

Shifting to International Financial Reporting Standards

By Michael Bradbury and Tony van Zijl

The Accounting Standards Review Board's decision to adopt IFRS has significant impact on financial reporting. This article discusses the implications, and the full transition to IFRS in 2007.

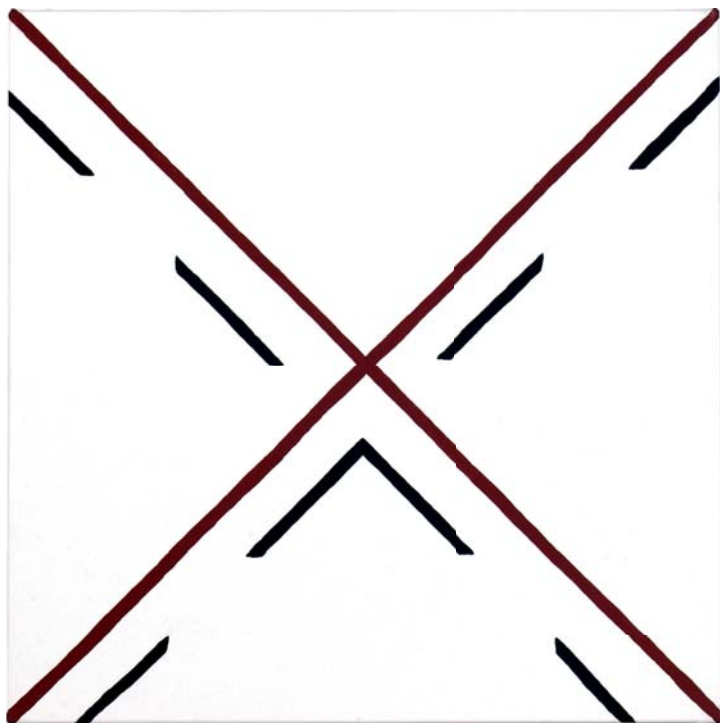
On 19 December 2002, the Accounting Standards Review Board (ASRB) announced that for periods commencing on or after 1 January 2007, New Zealand reporting entities would be required to apply International Financial Reporting Standards (IFRS) in the preparation of their external financial reports. However, entities would have the option to adopt IFRS early from 1 January 2005.¹

This paper gives an overview of the background to the ASRB's decision, how it is being implemented, and its likely effects. The decision to adapt IFRS is discussed and some implementation issues are identified. This is followed by a discussion on the scope of application, the financial reporting impacts, and the transition to 2007.

The decision to adopt IFRS

The first step into regulation of financial reporting in New Zealand took place in 1946 when the Council of the New Zealand Society of Accountants (now the Institute of Chartered Accountants (ICANZ)) issued a series of Recommendations on Accounting Principles. These recommendations were a simple reprint of recommendations issued by the Institute of Chartered Accountants of England and Wales.² From these basic beginnings the Society moved in 1974 to issuing standards and by 1993 there were 30 standards on issue.

Members of the Society involved in the preparation of, or associated with, financial statements were required to exert their best efforts to ensure that entities complied with the standards. Members involved in the audit of financial statements were required to ensure that departures from the standards were



Filipe Tohi, *Vakilotomoeohi (Space towards inside and lines)*, 2003. Acrylic on canvas, Auckland Art Gallery Toi o Tamaki

referred to in the audit report and, if appropriate, issue a qualified opinion. However, the standards did not have legal backing.

Legal backing came with the introduction of the Financial Reporting Act 1993. The Act established the ASRB, a Crown Entity, whose principal role is to review and, if it thinks fit, approve proposed financial reporting standards (FRS) submitted to it by the Financial Reporting Standards Board ('FRSB', a committee of ICANZ) or other parties. The effect of approval is to give legal backing to the standards. The Act distinguishes between exempt companies and reporting entities. An exempt company is a small company (assets less than \$450,000 and sales less than \$1,000,000) and is neither a parent nor subsidiary of another company. A reporting entity is an issuer of securities to the public and/or a company other than an exempt company. The form and content of the financial statements of an exempt company are determined by regulations to the Act. However, the financial statements of a reporting entity must comply with generally accepted accounting practice (GAAP) and show a true and fair view. Compliance with GAAP means compliance with applicable FRS and, in the absence of such FRS or applicable rules of law, choice of accounting policies that are appropriate to the circumstances of the entity and have authoritative support within the accounting profession in New Zealand.

