



NZ ACCOUNTING  
STANDARDS  
BOARD

## **Amendments to the Scope of FRS-42**

This Standard was issued on 10 May 2018 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 7 June 2018.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in Part C.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to amend the scope of FRS-42 *Prospective Financial Statements* and align its requirements with the current statutory financial reporting environment.

## AMENDMENTS TO THE SCOPE OF FRS-42

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## Part A

### Introduction

This Standard amends the scope of FRS-42 *Prospective Financial Statements* so that it applies only to an entity that is required by legislation or regulation to present general purpose prospective financial statements in accordance with generally accepted accounting practice (GAAP). Most references to prospective financial information have also been removed as part of clarifying the scope of FRS-42.

The amendments also align the requirements in FRS-42 with the current statutory financial reporting environment and the mandate of the XRB/NZASB to issue standards for entities with a statutory obligation to prepare, or that opt under an enactment to prepare, general purpose financial reports in accordance with accounting standards issued by the XRB.

Minor editorial corrections have also been made to align the terminology with that used in NZ IFRS.

## Part B: Amendments to FRS-42 *Prospective Financial Statements*

### Scope

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This Standard applies to Tier 1 and Tier 2 for-profit entities.

The Introduction is amended. New text is underlined and deleted text is struck through.

### Main features of the Standard

FRS-42 applies where an entity is required, ~~or chooses,~~ by legislation or regulation to present general purpose prospective financial ~~statements information that comply with generally accepted accounting practice.~~ Entities applying the Standard are required to present a complete set of general purpose prospective financial statements for the reporting period for which interim or annual historical general purpose financial statements will subsequently be presented.

...

Paragraphs 1, 3 and 10 are amended, paragraph 3A is added and paragraphs 4, 5, 6, 7, 8 and 9 are deleted. Paragraph 1.1 is provided for context. New text is underlined and deleted text is struck through.

### Objective

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- 1 The objective of this Standard is to establish principles and specify minimum disclosures for entities that are required by legislation or regulation to present *general purpose prospective financial statements* (~~hereafter also referred to as “prospective financial statements”~~ ~~except where otherwise stated~~) in accordance with generally accepted accounting practice. ~~To provide users with high quality general purpose prospective financial information,~~ ~~†This Standard requires that an entity presenting general purpose prospective financial information~~ statements presents a complete set of prospective financial statements using the best information that could reasonably be expected to be available and which meet certain qualitative characteristics.

### Scope

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- 1.1 **This Standard applies only to Tier 1 and Tier 2 for-profit entities.**
- 2 [Deleted]
- 3 **An entity shall apply this Standard where it is required by legislation or regulation, ~~or chooses,~~ to present general purpose prospective financial statements in accordance with generally accepted accounting practice ~~information.~~**
- 3A An entity is encouraged to apply all the requirements in this Standard when it chooses, to present general purpose prospective financial statements.
- 4 ~~[Deleted]~~ General purpose prospective financial information includes, but is not limited to:
- (a) ~~prospective financial statements required to be published by public sector entities (for example, forecast financial statements of the Crown, forecast financial statements of government departments and Crown entities, and forecast financial statements in annual plans and long term council community plans of local authorities); and~~
- (b) ~~prospective financial statements published in a prospectus, investment statement, advertisement for an offer of securities or other similar documents, including prospective financial statements published in order to satisfy the requirements of securities legislation or regulations.~~
- 5 ~~[Deleted]~~ An entity shall apply the principles in this Standard to any prospective financial information published in conjunction with prospective financial statements.
- 6 ~~[Deleted]~~ Examples of prospective information to which this Standard does not apply include:

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- ~~(a) — special purpose prospective financial information;~~
- ~~(b) — prospective information expressed solely in general terms; and~~
- ~~(c) — prospective non financial information.~~

~~Nonetheless application of the principles and requirements of this Standard to prospective financial information outside the scope of this Standard is encouraged to the extent applicable.~~

