



Financial Reporting Standard No. 42

Prospective Financial Statements (FRS-42)

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CONTENTS

from paragraph

Introduction	
OBJECTIVE	1
SCOPE	1.1
GENERAL PRINCIPLES	12
Best information	13
Reasonable and supportable	14
Qualitative characteristics	16
ASSUMPTIONS	18
PROSPECTIVE FINANCIAL REPORTING	26
Components of prospective financial statements	28
Accounting policies	28E
Periods covered by prospective financial statements	28F
Principles of aggregation and disaggregation	28I
Offsetting	28M
Range for an individual item	28N
PRESENTATION	29
Prospective statement of financial position	29
Prospective statement of profit or loss	31
Prospective statement presenting comprehensive income	33
Prospective statement of changes in equity	34
Prospective statement of cash flows	37
DISCLOSURE	47
Disclosure of operations and activities	47
Disclosure of the purpose of prospective financial statements	48
Disclosure of the bases for assumptions, risks and uncertainties	49
Disclosure of accounting policies	60
Management-defined performance measures	64A
Disclosure of specific expenses classified in the operating category	64B
Other disclosures	65
Disclosure of reasons for revising prospective financial statements	69
Subsequent reporting	70
COMMENCEMENT AND APPLICATION	72
WITHDRAWAL OF FRS-29 (1996)	73
APPENDICES	
A Defined terms	
B Amendments to other standards	
C Guidance on the application of the principles of aggregation and disaggregation	
NZASB BASIS FOR CONCLUSIONS	
FRSB BASIS FOR CONCLUSIONS	
HISTORY OF AMENDMENTS	

Financial Reporting Standard No. 42 *Prospective Financial Statements* (FRS-42) is set out in paragraphs 1–73 and Appendices A, B and C. All the paragraphs have equal authority. Paragraphs in bold type state the main principles. 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-42 should be read in the context of its objective and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting 2010*. NZ IAS 8 *Basis of Preparation of Financial Statements* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

General purpose prospective (future oriented or forward looking) financial statements are based on assumptions about the future and other information, and thus relate to events and actions which have not yet occurred. Although evidence may be available to support the assumptions on which the general purpose prospective financial statements are based, such evidence is itself usually future oriented and therefore speculative in nature.

Given that anticipation of the future environment is associated with considerable uncertainty, the preparation of general purpose prospective financial statements requires the exercise of significant judgement.

General purpose prospective financial statements are less amenable to objective verification than historical data. When working with, or using, general purpose prospective financial statements, it is essential to understand their inherent limitations.

Main features of the Standard

FRS-42 applies where an entity is required, by legislation or regulation, to present general purpose prospective financial statements 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.

The Standard requires that an entity use the best information that could reasonably be expected to be available in determining the assumptions and other information used in the preparation of general purpose prospective financial statements. It also requires that the prospective financial statements be understandable, relevant, reliable and comparable and that the information in the prospective financial statements be reasonable and supportable.

The assumptions used must:

- (a) be based on the best information that could be reasonably expected to be available at the time prospective financial statements are prepared;
- (b) be consistent among themselves;
- (c) be consistent with the current plans of the entity to the extent that this is relevant;
- (d) be applied consistently; and
- (e) have a reasonable and supportable basis.

The Standard requires disclosure of:

- (a) the entity's operations and activities;
- (b) the purpose for which the prospective financial statements have been prepared;
- (c) significant assumptions;
- (d) any changes to the entity's existing business;
- (e) the bases on which the significant assumptions have been prepared, including the principal sources of information from which they have been derived;
- (f) the extent to which actual events and transactions have been reflected in the prospective financial statements;
- (g) the factors that may lead to a material difference between the prospective financial statements and the actual financial results presented in historical financial statements in future reporting periods;
- (h) the assumptions made in relation to those sources of uncertainty and the potential financial effect of the uncertainty on the prospective financial statements;
- (i) material accounting policy information; and
- (j) a cautionary note regarding possible variations in reported results.

The Standard is operative for an entity's prospective financial statements published on or after 1 June 2006. Earlier application is permitted.

Reduced Disclosure Regime

Tier 2 for-profit entities must comply with all the provisions in FRS-42.

Financial Reporting Standard 42

Prospective Financial Statements (FRS-42)

Objective

- 1 The objective of this Standard is to establish principles and specify minimum presentation and disclosure requirements for entities that are required by legislation or regulation to present *general purpose prospective financial statements* (also referred to as “*prospective financial statements*”) in accordance with generally accepted accounting practice. This Standard requires that an entity presenting general purpose prospective financial 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

- 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 to present general purpose prospective financial statements in accordance with generally accepted accounting practice.**
- 3A An entity is encouraged to apply all the requirements in this standard when it chooses to present general purpose prospective financial statements.
- 4–9 [Deleted]
- 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 IFRS Accounting Standards. An entity wishing to assert that prospective financial statements comply with GAAP may assert compliance with FRS-42 and GAAP as it relates to prospective financial statements.**
- 11 [Deleted]

General principles

- 12 Prospective financial statements prepared using the principle of best information that are reasonable and supportable and that meet the qualitative characteristics outlined in paragraphs 16 and 17 of this Standard are likely to be of a high quality and assist users in forming, revising or confirming their expectations about the future.

Best information

- 13 **An entity shall use the best information that could reasonably be expected to be available at the time prospective financial statements are prepared in determining the assumptions and information used in the preparation of the prospective financial statements.**

Reasonable and supportable

- 14 **The information in prospective financial statements shall be reasonable and supportable and faithfully represent the assumptions and information on which the statements are based.**
- 15 The information in prospective financial statements is, by definition, uncertain and its preparation requires the exercise of judgement. Events and circumstances may not occur as expected or may not have been predicted. In addition, the entity may subsequently take actions which differ from the proposed courses of action on which the prospective financial statements are based. In seeking to demonstrate that the information in the prospective financial statements is reasonable and supportable, an entity considers whether:
- (a) the course of action reflected in the prospective financial statements represents the entity’s proposed course of action, or, where alternative scenarios are presented, that those scenarios are feasible;

- (b) it has a reasonable and supportable basis for the determination of assumptions underlying the prospective financial statements. Ways in which an entity can demonstrate that it has a reasonable and supportable basis for the assumptions underlying the prospective financial statements are discussed in paragraphs 20 and 21; and
- (c) it has used appropriate information.

Qualitative characteristics

- 16 **In order to meet the needs of users, prospective financial statements shall meet the qualitative characteristics outlined in the New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements*¹ (NZ Framework). Accordingly, the statements shall be understandable, relevant, reliable and comparable.**
- 17 In giving effect to the principle in paragraph 16, for prospective financial statements to be:
- (a) **understandable**—the information in the statements should be described, aggregated, classified and presented in a format and style that is able to be clearly understood by users. For prospective financial statements to be understandable, users will need sufficient information to be able to make judgements about the assumptions employed and the risks associated with those assumptions.
 - (b) **relevant**—the information in the statements should be capable of assisting users to make economic or other decisions by helping them evaluate present or future events or correct their past evaluations. For prospective financial statements to be relevant they must have predictive value and be able to be confirmed, or otherwise, in future periods.
 - (c) **reliable**—the information in the statements should be free from material calculation error, and unbiased. The reliability of prospective financial statements is affected by the appropriateness of the assumptions and the sources of uncertainty. Users should be able to assess the reliability of prospective financial statements and identify the factors that make the statements more or less reliable.
 - (d) **comparable**—the statements should measure and display like items, transactions and events in a consistent manner. Prospective financial statements should be capable of comparison with current and subsequent information about the actual financial performance of an entity based on consistent application of accounting policies, reporting periods and presentation.