Financial reporting by local authorities is subject to the Local Government Act 2002 and state sector entities are subject to the Public Finance Act 1989. Both classes of entities are also required to comply with GAAP.

The standards developed by the Society were originally intended for application by companies, and in the mid to late 1980s the Society commenced development of a separate series of standards for the public sector. However, in 1990 it was resolved to withdraw the public sector standards and henceforth develop standards that would apply to both the private and the public sectors – sector-neutral standards.

In 1974 the Society became an associate member of the then recently formed International Accounting Standards Committee (IASC)³ which required the Society to publish the IASC's standards and to seek comment on the IASC's exposure drafts for submission to the IASC. Development of the Society's own standards drew on the IASC standards but also others sources such the standards issued by the standard setters in the UK, Canada, US and Australia. In the mid 1980s there were instances of significant departures from these sources but by the late 1980s standards development was constrained by a perceived need to 'harmonise' with the mainstream of standards set overseas.⁴

This harmonisation constraint was reinforced by a number of factors, including New Zealand's membership of the G4 + 1 international group of standards setters established to promote

convergence in standards, and in 1997 the FRSB announced that standards would in future no longer be developed from scratch but would instead be based on the standards issued by the IASC or the Australian Accounting Standards Board (AASB).⁵ The AASB standards were nominated as an alternative to IASC standards as the AASB had itself adopted the goal of harmonisation with the IASC. This policy was subsequently applied to a number of new topics including the exposure draft ED-87 Intangible Assets issued in 1999.

The Financial Reporting Act requires the ASRB to liaise with the AASB with a view to harmonizing New Zealand and Australian standards. In June 1994 both boards issued an identical policy statement supporting the harmonisation of Australian and New Zealand accounting standards.⁶ However, strong cooperation between these two boards already existed prior to this formal policy⁷ and it continues today.

Thus financial reporting standard setting in New Zealand has for some years reflected concern for harmonisation and convergence with both international standards and the standards of individual countries, primarily Australia. The requirement to apply IFRS, the 'final step' in convergence with IASB standards, was triggered by the directive given by the Australian Financial Reporting Council to the AASB on 3 July 2002. This directive required the adoption of IFRS in Australia for periods commencing on or after 1 January 2005, the date for adoption of IFRS by listed companies in Europe. After initial monitoring of the AASB reaction to the directive, the Standing Committee of the FRSB met with the ASRB and as a result the ASRB announced on 21 October 2002 a proposal that New Zealand listed issuers be required to apply IFRS from 2007 but with the option to apply from 2005.⁸

Over the following two months, a sub-group of the ASRB and FRSB consulted on this proposal with a widely representative range of interested parties, and the ASRB subsequently resolved that:

- adoption would apply from 2007 but with an option to early adopt from 2005;
- sector neutrality in standards would be maintained by introducing additional requirements to the IFRS;⁹ and
- IFRS would apply to all reporting entities but with due regard for compliance costs.

Implementation

In July 2003 the FRSB issued, with the support of the ASRB, the statement Process for Adoption of IFRS. This statement has now been incorporated into ASRB Release 8.¹⁰ It describes the procedures to be followed by the FRSB in adopting IFRS to replace New Zealand FRS in GAAP and discusses the actual outcome on sector neutrality.

The FRSB has developed New Zealand equivalents to IFRS ('NZ IFRS') for approval by the ASRB for application

Michael Bradbury is Professor of Accounting, School of Accountancy and Finance, UNITEC. **Tony van Zijl** is Deputy Dean and Professor of Accounting & Financial Management, Faculty of Commerce and Administration, Victoria University of Wellington.

from 2007 (or the early adoption date of 2005). The new standards and interpretations are referred to as NZ IAS or NZ IFRS and NZ SIC or NZ IFRIC as appropriate. The standards have the same numbering as the corresponding IFRS. For example, the New Zealand equivalent to IAS 1 will be NZ IAS 1 and IFRS 1 will be NZ IFRS 1.

The FRSB's development of a NZ IFRS starts with the preparation of an Exposure Draft (ED) and an accompanying Discussion Paper (DP). The DP provides a comparison of the IFRS with corresponding existing standards, and describes any variations proposed from the IFRS. The ED is published on the ICANZ website and remains open for comment for (usually) a period of two months. Following a review of the ED in the light of comments received, the proposed NZ IFRS is then submitted to the ASRB for approval.