7 ~~[Deleted] Special purpose prospective financial information is prepared for external users who are able to require, or contract for, the preparation of special reports to meet their specific information needs. It may be prepared in a form agreed to by the parties.~~

8 ~~[Deleted] Prospective information which is expressed solely in general terms includes qualitative statements about future prospects. Such statements are commonly found in:~~

- ~~(a) — management’s discussion and analysis within an entity’s financial report; and~~
- ~~(b) — commentary in statements of intent provided by government departments and Crown entities and in long term council community plans provided by local authorities.~~

~~However, the above information, where presented, should be consistent with any current published prospective financial statements.~~

9 ~~[Deleted] Prospective non financial information includes forward looking disclosures about an entity’s objectives, activities and performance targets. Non financial information is often provided because financial information alone is unlikely to meet all the needs of users. In the case of public sector entities, legislation may require the publication of prospective non financial information such as objectives, nature and scope of activities and performance targets in relation to objectives, outputs or outcomes. Where non financial and financial information is published together they should be consistent.~~

10 **An entity whose prospective financial statements comply with FRS-42 shall make an explicit and unreserved statement of such compliance in the notes. Prospective financial statements shall not be described as complying with FRS-42 unless they comply with all the requirements of FRS-42. An entity shall not describe prospective financial statements as complying with IFRSs. An entity wishing to assert that prospective financial statements comply with NZ-GAAP may assert compliance with FRS-42 and NZ-GAAP as it relates to prospective financial statements.**

...

Paragraphs 37, 38 and 40 are amended. New text is underlined and deleted text is struck through.
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...

37 The prospective ~~cash flow~~ statement of cash flows shall separately disclose major classes of gross cash receipts and gross cash payments arising from each of the following categories of cash flows, except to the extent that such cash flows are reported on a net basis, as permitted by the relevant standard:

- (a) ...

38 In the prospective statement of cash flows ~~statement~~:

- (a) ...

39 ...

40 Where an entity presents prospective financial information in addition to the information reported in the prospective financial statements, the relationship of that additional information to the information reported in the prospective financial statements shall be explained. For example, where an entity presents a prospective amount for earnings before interest, tax, depreciation and revaluation movements in addition to a prospective ~~income~~ statement of profit and loss and other comprehensive income that includes the minimum disclosures in paragraphs 31 to 33, the relationship of prospective earnings before interest, tax, depreciation and revaluation movements to the prospective profit or loss shall be explained. The explanation may be by way of reconciliation.

Paragraphs 45 and 46 are amended and paragraphs 42 and 43 are deleted. Paragraphs 41 and 44 are provided for context. New text is underlined and deleted text is struck through.

## Accounting policies

- 41** **Prospective financial statements shall be prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements.**
- 42 ~~[Deleted]Where an entity presents both parent entity and group financial statements for general purpose historical financial reporting, it should consider whether both parent entity and group prospective financial statements should be presented. Factors to consider include the purpose and relevance of the prospective financial statements and whether, in the absence of group prospective financial statements, the statements that are presented meet the qualitative characteristics set out in paragraphs 16 and 17 of this Standard.~~
- 43 ~~[Deleted]Where an entity presents prospective financial statements in respect of the reporting entity for general purpose financial reporting and/or a subset of that reporting entity, such as the borrowing group (as defined in the Securities Regulations 1983):~~
- ~~(a) the prospective financial statements for the reporting entity for which general purpose financial reports will subsequently be prepared shall be prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements;~~
  - ~~(b) the prospective financial statements for the sub-entity such as the borrowing group shall be prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements except where regulations otherwise require.~~