Assumptions

- 18 **Assumptions shall be based on the best information that can reasonably be expected to be available to the entity, be consistent among themselves, be consistent with the current plans of the entity to the extent that this is relevant, and be applied consistently. An entity shall have a reasonable and supportable basis for the determination of assumptions underlying prospective financial statements.**
- 19 An assumption is a view taken about the future for the purpose of preparing prospective financial statements. Assumptions are taken as being true for the purpose of preparing prospective financial statements but could change later. An assumption is made where some facts are not yet known or decided. In preparing prospective financial statements an entity generally needs to make assumptions regarding economic and business conditions and proposed courses of action. For example, an entity may assume that the nature of its operations and principal activities for the period of the prospective financial statements will be consistent with the operations and activities outlined in certain plans and strategies of the entity. Information used in the preparation of prospective financial statements may include the current plans and strategies of the entity, some of which may be published, market surveys, industry statistics, economic and other indicators or specialised studies.
- 20 A reasonable and supportable basis for an assumption may be the past performance of the entity itself, the performance of similar entities, feasibility or other studies that provide objective corroboration, and the prevailing economic or operating environment. The extent of detailed information supporting each assumption and an assessment of the degree of certainty associated with each assumption will vary according to circumstances, and will be influenced by factors such as the significance of the assumption and the

¹ In February 2011 the NZ *Framework for the Preparation and Presentation of Financial Statements* was replaced with the equivalent to the IASB *Conceptual Framework for Financial Reporting (Conceptual Framework)*. The qualitative characteristic of reliability in the old *Framework* is the same as the qualitative characteristic of faithful representation in the *Conceptual Framework*. In May 2018, the NZASB issued *New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework)*, which became effective on 1 January 2020. The qualitative characteristic of faithful representation in the 2018 NZ *Conceptual Framework* is the same as described in the *Conceptual Framework*.

availability and quality of the supporting information. The degree of reliability of assumptions is enhanced by the following:

- (a) the robustness of the process to develop assumptions;
- (b) use of an independent third party to review assumptions;
- (c) use of specialist skills to develop assumptions;
- (d) consistency with an entity's documented strategies and plans;
- (e) documented analysis of related risks in relation to future actions and events;
- (f) ensuring that information is complete and free from material calculation error;
- (g) comparability with past performance of the entity and other similar entities; and
- (h) basing assumptions on information presented in market surveys, industry statistics, economic and other indicators or specialised studies.

21 Where prospective financial statements present information on activities that have no track record and that are not subject to considerable management control and discretion, it is more difficult to establish that there is a reasonable and supportable basis for the assumptions. Ways in which an entity preparing prospective financial statements in a start-up situation can demonstrate a reasonable and supportable basis for the assumptions include:

- (a) thorough research of the market opportunities and pilot testing;
- (b) use of a model that has been used for similar entities or activities and which is reviewed and updated;
- (c) detailed analysis by area of activity (for example, goods and services by market, product line or geography and cost by function);
- (d) management plans that are consistent with the estimates;
- (e) non-financial indicators of future financial results;
- (f) external market surveys, general economic indicators and views of people knowledgeable in the field of activity that are consistent with the estimates; and
- (g) involvement of people with appropriate experience and expertise across the full range of the entity's activities.

22 Assumptions are frequently interdependent. An assumption may affect many items within prospective financial statements and lead to the formulation of other assumptions. Where assumptions are interdependent, the treatment of the interdependent assumptions in prospective financial statements should be consistent. For example, an entity may have a capital project that will need to be funded during the period of the prospective financial statements. As such, assumptions will be required about the source of the funding and the interest rates related to the funding. It may also be necessary to make assumptions about the related increase in depreciation charges.

23 Application of the principle of best information and the manner in which an entity demonstrates that it has a reasonable and supportable basis for assumptions will depend on the circumstances in which an entity prepares prospective financial statements. Prospective financial statements reflect an entity's assumptions regarding its proposed courses of action for the period of the prospective financial statements. An entity may propose to continue its current operations and activities, make some changes to its current operations and activities, or engage in one or more alternative scenarios.

- (a) To the extent that an entity intends to continue its current operations and activities for the period of the prospective financial statements, application of the best information principle requires that the assumptions and information used in the preparation of the prospective financial statements be based on and consistent with the assumptions in the entity's current plans and strategies, updated as appropriate for more recent information forecasts of economic and business conditions.
- (b) Where the nature of an entity's operations and its principal activities are expected to change significantly over the period of the prospective financial statements, the assumptions will need to reflect these changes. Application of the best information principle in these circumstances requires that the assumptions and information used in the preparation of the prospective financial statements reflect the entity's proposed course(s) of action, including any alternative scenarios, and the risks and uncertainties that inevitably surround many of the events and circumstances associated with those actions or scenarios. In such circumstances the assumptions and information used in the prospective financial statements may be consistent with those in the entity's current plans and strategies, but only to the extent that those assumptions and information are relevant to the entity's planned actions or alternative scenarios. The quality of such prospective financial statements is enhanced if they are

supported by an analysis of the entity's current business and the way in which that business is expected to change under the proposed course of action, including any alternative scenarios.

- 24 Assumptions can range from being reasonably certain to very uncertain. The degree of certainty relating to a particular assumption depends on many things, including the following:
- (a) the time period the assumption relates to – the degree of uncertainty normally increases with the length of the future period covered;
 - (b) the complexity of the entity and the degree to which it is affected by external conditions;
 - (c) the stability of the entity and the ability of the entity to predict future events. For example, an entity commencing operations or venturing into a new direction is likely to have more difficulty predicting future events than an entity which has been operating for a number of years in the same business or environment;
 - (d) the degree of control the entity has over its future operating environment;
 - (e) the nature and length of the entity's operating cycle; and
 - (f) the number of variables associated with the assumption.
- 25 Full disclosure of significant assumptions is essential in order for users to determine the extent to which they wish to rely on the information in prospective financial statements. Users require information about the assumptions used so they can make an informed judgement on the degree of reliability of the information in the prospective financial statements. Users also require information which assists them in assessing the sensitivity of information in prospective financial statements to changes in assumptions and the extent to which they are subject to a high degree of uncertainty.