The FRSB submitted the standards to the ASRB on a progressive basis and following provisional approval they were published on the website of the Institute of Chartered Accountants of New Zealand as 'Pending Standards'. A 'big bang' final approval took place in November 2004 when all the standards had been completed. The effect of the ASRB's approval will be to give legal backing to NZ IFRS. The approved NZ IFRS can be downloaded free of charge from the ICANZ website¹¹ and can also be purchased in bound hard copy form from ICANZ. It should be noted that NZ IFRS do not include the 'basis for conclusions' and 'implementation guidance' components of the IASB's IFRS.

NZ IFRS may differ from IFRS in that they may contain additional disclosure requirements and/or eliminate optional treatments. They may also contain additional requirements on measurement and recognition but such requirements, if any, apply only to public benefit entities.¹² This approach allows profit-oriented entities to comply with NZ IFRS and claim simultaneous compliance with IFRS. However, it does mean that while there is one set of standards, they are not sector-neutral and public benefit entities may not be able to claim compliance with IFRS. Additional requirements included in NZ IFRS are shown as boxed text. The FRSB has endeavoured to minimise the variation from IFRS so as to keep reporting by profit-oriented and public benefit entities closely aligned.¹³

Scope of application

The FRSB recognised that the decision to adopt IFRS, in many cases, would result in compliance costs in excess of the benefits of reporting. Thus the FRSB developed a proposed new reporting structure that follows, at a conceptual level, the Australian approach of restricting compliance with IFRS to reporting entities.

The proposed structure operationalised the concept of a reporting entity by dividing entities into three groups: Tiers 1, 2 and 3. Entities in Tiers 1 and 2 are reporting entities and are required to comply with IFRS. Tier 2 entities would receive some disclosure concessions based on proxies

for the costs and benefits of reporting (i.e., the power to levy taxes or rates, responsibility to report, and size). Tier 3 entities are not reporting entities and would not be subject to any legal requirements on reporting. The structure is described in more detail in Hickey and van Zijl.¹⁴

The proposed structure was reviewed by the ASRB and submitted to the Ministry of Economic Development (MED). The expectation was that the MED would use it as the basis for a public discussion paper on legal requirements for financial reporting. Following a review of comments received, the Ministry would then develop legislative proposals to implement a new structure. The MED Discussion Paper, Review of the Financial Reporting Act 1993 Part I: The financial reporting structure, expected to be released mid 2003, was not published until March 2004.¹⁵ While Part I followed the FRSB/ASRB proposed structure, a further MED discussion paper, Review of the Financial Reporting Act 1993 Part II, published in November 2004, retains the notion of tiered reporting requirements but moves away from entity neutrality. Until the MED consultation and review process has concluded there will be uncertainty as to which entities are subject to NZ IFRS and to what degree. In the meantime, the IASB has advanced its project on accounting by Small and Medium Enterprises more rapidly than was expected and a Discussion Paper was issued in June 2004.¹⁶ The IASB is proposing simplified standards for SMEs that have "no public accountability". Clearly the reporting structure eventually adopted in New Zealand should be consistent with the approach settled on by the IASB.



Judy Millar, *Things Get Worse*, 2002, Oil and acrylic on canvas, Auckland Art Gallery Toi o Tamaki, Gift of the Patrons of the Auckland Art Gallery, 2003

reporting structure, expected to be released mid 2003, was not published until March 2004.¹⁵ While Part I followed the FRSB/ASRB proposed structure, a further MED discussion paper, Review of the Financial Reporting Act 1993 Part II, published in November 2004, retains the notion of tiered reporting requirements but moves away from entity neutrality. Until the MED consultation and review process has concluded there will be uncertainty as to which entities are subject to NZ IFRS and to what degree. In the meantime, the IASB has advanced its project on accounting by Small and Medium Enterprises more rapidly than was expected and a Discussion Paper was issued in June 2004.¹⁶ The IASB is proposing simplified standards for SMEs that have "no public accountability". Clearly the reporting structure eventually adopted in New Zealand should be consistent with the approach settled on by the IASB.

Impact

Relevant standards

From its establishment in March 2001, the IASB has been revising IASs (inherited from the IASC) and developing new standards.¹⁷ In order to give Europe, and other jurisdictions, certainty on which IFRS would apply from 2005, the IASB nominated a set of standards that would apply from 2005. This 'stable platform' comprises nearly all existing IASs, together with the new IFRSs 1 to 5.¹⁸ As noted earlier, the FRSB completed, and the ASRB approved, the NZ IFRS equivalent of the IASB stable platform of standards in November 2004.