## Periods covered by prospective financial statements

- 44** **The reporting periods covered by prospective financial statements shall coincide with those for which interim or annual historical general purpose financial statements will subsequently be presented.**
- 45 When an entity presents historical general purpose financial statements for a period for which prospective financial statements have previously been presented, the comparative requirements in FRS-44 *New Zealand Additional Disclosures* (paragraphs 11.1 and 11.2) are relevant. Where legislation or regulation requires prospective financial ~~statements information~~ information to be prepared for a reporting period which differs from the period for which historical general purpose financial statements ~~or information~~ will subsequently be presented, an entity is compelled to comply with such legislation or regulation. However, in such cases the entity may be able to comply with both this Standard and the relevant legislation or regulation by presenting prospective financial ~~information statements~~ statements for the balance of the current reporting period and for the subsequent interim or annual reporting period.
- 46 The number of reporting periods covered by prospective financial statements may vary considerably depending on the relevant legal requirements and the purpose and objective for which the prospective financial statements are prepared. In general, the greater the number of future reporting periods included in prospective financial statements, the more unreliable and uncertain the prospective financial statements become. Entities should exercise caution about publishing prospective financial statements for periods beyond that required by legislation or regulation. ~~Entities publishing prospective financial statements, other than those required to publish prospective financial information by legislation or regulation, should exercise caution in presenting prospective financial statements for more than one reporting period.~~

Paragraphs 63 and 64 are deleted. New text is underlined and deleted text is struck through.

## Disclosure of accounting policies

...

- 63** ~~[Deleted]Where an entity publishes both parent entity and group financial statements for historical financial reporting purposes but does not publish group prospective financial statements, it shall disclose the reasons for not presenting group prospective financial statements.~~
- 64** ~~[Deleted]Where an entity publishes prospective financial statements in respect of a subset of a reporting entity in accordance with paragraph 43 it shall disclose:~~
- ~~(a) the reasons for presenting prospective financial statements for the subset; and~~

~~(b) whether the entity intends to publish historical financial statements for the subset of the reporting entity for the period or periods covered by the prospective financial statements.~~

...

Paragraph 71 is amended, paragraph 72G is added and the definition of general purpose prospective financial information in Appendix A is deleted. New text is underlined and deleted text is struck through.

71 Comparison of prospective financial statements with actual financial results is an essential element of accountability. In the case of ~~issuers~~ FMC reporting entities a comparison of actual financial results against the originally published statements is important because it provides users with a comparison of actual performance with the projected performance at the time the entity raised funds. Some entities provide long-term prospective financial statements which are updated annually, prior to the beginning of the year. In such cases a comparison of actual financial results with the most recent prospective financial statements published prior to the beginning of the period is generally relevant. Where information is revised during the course of a year, the reasons for revising the information and an explanation of the differences between the originally published prospective financial statements and the historical financial statements should be given.

## Effective date

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72 ...

72G Amendments to the Scope of FRS-42, issued in May 2018, amended paragraphs 1, 3, 10, 37, 38, 40, 45, 46 and 71, added paragraph 3A and deleted paragraphs 4–9, 42, 43, 63 and 64, and the definition of general purpose prospective financial information in Appendix A. An entity shall apply those amendments for prospective financial statements published on or after 1 January 2019. Earlier application is permitted.

## Appendix A Defined terms

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

<del>general purpose prospective financial information</del>	<del>One or more future-oriented financial statements prepared for external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs.</del>
<b>general purpose prospective financial statements</b>	Future-oriented financial statements prepared for external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs.



Paragraph BC1 is amended, headings are inserted above paragraphs BC1 and BC2 and paragraphs BC4–BC8 and the related heading are added. New text is underlined and deleted text is struck through.

## **NZASB Basis for Conclusions on FRS-42 *Prospective Financial Statements***

*This Basis for Conclusions accompanies, but is not part of, FRS-42.*

### **Introduction**

BC1 This Basis for Conclusions summarises the New Zealand Accounting Standards Board’s (NZASB’s) considerations in amending FRS-42 ~~in 2013~~.

### **2013 Amendments**

BC2 The NZASB noted that there was a conflict between the requirements of FRS-42 and the Securities Regulations 2009. In the case of an initial offering of equity securities by a public issuer, the Securities Regulations 2009 (Schedule 1, Clause 11) require the presentation of prospective financial statements for the balance of the current period, and the subsequent interim or annual accounting period. In contrast, FRS-42 required the presentation of prospective financial statements for the reporting period for which annual historical general purpose financial statements will subsequently be presented.