Prospective financial reporting

- 26 **An entity shall present and disclose material information in the prospective financial statements to enable users of those statements to evaluate the entity's financial prospects and to assess actual financial results prepared in future reporting periods against the prospective financial statements.**
- 27 [Deleted]

Components of prospective financial statements

- 28 **An entity shall present a complete set of prospective financial statements, which comprises:**
- (a) **a prospective statement of financial position;**
 - (b) **a prospective statement (or statements) of financial performance;**
 - (c) **a prospective statement of changes in equity;**
 - (d) **a prospective statement of cash flows; and**
 - (e) **notes for the prospective reporting period.**
- 28A An entity shall present its prospective statement(s) of financial performance as either:
- (a) a single prospective statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections – if this option is chosen, an entity shall present the profit or loss section first followed directly by the other comprehensive income section; or
 - (b) a prospective statement of profit or loss and a separate prospective statement presenting comprehensive income that shall begin with profit or loss – if this option is chosen, the prospective statement of profit or loss shall immediately precede the prospective statement presenting comprehensive income.
- 28B In this Standard:
- (a) the profit or loss section described in paragraph 28A(a) and the prospective statement of profit or loss described in paragraph 28A(b) are referred to as the prospective statement of profit or loss; and
 - (b) the other comprehensive income section described in paragraph 28A(a) and the prospective statement presenting comprehensive income described in paragraph 28A(b) are referred to as the prospective statement presenting comprehensive income.
- 28C The role of the statements listed in paragraph 28(a)–(d) is to provide structured summaries of an entity's prospective assets, liabilities, equity, income, expenses and cash flows, that are useful to users of the prospective financial statements for:

- (a) obtaining an understandable overview of the entity's prospective assets, liabilities, equity, income, expenses and cash flows;
- (b) making comparisons with actual financial results prepared in future reporting periods; and
- (c) identifying items or areas about which users of the prospective financial statements may wish to seek additional information in the notes.

28D The role of the notes is to provide material information necessary:

- (a) to enable users of the prospective financial statements to understand the line items presented in the statements listed in paragraph 28(a)–(d); and
- (b) to supplement those statements with additional information to achieve the objective of prospective financial statements in paragraph 26.

Accounting policies

28E 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.

Periods covered by prospective financial statements

28F 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.

28G 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 to be prepared for a reporting period which differs from the period for which historical general purpose financial statements 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 statements for the balance of the current reporting period and for the subsequent interim or annual reporting period.

28H 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.

Principles of aggregation and disaggregation

28I For the purposes of this Standard, an item is an asset, liability, equity instrument or reserve, income, expense or cash flow or any aggregation or disaggregation of such assets, liabilities, equity, income, expenses or cash flows. A line item is an item that is presented separately in the statements listed in paragraph 28(a)–(d). Other material information is disclosed in the notes. An entity shall (see paragraphs C1–C8):

- (a) classify and aggregate assets, liabilities, equity, income, expenses or cash flows into items based on shared characteristics;
- (b) disaggregate items based on characteristics that are not shared;
- (c) aggregate or disaggregate items to present line items in the statements listed in paragraph 28(a)–(d) that fulfils the role of those statements (see paragraph 28C);
- (d) aggregate or disaggregate items to disclose information in the notes that fulfils the role of the notes (see paragraph 28D); and
- (e) ensure that aggregation and disaggregation in the financial statements do not obscure material information.

28J Applying the principles in paragraph 28I, an entity shall disaggregate items whenever the resulting information is material. If, applying paragraph 28I(c), an entity does not present material information in the statements listed in paragraph 28(a)–(d), it shall disclose the information in the notes.

28K An entity shall label and describe items presented or disclosed in the prospective financial statements in a way that faithfully represents the characteristics of the item (see paragraphs C9–C11). To faithfully represent an

item, an entity shall provide all descriptions and explanations necessary for a user of the prospective financial statements to understand the item. In some cases, an entity might need to include in the descriptions and explanations the meaning of the terms the entity uses and information about how it has aggregated or disaggregated assets, liabilities, equity, income, expenses and cash flows.

- 28L Subject to paragraphs 28I–28K, an entity shall consider the requirements in paragraphs 75, 89 and 103 of NZ IFRS 18 when presenting line items in the statements listed in paragraph 28(a)–(d).

Offsetting

- 28M Consistent with paragraphs 44 and 45 of NZ IFRS 18, an entity shall not offset assets and liabilities or income and expenses in the prospective financial statements, unless required or permitted by an NZ IFRS.

Range for an individual item

- 28N Additional disclosures may be used to provide information on the possible range for an individual item. When a range is used the band shall not be so broad as to render the information meaningless to users and the assumptions used shall be clearly linked to the upper and lower limits of the range. Where prospective financial information has a high level of uncertainty associated with it, a range is more likely to provide useful information.

Presentation

Prospective statement of financial position

- 29 [Deleted]
- 29A An entity shall present its assets and liabilities in the prospective statement of financial position in line with the method of presentation that is expected to be adopted in its historical financial statements of the same reporting period – that is, using:
- (a) a current/non-current classification;
 - (b) a presentation based on liquidity; or
 - (c) a mix of the methods in (a) and (b).
- 29B In addition to the information required by paragraph 29A, an entity shall present in the prospective statement of financial position:
- (a) issued capital and reserves attributable to owners of the parent; and
 - (b) non-controlling interests.
- 30 [Deleted]

Prospective statement of profit or loss

- 31 [Deleted]
- 31A An entity shall classify income and expenses included in the prospective statement of profit or loss in one of the following categories, in accordance with the requirements in paragraphs 47–68 of NZ IFRS 18:
- (a) the operating category;
 - (b) the investing category;
 - (c) the financing category;
 - (d) the income taxes category; and
 - (e) the discontinued operations category.
- 31B For the purposes of applying paragraph 31A, an entity shall assess whether it expects to invest in assets or provide financing to customers as a main business activity for the period of the prospective financial statements, in accordance with the requirements in paragraph 49 of NZ IFRS 18.
- 31C At a minimum, an entity shall present the following totals and subtotals in the prospective statement of profit or loss for:
- (a) operating profit or loss;

- (b) profit or loss before financing and income taxes; and
 - (c) profit or loss.
- 31D In the operating category of the prospective statement of profit or loss, an entity shall classify and present expenses in line items using one or both of these characteristics:
- (a) the nature of expenses; or
 - (b) the function of the expenses within the entity.

32 [Deleted]

Prospective statement presenting comprehensive income

33 [Deleted]

33A An entity shall classify income and expenses included in the prospective statement presenting comprehensive income in one of two categories:

- (a) income and expenses that will be reclassified to profit or loss when specific conditions are met; and
- (b) income and expenses that will not be reclassified to profit or loss.

33B An entity shall present in the prospective statement presenting comprehensive income, totals for:

- (a) profit or loss;
- (b) other comprehensive income; and
- (c) comprehensive income, being the total of (a) and (b).

33C An entity shall present an allocation of prospective comprehensive income for the reporting period, attributable to:

- (a) non-controlling interests; and
- (b) owners of the parent.

Prospective statement of changes in equity

34 When an entity applies NZ IFRS, as a minimum the prospective statement of changes in equity shall separately disclose:

- (a) total comprehensive income for the period showing separately the total amounts attributable to owners of the parent and to non-controlling interest;
- (b) the amounts of transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners; and
- (c) total equity and each component of equity.

35–36 [Deleted]

Prospective statement of cash flows

37 The prospective statement of cash flows shall separately present 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) cash flows from operating activities;
- (b) cash flows from investing activities; and
- (c) cash flows from financing activities.

38 In the prospective statement of cash flows:

- (a) cash flows from interest and dividends received and paid shall each be presented separately. Each shall be classified in a consistent manner from period to period in accordance with NZ IAS 7 *Statement of Cash Flows*;
- (b) cash flows arising from taxes on income shall be separately presented and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities;

- (c) the aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units shall be presented separately and classified as investing activities; and
- (d) the net increase or decrease in cash and cash equivalents shall be separately presented.