Reporting entities electing to wait until 2007 to apply NZ IFRS will have to apply the standards in effect at that date. This will comprise the 2005 set adjusted for changes resulting from the IASB's ongoing revision of existing standards and the development of new standards. IASB projects currently in progress, from which new or revised standards will be developed, include business combinations and consolidations, insurance – phase II, reporting comprehensive income, and income tax. Other projects will also be progressed through to 2007 and therefore the complete set of standards that will be in effect in 2007 remains uncertain. Thus, in considering the impact of adoption of IFRS we focus on the stable platform that is applicable from 2005.

Financial reporting effects

The financial reporting impact of IFRS will vary across entities depending on their structure, markets and transactions. The differences between IFRS and FRS, as at 31 October 2001, have been analysed in detail.¹⁹ The effects of adopting IFRS are due (1) to differences between IFRSs and corresponding FRSs, and (2) to gaps in the current set of FRS. Other than gaps in FRS, the two sets of standards were broadly similar in October 2001. With the changes made by the IASB through revision of existing standards and development of new standards, some of the existing differences have been eliminated but, on the other hand, new differences have also emerged.

The effects that are likely to be significant and have general application will arise in the following reporting areas:

Cash flow statements

IAS 7 Cash Flow Statements encourages use of the direct method but permits use of the indirect method. However, this flexibility will not be available to New Zealand reporting entities. Instead, NZ IAS 7 carries over the requirements in FRS 10 Statement of Cash Flows to use the direct method and present a reconciliation of the after tax surplus and net cash flow from operating activities. While FRS-10 specifies that dividends received and interest paid and received be treated as operating activities, and dividends paid as a financing activity, NZ IAS 7 follows IAS 7 in allowing discretion in the classification of interest and dividends as operating, investing, or financing activities, provided the classification adopted is applied consistently from period to period.

Changes in accounting policies and errors

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires retrospective restatement to correct for all material prior period errors and retrospective application of voluntary changes in accounting policies. In contrast, FRS 7 Extraordinary Items and Fundamental Errors requires retrospective restatement to correct for fundamental errors only and the effects of voluntary changes are required to be accounted for in the current period – unless a new standard specifies retrospective application.

Income tax

IAS 12 Income Tax and SSAP 12 Accounting for Income Tax are based on fundamentally different concepts in respect of the type of accounting differences between tax accounting and financial reporting that are recognised. IAS 12 uses the balance sheet liability method that focuses on temporary differences while SSAP 12 uses the income statement liability method that focuses on timing differences. IAS 12 does not permit use of the partial basis, and recognition of deferred tax assets is based on the criterion of 'probable' rather than 'virtual certainty'. Adoption of IAS 12 may thus lead to amounts for deferred tax and tax liabilities or assets that are significantly different from what would have been the case under SSAP 12.

Property, plant and equipment

Where an entity chooses to revalue its property plant and equipment, IAS 16 Property, Plant and Equipment requires the revaluation changes to be accounted for on an individual asset basis whereas under FRS 3 Accounting for Property, Plant and Equipment such changes are accounted for on a class of assets basis. While elimination of the ability to offset revaluation decreases against revaluation increases within the same class could be significant for reporting under present standards, this issue will lose its significance if proposed future requirements on reporting of comprehensive income are implemented. IAS 16 does not provide the extensive guidance given in FRS 3 on determination of fair value. However, much of the guidance in FRS 3 has been carried over to the ED of NZ IFRS 16 where it is provided as guidance specifically for public benefit entities.

Employee benefits

There is no current FRS corresponding to IAS 19 Employee Benefits. The absolute impacts of adopting IAS 19 could be significant, especially in relation to obligations under defined benefit pension plans.

Financial instruments

In December 2003, the IASB released revised standards on the complex subject of accounting for financial instruments: IAS 32 Financial Instruments Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement. IAS 32 covers disclosure of financial

instruments and their classification as debt or equity. IAS 39 covers recognition, de-recognition, measurement and hedge accounting. FRS 31 Disclosure of Information about Financial Instruments corresponds to IAS 32 but there is no comprehensive FRS corresponding to IAS 39. There is thus considerable variation in current practice and application of the revised standards could result in major financial reporting differences. Hybrid financial instruments currently classified as equity may have to be reclassified as debt. Some entities with redeemable shares (e.g., cooperatives and unit trusts) may have no equity. Financial assets and liabilities held for trading, including all derivatives that are not hedges, are measured at fair value with the changes in fair value reported in income. Any financial asset or liability can be designated to be measured at fair value through the income statement. The IASB continues to revise IAS 39 as new implementation issues arise. The new amendments will be applicable from 2006, early adoption in 2005 is allowed.