BC3 The NZASB considered that it would be desirable for the reporting period requirements in the Regulations and FRS-42 to be aligned. Having regard to the importance of comparisons between prospective and actual financial statements, the NZASB amended paragraph 44 of FRS-42 to permit the presentation of prospective financial statements for an interim period when an entity is proposing to present historical financial statements for that period. The NZASB considered that this amendment was consistent with the objectives of the Financial Reporting Standards Board (FRSB) when it originally developed FRS-42. The NZASB noted that the FRSB had sought to avoid unnecessary differences between the Securities Regulations and FRS-42, whilst highlighting the importance of being able to compare prospective financial statements with subsequent historical financial statements.

### **2018 Amendments to the Scope**

BC4 The NZASB reviewed and made changes to the scope of FRS-42 primarily due to changes in the regulatory environment (for example, the issuance of the Accounting Standards Framework and changes to regulations).

BC5 The NZASB was also made aware of issues arising with the scope of FRS-42. There was uncertainty about to which entities the Standard applies and the prospective financial information to which it applies.

BC6 The NZASB issued *Amendments to the Scope of FRS-42* in May 2018. This amending standard amended the scope of FRS-42 so that it applies to entities that are required by legislation or regulation to present general purpose prospective financial statements in accordance with generally accepted accounting practice (GAAP). This scope reflects the fact that the NZASB issues financial reporting standards for entities that have a statutory requirement to prepare GAAP-compliant financial statements.

BC7 Most references to prospective financial information were also removed as part of clarifying the scope of FRS-42.

BC8 The NZASB also took the opportunity to align the requirements in FRS-42 with the current statutory financial reporting environment by, for example, deleting public sector examples of prospective financial statements and by deleting requirements about parent entity and group prospective financial statements.

New italicised text is inserted after the first italicised sentence under the main heading. Paragraphs BC9–BC16 and the related heading are deleted. Deleted text is struck through and new text is underlined.

## **FRSB Basis for Conclusions on FRS-42: *Prospective Financial Statements***

*This Basis for Conclusions accompanies, but is not part of, FRS-42.*

*This Basis for Conclusions has not been revised by the NZASB, except for Paragraphs BC9–BC16 which have been deleted by the NZASB because they are no longer relevant. This also avoids the risk that they might be read out of context.*

### **Scope**

~~BC9–BC16 [Deleted by NZASB] The Standard is intended to provide guidance for all entities publishing general purpose prospective financial statements. It has been drafted in such a way that it can be applied by profit-oriented and public benefit entities<sup>2</sup> both prior to, and following, the application of New Zealand equivalents to International Financial Reporting Standards (IFRSs). For example, it acknowledges the existence of current legislative requirements governing the preparation of prospective financial statements by public sector entities and uses terminology appropriate for all entities. Following the adoption of IFRSs in New Zealand the FRSB agreed that the format of the Standard should be consistent with recent IFRSs. Paragraphs are numbered sequentially and have equal authority. Paragraphs in bold type state the main principles. Definitions are included in an appendix and are in italics the first time they appear in the Standard.~~

~~BC10 The Standard applies to entities that are required, or choose, to present general purpose prospective financial information. Although the regulations or legislation giving rise to the obligation to present general purpose prospective financial information may refer to one or more prospective financial statements, (for example, a prospective cash flow statement), entities applying the Standard are required to present a complete set of prospective financial statements. They are also required to apply the principles in the Standard to any prospective financial information published in conjunction with general purpose prospective financial statements. These requirements reflect the FRSB's resolution to promote best practice in general purpose prospective financial reporting. The FRSB does not consider that the presentation of a single prospective financial statement in the context of general purpose prospective financial reporting is best practice.~~