39-46 [Deleted]

Disclosure

Disclosure of operations and activities

- 47 **An entity shall disclose the following, if not disclosed elsewhere in information published with the prospective financial statements:**
- (a) a description of the nature of the entity's current operations and its principal activities, including whether the entity currently invests in assets and/or provides financing to customers as a main business activity; and
 - (b) a description of the nature of the entity's operations and its principal activities for the period of the prospective financial statements, including whether the entity expects to invest in assets and/or provide financing to customers as a main business activity.

Disclosure of the purpose of prospective financial statements

- 48 **When prospective financial statements are presented, the purpose for which they have been prepared shall be disclosed together with a caution that the information in those statements may not be appropriate for purposes other than those described.**

Disclosure of bases for assumptions, risks and uncertainties

- 49 **Prospective financial statements shall contain the information necessary for a user to appreciate the degree of uncertainty attaching to the information in those statements and the impact of that uncertainty.**

50 The requirement that prospective financial statements contain the information necessary for a user to appreciate the degree of uncertainty attaching to the information in those statements and the impact of that uncertainty requires the disclosure of assumptions, the risks associated with those assumptions, and other matters and information which are of importance to users' understanding of the prospective financial statements. Disclosure of the risks surrounding assumptions and the potential impact of a change in an assumption on the prospective financial statements enables users to assess the degree of uncertainty inherent in the information in the prospective financial statements and the reliance they wish to place on the information in those statements. Such disclosure reduces the possibility that unwarranted credibility may be attached to the information. In forming a judgement on what constitutes reasonable disclosure, an entity will need to take into consideration:

- (a) sources of uncertainty and the assumptions made relating to uncertainties;
- (b) the factors that will affect whether assumptions will be borne out in practice; and
- (c) alternative results, being the consequences of assumptions not being borne out.

- 51 **All significant assumptions underlying prospective financial statements shall be disclosed separately and clearly identified in a manner that makes their significance understandable to users. Where possible, assumptions shall be quantified.**

52 A significant assumption is one that materially affects one or more financial estimates. One way of highlighting the significance of assumptions is to rank assumptions in order of importance in relation to their impact on the prospective financial statements. For example, the most significant risks may be uncertainty regarding the level of demand for a new product, exposure to future price changes (inflation), exposure to movements in foreign currency exchange rates or interest rates, and increased demand for services caused by shifts in population growth. If the level of expected demand for the new product is the most important assumption it should be disclosed as such and the risk of demand being significantly less than assumed should be disclosed as a key risk.

- 53 **Where prospective financial statements are not based on the entity's existing business, this fact shall be disclosed together with a description of the changes proposed.**

54 Where prospective financial statements reflect planned actions or alternative scenarios that do not represent the entity's existing business, this fact shall be disclosed to enable users to understand the nature of the changes proposed and the possible future direction that the business may take.

55 **An entity shall disclose:**

- (a) **the bases on which the significant assumptions have been prepared, including the principal sources of information from which they have been derived;**
- (b) **the extent to which actual events and transactions have been reflected in the prospective financial statements;**
- (c) **the factors that may lead to a material difference between information in the prospective financial statements and the actual financial results prepared in future reporting periods; and**
- (d) **the assumptions made in relation to those sources of uncertainty and the potential financial effect of the uncertainty on the prospective financial statements.**

56 The purpose of disclosure of the bases for the assumptions is to provide users with information to determine the extent to which they can rely on the information in the prospective financial statements. Disclosure about the bases of the preparation of the significant assumptions may include discussion of the process used to develop assumptions, including the use of documents such as plans, surveys and reports. The factors outlined in paragraph 20 and, where applicable, paragraph 21, are examples of items that could have formed the bases of assumptions.

57 Items disclosed as the bases for the assumptions should be described in specific rather than general terms. For example, reference to an expert's report should include the name of the report and the author and the date of the report. As another example, reference to an entity's business or marketing plan should include the date on which it was approved by the entity and the period that it covers.

58 Examples of factors that may lead to a material difference between prospective financial statements and actual financial results include macroeconomic exposures, political changes, market volatility, competitor action and risks associated with the entity's own processes for producing goods and services. One way in which information on the effect of such uncertainties on prospective financial statements may be presented is a sensitivity analysis. Where a sensitivity analysis using positive or optimistic variables is presented, it should generally be accompanied by a corresponding analysis based on negative or pessimistic variables.

59 **Prospective financial statements shall include a cautionary note to the effect that actual financial results achieved for the period covered are likely to vary from the information presented, and that the variations may be material.**

Disclosure of accounting policies

60 **Material accounting policy information used in preparing prospective financial statements shall be disclosed in accordance with NZ IAS 8 *Basis of Preparation of Financial Statements*.**

61 **Where prospective financial statements give effect to a change in accounting policy, this change shall be disclosed, including the reason for the change and its effect on the prospective financial statements.**

62 The changes in accounting policies referred to in paragraph 61 include changes from the accounting policies used in the prior period historical general purpose financial statements and changes from the accounting policies used in prior period prospective financial statements where prospective financial statements are presented for more than one year.

63–64 [Deleted]

Management-defined performance measures

64A **If an entity expects to disclose information about one or more management-defined performance measures as part of its financial results that will subsequently be prepared for the period covered by the prospective financial statements, it shall disclose:**

- (a) **a description of the aspect of financial performance that, in management's view, will be communicated by the management-defined performance measure. This description shall include explanations of why, in management's view, the management-defined performance measure will provide useful information about the entity's performance.**
- (b) **how the management-defined performance measure is calculated; and**

- (c) a reconciliation between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 31C.

Disclosure of specific expenses classified in the operating category

- 64B An entity that presents one or more line items comprising expenses classified by function in the operating category of the prospective statement of profit or loss (see paragraph 31D) shall also disclose the total for each of:
- (a) depreciation;
 - (b) amortisation;
 - (c) employee benefits;
 - (d) impairment losses and reversals of impairment losses; and
 - (e) write-downs and reversals of write-downs of inventories.
- 64C Paragraph 28E requires an entity to disaggregate items to provide material information. However, an entity that applies paragraph 64B is exempt from disclosing disaggregated information about the amounts of nature expenses included in each function line item beyond the amounts specified in paragraph 64B.

Other disclosures

- 65 When an entity presents prospective financial statements, it shall disclose:
- (a) the date when the prospective financial statements were authorised for issue and who authorised the issue of the prospective financial statements;
 - (b) a statement that the person or body that authorised the issue of the prospective financial statements by the entity is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures;
 - (c) the extent to which actual financial results are incorporated and the period covered by those results; and
 - (d) whether or not it is intended to update the prospective financial statements subsequent to presentation and, if so, when.
- 66 The process involved in authorising the prospective financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the prospective financial statements. It is important for users to know when the prospective financial statements were authorised for issue because this is the date of adoption of the underlying assumptions. The prospective financial statements do not reflect events or knowledge obtained after this date.
- 67 The authorising body is responsible for ensuring that the entity has a robust process for developing assumptions and that the assumptions developed are appropriate in the circumstances. The responsibility of the authorising body extends beyond ensuring that individual assumptions used to prepare the prospective financial statements are appropriate in the circumstances, to ensuring that the assumptions taken as a whole are appropriate and that there is adequate disclosure of all significant risks.
- 68 Disclosure of the date of adoption of the underlying assumptions alerts users to the possibility that events occurring subsequent to this date may affect the usefulness of the information presented. Disclosure of the extent to which actual financial results are incorporated and the period covered by those results provides an indication of the degree of reliability that can be attached to the information in the prospective financial statements. Further disclosure of whether or not it is intended to update the prospective financial statements subsequent to presentation may alert the user to the extent of the intention to communicate such updated information.