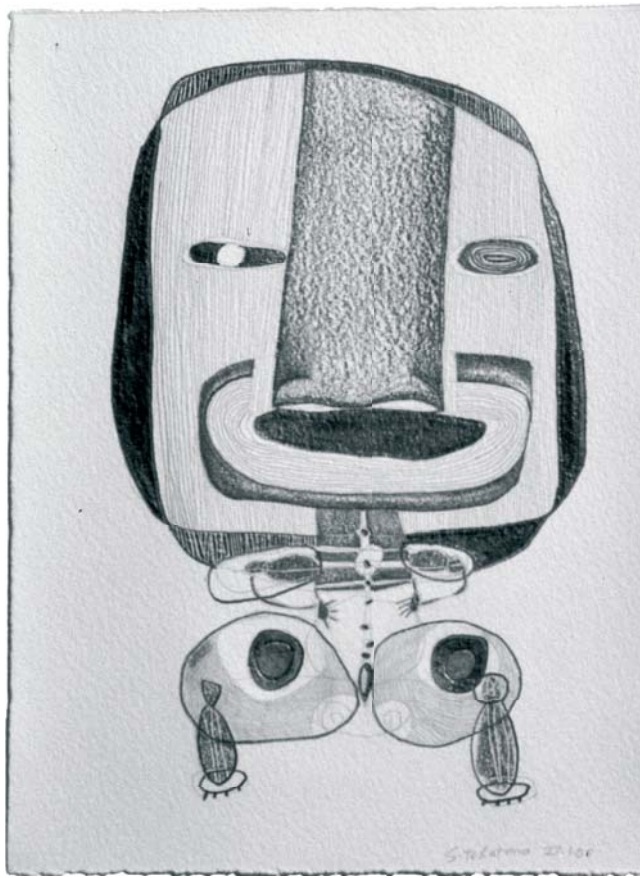
Business combinations

IFRS 3 Business Combinations in part requires changes that narrow the gap between IFRS and FRS. For example, use of the pooling of interest method is prohibited and the option to recognise minority interest at the minority's proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the acquiree has been eliminated. However, other changes widen the gap from FRS - in particular, changes on accounting for goodwill, discount arising on acquisition, and restructuring provisions. Goodwill is subject to an annual impairment test instead of amortisation and discount on acquisition is immediately recognised in income. Recognition of restructuring provisions that are not liabilities of the acquiree at the date of acquisition is prohibited.

Intangible assets

IAS 38 Intangible Assets is a comprehensive standard on intangible assets that permits recognition of an intangible asset only if the cost can be reliably measured. It prohibits the recognition of internally generated goodwill, internally

generated brands, mastheads, customer lists and similar items. There is no comprehensive FRS corresponding to IAS 38 but New Zealand practice has been to recognise intangible assets that have a cost or other value that can be reliably measured. Thus brand recognition has not been uncommon. ED-87 of a proposed FRS based on IAS 38 was issued by the FRSB in April 1999 but resulted in strong negative comment, particularly in respect of the requirements on recognition of intangible assets and the subsequent revaluation of recognised intangible assets. The ED is now withdrawn.



Saffronn Te Ratana, Untitled II, 2000, Pencil, Auckland Art Gallery Toi o Tamaki, Purchased with the assistance of Jean Horsley

Agriculture

IAS 41 Agriculture prescribes fair value accounting for agriculture with changes in fair value included in income. An ED of a proposed FRS closely based on IAS 41 was issued by the FRSB in April 2002, shortly before the question of adoption of IFRS arose. The responses were strongly negative because of the expected costs of fair value accounting. However, while it must be certain that entities such as issuers will have to comply with the NZ equivalent of IAS 41, the requirements on other entities, such as family farming enterprises, will depend on the final shape of the new financial reporting structure.

