

4. INTERNATIONAL REPORTING STANDARDS (IFRS)

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PURPOSE OF REPORT

1. The purpose of this report is to inform the Audit and Risk Management Subcommittee of the legal requirement to adopt IFRS and advise of progress to date, and to seek the Audit and Risk Management Subcommittee's adoption of recommendations related to issues addressed to date.

CONTENT

2. Five papers are attached to cover this topic:

Paper 1: Conversion to IFRS Project
Paper 2: IFRS: Revaluation of Property Plant and Equipment (PPE)
Paper 3: IFRS: Capitalisation of Borrowing Costs
Paper 4: Decision Whether to Adopt Hedge Accounting
Paper 5: Decision Whether to Adopt Cost or Fair Value Accounting for Parent Investments in Subsidiaries

STAFF RECOMMENDATIONS

It is recommended to the Audit and Risk Management Subcommittee that:

- (a) NZ IFRS be adopted from 1 July 2006 (Paper 1).
- (b) The Council retain its existing policy with respect to revaluations of PPE with the trading entities required to adopt the same policy (Paper 2).
- (c) Trading entities that do not currently revalue Land and Buildings and Infrastructure Assets be required to do so for the year ended 30 June 2006 or equivalent (Paper 2).
- (d) The Council retain its existing policy of not capitalising borrowing costs and the trading entities adopt the same accounting policy (Paper 3).
- (e) Trading entities that do currently capitalise borrowing costs be required to discontinue this policy from 1 July 2005 (Paper 3).
- (f) There be a group accounting policy to the effect that where a group entity has entered into a derivative financial instrument for the purposes of hedging an underlying transaction, it will document the rationale and planned effectiveness of the hedge, and account for it as a hedge transaction within the context of NZ IAS 39 provided all the necessary conditions continue to be met² (Paper 4, Issue 1).
- (g) The use of the fair value option be the approach followed by the Council for accounting for investments in subsidiaries in its parent financial statements under NZ IFRS (Paper 5, Issue 2).

²

Much fuller disclosure of the policy will of course be required in practice – the PWC model financial statements for Footsy & Co Group provide a good example on pages 19 and 20 – but it is premature at this stage to start