Disclosure of reasons for revising prospective financial statements

- 69 Where revised prospective financial statements are issued, the following shall be disclosed:
- (a) the reasons for revising the prospective financial statements;
 - (b) an explanation of the changes made to the prospective financial statements most recently issued, including a reconciliation of material differences between the previously reported prospective financial statements and the revised prospective financial statements; and
 - (c) the date as at which the statements were revised.

Subsequent reporting

- 70 Where an entity has published prospective financial statements that are within the scope of this Standard the entity is required, in accordance with FRS-44, to present a comparison of the prospective financial statements with the actual financial results when reported. Explanations for material variations shall be given.
- 71 Comparison of prospective financial statements with actual financial results is an essential element of accountability. In the case of 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.

Commencement and application

- 72 This Standard becomes operative for an entity's prospective financial statements published on or after 1 June 2006. Earlier application is permitted.
- 72A NZ IAS 1 (as revised in 2007) amended the terminology used throughout New Zealand equivalents to IFRSs. In addition, it amended paragraphs 31, 33, 34 and 45 and deleted paragraph 35 of this Standard. An entity applying New Zealand equivalents to IFRSs shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies NZ IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.²
- 72B The *Omnibus Amendments* (2009-1) amended paragraph 10. An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. Early application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.
- 72C *Presentation of Items of Other Comprehensive Income* (Amendments to NZ IAS 1), issued in August 2011, amended paragraphs 28(b), and 31–33 and added paragraph 2.1. An entity shall apply those amendments when it applies NZ IAS 1 as amended in August 2011.³
- 72D *Framework: Tier 1 and Tier 2 For-profit Entities*, issued in November 2012, amended extant NZ IFRSs by deleting any public benefit entity paragraphs, deleting any differential reporting concessions, adding scope paragraphs for Tier 1 and Tier 2 for-profit entities and adding disclosure concessions for Tier 2 entities. It made no changes to the requirements for Tier 1 entities. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 December 2012. Early application is permitted.
- 72E *Amendments to Prospective Financial Statements* (Amendments to FRS-42), issued in August 2013, amended paragraphs 44 and 45. An entity shall apply those amendments for interim or annual periods beginning on or after 1 January 2014. Earlier application is permitted.

² In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

³ In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

- 72F *Amendments to Accounting Standards: Omnibus Amendments (Legislative Update)*, issued in February 2014, amended paragraphs 4(b), 43 and 71. An entity shall apply those amendments for annual periods beginning on or after 1 April 2014. Earlier application is not permitted.
- 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.
- 72H *Disclosure of Accounting Policies*, which amends NZ IAS 1 and was issued in March 2021, amended paragraphs 28 and 60. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.⁴
- 72I NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraphs 10 and 60. An entity shall apply those amendments when it applies NZ IFRS 18.

Amendments to For-Profit Domestic Accounting Standards due to NZ IFRS 18

- 72J *Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18*, issued in August 2025, amended paragraphs 1, 26, 28, 37, 38, 47, 60 and Appendix A, added paragraphs 28A–28N, 29A, 29B, 31A–31D, 33A–33C, 64A–64C and C1–C11 and deleted paragraphs 27, 29–33, 39–41 and 44–46. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs 72K–72M. An entity that applies this amending Standard to an ‘early adoption accounting period’ shall disclose that fact in the notes to the prospective financial statements.

When the amending Standard takes effect (section 27 Financial Reporting Act 2013)

- 72K This amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019⁵.

Accounting period in relation to which the amending Standard commences to apply (section 28 Financial Reporting Act)

- 72L The accounting periods in relation to which this amending Standard commences to apply are:
- (a) for an **early adopter**, those accounting periods following and including, the **early adoption accounting period**.
 - (b) for any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

- 72M In paragraph 72L:

early adopter means a reporting entity that applies this amending Standard for an early adoption accounting period

early adoption accounting period means an accounting period of the early adopter:

- (a) that begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and
- (b) for which the early adopter:
 - (i) first applies this amending Standard in preparing its prospective financial statements;
 - (ii) discloses in its prospective financial statements for that accounting period that this amending Standard has been applied for that period; and
 - (iii) will apply NZ IFRS 18 *Presentation and Disclosure in Financial Statements* for its financial statements in the next accounting period.

mandatory date means 1 January 2027.

⁴ In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

⁵ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 28 August 2025 and takes effect on 25 September 2025.

Withdrawal of FRS-29 (1996)

73 This Standard supersedes FRS-29 *Prospective Financial Information* (issued 1996).

Appendix A

Defined terms

This Appendix is an integral part of the Standard.

In this Standard, terms have the same meaning as in the relevant Standards applied in the preparation of historical general purpose financial statements.

general purpose prospective financial statements	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.
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Appendix B

Amendments to other standards

The amendments in this appendix shall be applied for prospective financial statements published on or after 1 June 2006. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

The amendments contained in this appendix have been incorporated into the relevant pronouncements.

Appendix C

Guidance on the application of the principles of aggregation and disaggregation

This Appendix is an integral part of the Standard.

Process of aggregation and disaggregation

- C1 Financial statements (including prospective financial statements) result from entities processing, or expecting to process, large numbers of transactions and other events. These transactions and other events give rise to assets, liabilities, equity, income, expenses and cash flows.
- C2 To apply the requirements in paragraph 28I, an entity shall aggregate items based on shared characteristics (that is, aggregate items that have similar characteristics) and disaggregate items based on characteristics that are not shared (that is, disaggregate items that have dissimilar characteristics). In doing so, an entity shall:
- (a) identify the assets, liabilities, equity, income, expenses and cash flows that arise from individual transactions or other events;
 - (b) classify and aggregate assets, liabilities, equity, income, expenses and cash flows into items based on their characteristics (for example, their nature, their function, their measurement basis or another characteristic) so as to result in the presentation of line items in the statements listed in paragraph 28(a)–(d) and disclosure in the notes of items that have at least one similar characteristic; and
 - (c) disaggregate items based on dissimilar characteristics:
 - (i) in the statements listed in paragraph 28(a)–(d), as necessary to provide useful structured summaries (as described in paragraph 28C); and
 - (ii) in the notes, as necessary to provide material information (as described in paragraph 28D).
- C3 An entity may apply the steps in paragraphs C2(a)–C2(c) in varying order to apply the principles of aggregation and disaggregation in paragraph 28I.