Share-based payment

IFRS 2 Share-based Payment requires entities to recognise share-based payment transactions in the financial statements, including the expense arising from a grant of share options to employees. Transactions in which goods or services are received as consideration for equity instruments granted are required to be measured at the fair value of the goods or services received. However, if fair value cannot be measured with reliability, as is assumed to be the case in transactions with employees, the transactions are measured at the fair value of the equity instruments granted. There is no corresponding FRS.

First-time adoption

When a reporting entity first applies IFRS, it must apply IFRS 1 First-time Adoption of International Financial Reporting Standards. The key requirement in first time application is that, in general, the entity's accounting policies must comply with each IFRS applicable to the entity and effective at the

reporting date, and these IFRSs must be applied throughout all periods presented in the financial statements and in the opening IFRS statement of financial position.²⁰

For example, if an entity adopts IFRS for the year ending 30 June 2006, and it includes comparative information for one year (the minimum) then it is required to apply the IFRSs effective for periods ending on 30 June 2006 in preparing: (i) the opening IFRS statement of financial position as at 1 July 2004, (ii) its financial statements for the year ending 30 June 2006 and the comparatives for the year ending 30 June 2005, and (iii) each interim financial report, if any, prepared under IAS 34 Interim Financial Reports (for example, a half year report for the six months ended 31 December 2005 including comparatives for the six months ended 31 December 2004). Subject to certain exceptions, an entity in preparing its opening IFRS statement of financial position, must:

- recognise all assets and liabilities whose recognition is required by IFRS;
- not recognise items as assets or liabilities if IFRS do not permit such recognition (for example, internally generated brands);
- reclassify items that were classified using FRS as one type of asset, liability or component of equity, into the classification required under IFRS (for example, certain hybrid financial instruments); and
- apply IFRS in measuring all recognised assets and liabilities.

In preparing the opening IFRS statement of financial position, the effect of the adjustments made from the amounts determined under FRS previously applied, is taken directly to equity.

If users of financial reports are to become properly informed, on a timely basis, of the effects of adoption of IFRS it would obviously be desirable for reporting entities to disclose the expected effects of adoption. In Australia the AASB has issued AASB 1047 Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards which requires reporting entities to disclose, during the period leading to first time adoption of IFRS, information on the expected impacts of adoption of IFRS. The FRSB is developing a New Zealand standard equivalent to AASB 1047.

Transition to 2007

Early adoption

The consultations carried out by the ASRB/FRSB sub group indicated strong support for adopting IFRS. Some looked to the trend internationally to adopt IFRS. Others saw New Zealand as having little option but to follow Australia. Given the strong links to the Australian economy and the perception held by many overseas that Australia and New Zealand are a single block, continuing with New Zealand standards would place at risk the credibility of New Zealand financial reporting. Some were not convinced that adoption would actually lead to higher quality financial reporting.

However, objective comparison of the current set of New Zealand standards and the IASB stable platform set of standards shows that view as being difficult to sustain.

The proportion of reporting entities that will switch to NZ IFRS from 2005 is still uncertain. The consultations showed some support for adoption of IFRS from 2005. In a PricewaterhouseCoopers²¹ survey 54% of the respondents said that the requirement to adopt should be effective from 2005, 9% were in favour of 2007 and 37% gave no response. The consultations indicated that early adopters would be likely to be cross listed, have significant subsidiaries in Australia or Europe, or themselves be subsidiaries of a parent based in Australia or Europe. However, there was also indication that some entities might elect to adopt early as a means of signalling high quality financial reporting.

In recent years a growing body of empirical research has accumulated that aims to explain why firms might adopt US or IASB GAAP in substitution for their national GAAP.²² The research indicates that foreign linkages and size are key factors in the decision. The present authors have a study underway that endeavours to explain early adoption choice in New Zealand. This line of research can be regarded as a subset of the research initiated in papers such as La Porta et al.²³ that look at protection for investors – law and enforcement – and governance structures as a system of mutually reinforcing elements and of which accounting standards are a part.

Future standard setting structure

The adoption of IFRS will require a reconsideration of the roles of the FRSB and ASRB. The FRSB, together with the national standard setters of Australia, Canada, France, Germany, Japan, UK and the US, has a partner standard setter role working with the IASB. However, the FRSB's domestic standard setting role is virtually eliminated.

If entities do not fully comply with all international standards they cannot claim compliance with IFRS. This means that the ASRB is unlikely to refuse to approve an IFRS. What, therefore, is the remaining substantive role, if any, for the ASRB?

What will happen when full convergence with IFRS is achieved in 2007? Members of ICANZ might ask why do we need to support the FRSB from our membership fees? Why not simply adopt IFRS?

