicated that disclosures in financial statements have become overly complex.

### **Reconciliation of net operating cash flow to profit (loss) (paragraph 10)**

- BC18 The AASB and FRSB have relocated the requirement to disclose a reconciliation of net cash flows from operating activities to profit or loss when an entity uses the direct method to present its statement of cash flows [that were contained in AASB 107 *Statement of Cash Flows* and NZ IAS 7 *Statement of Cash Flows*] to



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their respective separate disclosure standards and to harmonise the disclosure requirements across both jurisdictions.

- BC19 The Boards, in forming the view to retain the requirement for a reconciliation of net cash flows from operating activities to profit or loss, acknowledged the weight of comments received from constituents who opposed the proposal to remove this requirement.
- BC20 The Boards note that the IASB has recently considered requiring a reconciliation of net cash flows from operating activities to profit or loss in the context of its Financial Statement Presentation project.

### **Prospective financial statements (paragraphs 11.1–11.2)**

- BC21 The FRSB has retained the requirement to present a comparison of the prospective financial statements with the historical financial statements where the entity has published general purpose prospective financial statements for the period of the financial statements. The FRSB considers that the requirement is an important feature of New Zealand's financial reporting environment. The FRSB noted that the rationale for providing such a comparison is set out in FRS-42 *Prospective Financial Reporting*.

### **Elements of statements of service performance (paragraphs 12.1–12.10)**

- BC22 The FRSB has retained the guidance relating to the elements of statements of service performance because statements of service reporting are a unique feature of New Zealand's financial reporting environment.

### **Summary of main changes from the Exposure Draft**

- BC23 The main change from those proposed in ED 122 is the requirement to present a reconciliation of operating cash flows to profit or loss has been included in this Standard. In ED 121 the FRSB proposed to remove the requirement to present a reconciliation of operating cash flows to profit or loss. The Boards, in forming the view to retain the requirement to present a reconciliation of cash flows from operating activities to profit or loss, acknowledged the weight of comments received from constituents who opposed the proposal to remove this requirement. The Boards note that the IASB has recently considered requiring a reconciliation of cash flows from operating activities to profit or loss in the context of its Financial Statement Presentation project.