Basis of aggregation and disaggregation

- C4 Paragraphs C1–C3 explain that an entity uses its judgement to aggregate and disaggregate assets, liabilities, equity, income, expenses and cash flows from individual transactions and other events based on similar and dissimilar characteristics. Paragraphs B78 and B110 in NZ IFRS 18 set out examples of characteristics an entity considers in making its judgements.
- C5 The more similar the characteristics of assets, liabilities, equity, income, expenses and cash flows are, the more likely it is that aggregating them will fulfil the role of the primary financial statements (that is, to provide useful structured summaries as described in paragraph 28C) or the notes (that is, to provide material information as described in paragraph 28D). The more dissimilar the characteristics of assets, liabilities, equity, income, expenses and cash flows are, the more likely it is that disaggregating the items will fulfil the roles of the primary financial statements or the notes.
- C6 The items aggregated and presented as line items shall have at least one similar characteristic other than meeting the definition of assets, liabilities, equity, income, expenses or cash flows. However, because the role of the statements listed in paragraph 28(a)–(d) is to provide useful structured summaries, line items are also likely to aggregate items that have sufficiently dissimilar characteristics that information about the disaggregated items is material.
- C7 Applying paragraph 28I, an entity shall disaggregate items that have dissimilar characteristics when the resulting information is material. A single dissimilar characteristic could result in information about disaggregated items being material.
- C8 For example, an entity might present in the prospective statement of financial position financial assets that comprise equity investments and debt investments separately from non-financial assets. The financial assets have dissimilar characteristics because they have different measurement bases—some are measured at fair value through profit or loss and others at amortised cost. The entity might therefore determine that to provide a useful structured summary it is necessary to present line items that disaggregate the financial assets based on those measurement bases. That disaggregation results in a line item comprising equity investments and debt investments measured at fair value through profit or loss and a line item comprising debt investments measured at amortised cost. Because equity investments are dissimilar to debt investments in that each exposes

the entity to different risks, the entity would assess whether further disaggregation in the statement of financial position of financial assets measured at fair value through profit or loss into equity investments and debt investments is needed to provide a useful structured summary. If not, and if the resulting information were material, the entity would need to disclose in the notes the equity investments separately from the debt investments. In addition if, for example, the equity investments had other dissimilar characteristics, the entity would be required to disaggregate further those equity investments in the notes if the resulting information were material.

Description of items

- C9 Paragraph 28K requires an entity to label and describe items presented or disclosed in a way that faithfully represents the characteristics of the item. Such items will often be aggregations of items arising from individual transactions or other events and could vary in whether they are aggregations of items for which information is material and items for which information is immaterial. Specifically:
- (a) an item for which information is material could be aggregated with other items for which information is also material—an entity might provide such an aggregation to summarise information but would also be required to disclose information about each item;
 - (b) an item for which information is material could be aggregated with items for which information is not material—an entity would be required to provide information about disaggregated items only if immaterial information obscured the material information; or
 - (c) an item for which information is not material could be aggregated with other items for which information is not material—an entity might provide such an aggregation to complete a list of items and would not be required to disclose information about disaggregated items, subject to paragraph C11(b).
- C10 An entity shall label items presented or disclosed as ‘other’ only if it cannot find a more informative label. Examples of how an entity might find a more informative label are:
- (a) if an item for which information is material is aggregated with items for which information is not material, finding a label that describes the item for which information is material; and
 - (b) if items for which information is not material are aggregated:
 - (i) aggregating items that share similar characteristics and describing them in a way that faithfully represents the similar characteristics; or
 - (ii) aggregating items with other items that do not share similar characteristics and describing them in a way that faithfully represents the dissimilar characteristics of the items.
- C11 If an entity cannot find a more informative label than ‘other’:
- (a) for any aggregation—the entity shall use a label that describes the aggregated item as precisely as possible, for example, ‘other operating expenses’ or ‘other finance expenses’.
 - (b) for an aggregation comprising only items for which information is not material—the entity shall consider whether the aggregated amount is sufficiently large that users of financial statements might reasonably question whether it includes items for which information could be material. If so, information to resolve that question is material information. Accordingly, in such cases, the entity shall disclose further information about the amount—for example:
 - (i) an explanation that no items for which information would be material are included in the amount; or
 - (ii) an explanation that the amount comprises several items for which information would not be material, with an indication of the nature and amount of the largest item.

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.

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.

Amendments to For-profit Domestic Accounting Standards Due to NZ IFRS 18

BC9 The NZASB issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024. As a consequence, the NZASB reviewed and made amendments to the requirements of FRS-42 to ensure presentation and disclosure in prospective financial statements is consistent with the presentation and disclosure requirements applicable to historical general purpose financial statements. Paragraphs BC10–BC16 set out the NZASB's decisions relating to certain key changes to FRS-42.

BC10 The NZASB considered the objective of prospective financial statements, as set out in paragraph 26. The NZASB noted that NZ IFRS 18 states that only material information needs to be presented or disclosed in

general purpose financial statements. Therefore, the NZASB amended paragraph 26 to state explicitly that the entity shall present and disclose material information in the prospective financial statements to enable users of those statements to evaluate the entity's financial prospects and to assess actual financial results prepared in future reporting periods against the prospective financial statements.

Principles of aggregation and disaggregation (paragraphs 28C, 28D and 28I–28L)

- BC11 NZ IFRS 18 provides principles and guidance on:
- (a) the roles of the primary financial statements⁶ and the notes – for the purposes of determining whether to present material information in the primary financial statements or disclose it in the notes; and
 - (b) the aggregation and disaggregation of information, to ensure an appropriate level of detail is provided in general purpose financial statements.
- BC12 To ensure the objective in paragraph 26 is met – specifically relating to a user's ability to assess actual financial results prepared in future reporting periods against the prospective financial statements – the NZASB decided to incorporate the abovementioned principles and guidance into FRS-42 for the purposes of presenting and disclosing material prospective information.
- BC13 As a consequence of the decision noted in paragraph BC12, the requirement in paragraph 31 to present specific line items within the prospective statement of profit or loss has been removed, as the NZASB considered that the new principles will ensure material line items will be presented, with the appropriate level of aggregation and disaggregation, to fulfil the objective of the prospective financial statements. However, to provide entities with guidance around the types of line items that may be appropriate to present, the NZASB decided to require entities to consider specified line items listed in NZ IFRS 18, subject to the aggregation and disaggregation principles in paragraphs 28I–28K (see paragraph 28L).

Management-defined performance measures (paragraph 64A)

- BC14 The NZASB considered whether, and to what extent, the disclosure requirements relating to management-defined performance measures in NZ IFRS 18 should be incorporated into FRS-42. The NZASB decided that when an entity expects to disclose information about one or more management-defined performance measures as part of its actual financial results that will subsequently be prepared for the period covered by the prospective financial statements, the entity should also disclose the same type of information about these measures in the prospective financial statements. Doing so will enable the entity to meet the objective in paragraph 26 of enabling users to assess actual financial results prepared in future reporting periods against the prospective financial statements. However, the NZASB decided to limit the extent of required disclosure as follows:
- (a) an entity need not disclose the income tax effect (nor how this effect was determined) and the effect on non-controlling interests for each item disclosed in the reconciliation required in paragraph 64A(c). The NZASB did not consider this level of detail necessary in order to meet the objective in paragraph 26.
 - (b) the disclosure requirements relating to a change, addition or cessation (and its effects) would not be relevant in the context of prospective financial statements, as an entity is only required to disclose information on those management-defined performance measures for which it expects to provide information in the actual financial results subsequently prepared for the period covered by the prospective financial statements.
- BC15 The NZASB decided to remove paragraph 40, which required an entity to explain the relationship between prospective financial information presented in addition to the information reported in the prospective financial statements. The example provided in paragraph 40 related to the presentation of a prospective amount for earnings before interest, tax, depreciation and revaluation movements. Where such a subtotal is a management-defined performance measure which the entity intends to communicate in the actual financial results subsequently prepared for the period covered by the prospective financial statements, paragraph 64A already requires certain disclosures, rendering paragraph 40 redundant.
- BC16 The NZASB considered whether paragraph 40 should be retained to require additional explanations for prospective financial information which may not be a management-defined performance measure under NZ IFRS 18. However, the NZASB decided against this, as this would result in broader disclosures in the prospective financial statements which would not be required in the historical financial statements when prepared in line with NZ IFRS 18, which would go against the objective of allowing the users to assess actual financial results prepared in future reporting periods against the prospective financial statements.