~~BC11 The FRSB noted that pro forma information, based on alternative scenarios, is often included in a prospectus and considered the application of the Standard to such pro forma information. For example, where an acquisition is expected to occur during the period, a prospectus may include both prospective financial statements based on the assumption that the acquisition takes place on the expected date and additional information based on the assumption that the projected acquisition will occur on alternative dates. Where such additional prospective pro forma information is published together with the types of general purpose prospective financial statements outlined in paragraph 4, it would fall within the scope of the Standard. However, the Standard does not apply to:~~

- ~~(a) verbal prospective financial information disclosures or earnings guidance published by a New Zealand Exchange Limited listed issuer;~~
- ~~(b) individual items of prospective financial information, such as sales forecasts published in an annual report; or~~
- ~~(c) historical pro forma statements.~~

~~BC13 Prior to issuing ED 103 the FRSB considered whether the scope of the Standard should encompass individual items of prospective financial information published as part of an annual or other report containing general purpose financial information. However, the FRSB noted that it would be difficult to clearly establish the type of information covered by the Standard and considered that such a change would represent a significant change in market practice and would lead to higher compliance costs.~~

~~BC14 Some respondents to ED 103 considered that the requirements of the Standard should also apply to items (a) and (b) in paragraph BC 12. One suggestion was that the Standard should require that such prospective financial information be extracted from prospective financial statements prepared in accordance with the Standard. The FRSB considered extending the scope of the Standard to cover prospective financial information extracted from prospective financial statements. The FRSB did not agree that it was appropriate~~

## AMENDMENTS TO THE SCOPE OF FRS-42

~~for it to extend the requirements of a financial reporting standard in this way but nevertheless considered that the requirements of the Standard could be applied more widely. For example, the FRSB considered that information extracted from prospective financial statements should be consistent with those prospective financial statements. The FRSB decided that the title of the Standard should be “Prospective Financial Statements” in order to more clearly signal the FRSB’s role in developing requirements for financial statements.~~

~~BC15 The Standard does not apply to special purpose prospective financial information (paragraph 6). That is, it does not apply to information prepared for external users who are able to require, or contract, for information to meet their special needs. Examples of prospective financial information prepared for special purposes include a cash flow forecast prepared for lenders and a pro forma consolidated financial report presented to a board to support a proposed acquisition.~~

~~BC16 The Standard does not apply to prospective information expressed solely in general terms (paragraph 6). Prospective information expressed solely in general terms includes:~~

~~(a) management’s discussion and analysis within an entity’s financial report; and~~

~~(b) commentary in statements of intent provided by government departments and Crown entities and in Long Term Council Community Plans provided by local authorities.~~

~~Although this discussion or commentary may include qualitative and quantitative statements regarding components of prospective financial statements, it does not fall within the scope of the Standard. Only prospective financial information presented on the face of a prospective financial statement or in the notes accompanying that statement falls within the scope of this Standard.~~

A new footnote is added to BC19. New text is underlined and the footnote is indicated by an asterisk.

### Qualitative characteristics

BC19 The FRSB agreed that the Standard should include a discussion of the four qualitative characteristics of understandability, relevance, reliability and comparability described in the New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements (NZ Framework)* and in the *Statement of Concepts for General Purpose Financial Reporting (Statement of Concepts)* and their applicability to prospective financial statements (paragraphs 16 and 17).<sup>\*</sup> This is based on the premise that the qualities of useful information for establishing financial reporting standards for historical financial statements are also applicable to prospective financial statements.

<sup>\*</sup> The references to the NZ Framework and the Statement of Concepts in this paragraph are to documents that were relevant at the time FRS-42 was first issued.

A new footnote is added to the heading References. New text is underlined and the footnote is indicated by an asterisk.

### References<sup>\*</sup>

<sup>\*</sup> This Appendix refers to documents that were relevant at the time FRS-42 was first issued. Some of these documents have since been superseded.

## **Part C**

### **Effective Date**

This Standard is effective for an entity's prospective financial statements published on or after 1 January 2019. Earlier application is permitted.