One possibility is that New Zealand will in future participate in a joint standard setting body with Australia. In that regard it is appropriate to note the establishment by the governments of Australia and New Zealand of a trans-Tasman Accounting Standards Advisory Group to work towards common trans-Tasman accounting standards. At this stage it is difficult to predict the likely outcome of this initiative.

Preparation for IFRS

The shift to IFRS will be a significant step for all entities. There will be a need to train staff in IFRS, review the accounting process, and modify information systems. Entities

will need to manage the relationship with interested external parties. Preparers and users of financial reports will need to be familiar with existing IFRS and keep informed of relevant developments from the IASB, the FRSB and ASRB. Useful steps to this end would be to monitor the agenda material on the IASB's website, read the monthly publication IASB Update, monitor the FRSB's material on the Institute's website, and read the FRSB Update and other standards related items published in the Chartered Accountants Journal.

If users of financial reports are to become properly informed of the likely financial reporting effects of adoption of IFRS it is desirable for reporting entities to disclose the expected timing and effects of adoption. In Australia the AASB has issued AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards*, which requires reporting entities to disclose, during the period leading to first time adoption of IFRS, information on the expected impacts of adoption of IFRS. The FRSB is developing a New Zealand standard equivalent to AASB 1047.

Conclusion

In moving to IFRS, New Zealand joins the set of more than 90 countries in which application of IFRS will be required or permitted by 2005. The impact of financial statements are likely to be numerous and significant. However, these changes can be kept in some perspective by recognising that the impact of IFRS is essentially one of timing. Given New Zealand's acceptance of harmonisation and convergence with the IASB's standards, the changes required by IFRS are very likely to have occurred anyway. That is, adoption now, just brings forward in time, by several years, the achievement of complete convergence with IFRS.

REFERENCES

1. The term 'IFRS' is used, in this paper, to refer to the standards and Framework issued by the International Accounting Standards Board (IASB). The standards comprise:
 - a. International Accounting Standards (IASs) (the standards inherited by the IASB from its predecessor body, the International Accounting Standards Committee (IASC) but in most cases revised by the IASB) and the interpretations of these standards (SICs) issued by the IASC's Standing Interpretations Committee;
 - b. International Financial Reporting Standards (the new standards developed and issued by the IASB), and the interpretations of these standards (IFRICs) issued by the IASB's International Financial Reporting Interpretations Committee.
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3. The IASC was established in 1973 and was restructured as the IASB in 2001.
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8. Hagen, J. and van Zijl, T., 2002, *Adoption of International Financial Reporting Standards*, *Chartered Accountants Journal*, November, 41.
9. While New Zealand FRS had in recent years been sector neutral, IFRS are developed for application by profit-oriented entities.
10. Accounting Standards Review Board, 2004, *Release 8: The Role of the ASRB and the Nature of Approved Financial Reporting Standards*.
11. http://www.icanz.co.nz/StaticContent/ags/Fin_Equi.cfm
12. Reporting entities are often categorised as being either private sector or public sector. However, that categorisation leaves uncertainty for not-for-profit entities. A clearer distinction therefore is between profit-oriented entities and public benefit entities, where the latter are reporting entities whose primary objective is to provide goods or services for a community or a social benefit and where any risk capital has been provided with a view to supporting that primary objective rather than for the financial return to equity shareholders. Most state sector entities, local authorities, and not-for-profit entities are public benefit entities.
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15. Ministry of Economic Development, 2004, *Review of the Financial Reporting Act 1993, Part I: The Financial Reporting Structure (June); Review of the Financial Reporting Act 1993 Part II (November)*.
16. International Accounting Standards Board, 2004, *Discussion Paper: Preliminary Views on Accounting Standards for Small and Medium-sized Entities*.
17. All the IASs included, other than IASs 12, 26 and 41, have been subject to significant review.
18. The excluded IASs are IAS 15 *Information Reflecting the Effects of Changing Prices*, IAS 22 *Business Combinations* and IAS 35 *Discontinuing Operations*. The IASB is not proposing to issue guidance on the topic of IAS 15. IAS 22 and IAS 35 have been superseded by IFRS 3 *Business Combinations* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* respectively.
19. van Zijl, T. and Walker, S., 2001, *The New Zealand Convergence Handbook*, Institute of Chartered Accountants of New Zealand, 174 pp.
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