⁶ NZ IFRS 18 defines 'primary financial statements' as the statement(s) of financial performance, the statement of financial position, the statement of changes in equity and the statement of cash flows. The NZASB decided not to introduce this term into FRS-42, to reduce complexity.

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

CONTENTS

	<i>from paragraph</i>
INTRODUCTION	BC1
BACKGROUND	BC2
INTERNATIONAL HARMONISATION	BC6
BEST INFORMATION	BC17
REASONABLE AND SUPPORTABLE	BC18
QUALITATIVE CHARACTERISTICS	BC19
FORECASTS AND PROJECTIONS	BC25
ASSUMPTIONS UNDERLYING PROSPECTIVE FINANCIAL INFORMATION	BC30
PRESENTATION OF PROSPECTIVE FINANCIAL STATEMENTS	BC37
PERIODS COVERED BY PROSPECTIVE FINANCIAL STATEMENTS	BC43
DISCLOSURE OF BASES OF ASSUMPTIONS, RISKS AND UNCERTAINTIES	BC47
SUBSEQUENT REPORTING	BC51
REFERENCES	

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.

Introduction

BC1 This Basis for Conclusions summarises the Financial Reporting Standards Board’s (FRSB) considerations in reaching its conclusions on FRS-42: *Prospective Financial Statements* in 2005. Individual FRSB members gave greater weight to some factors than to others.

Background

BC2 In March 2004 the FRSB agreed that a detailed review of FRS-29: *Prospective Financial Information* (FRS-29) (issued 1996) should be carried out with a view to improving the Standard in light of:

- (a) issues arising from an enquiry by the Securities Commission into Vertex Group Holdings Limited. As a result of the issues raised in this enquiry the review had the objective of eliminating uncertainty regarding the distinction between projections and forecasts; and
- (b) concerns raised by the Office of the Controller and Auditor-General about the appropriateness of some of the requirements and commentary in that Standard for public sector entities – in particular local authorities – preparing forecast financial statements in accordance with new legislative requirements.

BC3 In 2003 the FRSB proposed limited changes to FRS-29 to clarify:

- (a) the distinction between a forecast and a projection; and
- (b) the position where prospective financial information is part projection and part forecast.

The proposed amendments to the definition of “A projection” were exposed for comment on 23 July 2003, with a comment date ending on 15 September 2003. However, the FRSB subsequently decided that the adoption of New Zealand equivalents to IFRSs and changes to requirements for public sector entities justified a broader review of the Standard, and did not proceed with these limited amendments.

BC4 ED 103 *Prospective Financial Information*, which proposed a revision of FRS-29, was issued in May 2005 with a response date of 16 August 2005. Nine responses were received. In order to obtain feedback from a wider range of constituents the FRSB also sought additional feedback from constituents that had not submitted a formal response to ED 103.

BC5 The main issues raised in the context of this review, the FRSB’s proposals in ED 103, respondents’ comments and the conclusions reached in finalising FRS-42 are summarised in the following paragraphs.

International harmonisation

BC6 In developing the Standard the FRSB noted the desirability of harmonising with other international guidance dealing with prospective financial information. At the time of developing the Standard no jurisdiction other than Canada had issued a financial reporting standard that established requirements in respect of prospective financial information. However, a range of guidance including international audit guidance and guidance for directors was considered (refer References for a list of guidance considered in the review).

BC7 Some respondents to ED 103 expressed concerns about proceeding with a Standard based on ED 103. These respondents proposed deferring the development of a new Standard to allow for a review of existing Securities legislation and regulations and stressed the desirability of aligning New Zealand’s securities regulations with those of Australia. The FRSB decided to proceed with issuing a Standard based on ED 103. In making this decision the FRSB:

- (a) noted that the majority of respondents supported the FRSB’s proposals to revise FRS-29;
- (b) noted the imminent need for guidance for local authorities required to prepare forecast financial statements;

- (c) noted the practical difficulties faced by entities preparing information under FRS-29; and
- (d) agreed that although harmonisation of Securities legislation and regulations with Australia may be highly desirable, it is likely to take some time. The FRSB noted that Australia does not currently have a financial reporting standard on prospective financial statements. Current Australian guidance on prospective financial information has been issued by the securities regulator and is different in nature to a financial reporting standard.

BC8 As noted above, the FRSB considers that trans-Tasman harmonisation of financial reporting requirements for prospective financial reporting is highly desirable. The FRSB notes that the Securities Commission also shares this view. The FRSB has therefore actively sought to interest other parties in developing a trans-Tasman standard on prospective financial reporting. Current legislative differences would make it difficult to achieve complete harmonisation but possible legislative change following the forthcoming trans-Tasman mutual recognition of offers of securities may assist this process. The FRSB considers that FRS-42 would provide a good starting point for the development of harmonised requirements. In an effort to promote a harmonised standard on prospective financial reporting the FRSB has contacted or consulted the Australian Accounting Standards Board (AASB), the Australian Securities and Investment Commission (ASIC) and the Trans-Tasman Accounting Standards Advisory Group. The FRSB will continue to work with these parties and the Securities Commission with a view to developing a harmonised Standard in the future.

BC9—BC16 [Deleted by NZASB]

Best information

BC17 Based on feedback from respondents, the FRSB included an additional principle of best information. This principle requires that an entity use the best information that could reasonably be expected to be available at the time prospective financial statements are prepared in determining the assumptions and other information used in the preparation of the prospective financial statements. Although the information in prospective financial statements is inherently uncertain, the FRSB considered that users are entitled to prospective financial statements that are based on the best information that could reasonably be expected to be available to the entity. This principle applies regardless of whether the prospective financial statements reflect current activities or changes to an entity's business, including alternative scenarios. The FRSB considered that application of the principle of best information was likely to result in prospective financial statements that meet the four qualitative characteristics.

Reasonable and supportable

BC18 FRS-42 requires that the information in prospective financial statements be reasonable and supportable and faithfully represent the assumptions and information on which the statements are based. This requirement was not in ED 103. The FRSB considered that this requirement was a logical extension of the requirement that assumptions be reasonable and supportable. In considering this proposal the FRSB noted a concern that had been expressed during the development of ED 103 that it would be difficult for entities in start-up mode or presenting alternative scenarios to be able to meet such a requirement. New Zealand's securities legislation differs from that of many other jurisdictions in that New Zealand entities can seek funds from the public prior to having established operations, that is, without any historical information on which to base the prospective financial information. The FRSB addressed this concern by explicitly acknowledging in the Standard that the information in prospective financial statements is subject to uncertainty, particularly where an entity is changing the nature of its operations or presenting alternative scenarios. The FRSB considered that even in such circumstances entities should be mindful of whether the outcomes reflected in the prospective financial statements are feasible.

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).⁷ This is based on the premise that

⁷ 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.

the qualities of useful information for establishing financial reporting standards for historical financial statements are also applicable to prospective financial statements.

Understandability

- BC20 The understandability of prospective financial statements is largely determined by the clarity of the disclosures and the way in which information in such statements is presented. Users need sufficient information to enable them to make judgements about the assumptions employed and the risks associated with those assumptions. The Standard (paragraph 55) therefore requires disclosure of:
- (a) the bases on which the significant assumptions have been prepared, including the principal sources of information from which they have been derived;
 - (b) the extent to which actual events and transactions have been reflected in the prospective financial statements;
 - (c) the factors that may lead to a material difference between information in the prospective financial statements and the actual financial results prepared in future reporting periods; and
 - (d) the assumptions made in relation to those sources of uncertainty and the potential financial effect of the uncertainty on the prospective financial statements.
- BC21 In an attempt to make prospective financial statements more understandable the Standard requires that significant assumptions be presented in a manner that makes their significance understandable to users and notes that ranking is one way of doing this.

Relevance

- BC22 The Standard states that for prospective financial statements to be “relevant” the statements should be capable of assisting users to make economic or other decisions by helping them evaluate present or future events or correct their past evaluations. To be relevant, prospective financial statements must be provided in a timely manner and be able to be confirmed in future periods. In considering the attributes applicable to relevant prospective financial statements the FRSB agreed that prospective financial statements have value for assessing actual financial results prepared in future reporting periods.

Reliability⁸

- BC23 The information in prospective financial statements is inherently uncertain. It cannot be reliable in the sense that historical financial statements are reliable. The description of reliability in the Standard (paragraph 17) is based on the requirements of the NZ *Framework* and the *Statement of Concepts*. The disclosures required by paragraph 55 are intended to allow users to assess the degree of reliability of information in prospective financial statements, including the quality of the assumptions on which the information is based.

Comparability

- BC24 Prospective financial statements should be capable of comparison with current and subsequent information about the actual financial performance of an entity based on consistent application of accounting policies, reporting periods and presentation. Prospective financial statements should be capable of being retrospectively validated. The Standard therefore requires that prospective financial statements be prepared in accordance with the accounting policies expected to be used in the future and for the usual reporting period of the entity (paragraphs 41 and 44).

Forecasts and projections

- BC25 FRS-29 differentiated between forecasts and projections as follows:

⁸ In February 2011 the NZ *Framework for the Preparation and Presentation of Financial Statements* was replaced with the equivalent to the IASB *Conceptual Framework for Financial Reporting (Conceptual Framework)*. The qualitative characteristic of reliability in the old *Framework* is the same as the qualitative characteristic of faithful representation in the *Conceptual Framework*. In May 2018, the NZASB issued *New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework)*, which became effective on 1 January 2020. The qualitative characteristic of faithful representation in the *2018 NZ Conceptual Framework* is the same as described in the *Conceptual Framework*.

“A forecast” means prospective financial information prepared on the basis of assumptions as to future events that the governing body reasonably expects to occur associated with the actions the governing body reasonably expects to take as at the date that the information is prepared (best-estimate assumptions).

“A projection” means prospective financial information prepared on the basis of one or more hypothetical but realistic assumptions (or “what-if” scenarios), that reflect possible courses of action for the reporting periods concerned as at the date that the information is prepared.

BC26 The FRSB noted that these definitions had been the subject of some uncertainty. In an attempt to remove this uncertainty, in June 2003 the FRSB proposed limited changes to FRS-29 to clarify:

- (a) the distinction between a forecast and a projection; and
- (b) the position where prospective financial information is part projection and part forecast.

BC27 These changes were deferred pending a more detailed review of the Standard. As part of the more detailed review the FRSB reconsidered the usefulness of the distinction between forecasts and projections. In the course of its deliberations the FRSB:

- (a) noted that although a number of international documents refer to forecasts and projections, the distinction between the two is not consistent between jurisdictions. Prospective financial information may be information based on best estimates or reasonable grounds, commonly referred to as forecasts, or assumptions relating to possible alternative outcomes, commonly referred to as projections. It may also be based on a mixture of the two. The term forecast usually implies that there is reasonable assurance as to the expected operations in the forecast period and there is a reasonable degree of control over the nature and extent of those operations. A projection is subject to more uncertainty than a forecast because the quality of the evidence and assumptions available to support it may be less reliable. Some international guidance distinguishes between forecasts that preparers confidently expect to meet and other prospective financial information. However, not all jurisdictions address the issue of how to label information which includes a mix of best-estimate information and hypothetical assumptions. Nor do the international pronouncements require prospective financial information to be clearly labelled as either a projection or a forecast;
- (b) considered the relevant requirements in Australia, in the context of trans-Tasman harmonisation. Guidance published by the Australian Securities and Investments Commission (ASIC) PS 170 Prospective Financial Information (PS 170) states that prospective financial information should not be included in a disclosure document if there are no reasonable grounds for it. PS 170 states that prospective financial information supported only by hypothetical assumptions does not, by itself, establish reasonable grounds for prospective financial information in a disclosure document (PS 170.21). The FRSB noted that this position is consistent with Australian securities legislation and regulations (see section 728(2) and Practice Note [PN 67.2]). ASIC has stated that it considers that best practice would be to refrain from including projections in a disclosure document where:
 - (i) the company is in the start-up phase;
 - (ii) the company will substantially change its operations following the capital raising; and
 - (iii) the company’s present activities constitute research and development of products and the development is not significantly advanced so as to warrant a reasonable expectation that the products will be commercialised.

By contrast, New Zealand entities in start-up phase are required to comply with the Securities Regulations 1983. Given the differences between the Australian and New Zealand legislative requirements, the opportunities for harmonisation are constrained;

- (c) noted that most of the international material is in the form of guidance for auditors or directors or guidelines issued by securities regulators rather than financial reporting standards. The one jurisdiction that has established financial reporting requirements, Canada, does not address the issue of prospective information which is a mix of best-estimate information and hypothetical assumptions;
- (d) noted criticism of the distinction between forecasts and projections voiced by the International Capital Markets Group (ICMG), a co-operative venture of the International Federation of Accountants, the Section on Business Law of the International Bar Association and the International Federation of Stock Exchanges (as reported in ICAEW, 2000). In 1998, the ICMG reported the results of an extensive survey of capital market participants and published the results in “Prospective Financial Information: An international perspective on the types, purposes and limitations of Prospective Financial Information”. The ICMG noted that:

“...many respondents ... felt that making distinctions between the component parts of PFI served only to complicate further the issue and there was not general support for this distinction. Even respondents who recognised the intended distinction between forecasts and projections felt that it was not generally

understood. While a technical definition of these terms can be provided, the user of PFI may not be willing to investigate the nuances of such a difference, and it sometimes may not even be necessary.

The lack of a clear dividing line between the two terms “projection” and “forecast” can lead to uncertainty and a degree of inconsistency, especially in borderline cases. However, generally respondents felt that the distinction seemed to be of little relevance as, in both cases, the potential user of the information is basing an investment decision on highly subjective information.”; and

- (e) expressed concerns that requiring all entities to clearly label prospective financial information as either a forecast or a projection would lead to the majority of such information being labelled as a projection. The FRSB considered that if this occurred it would result in less useful information for users of prospective financial statements.
- BC28 The FRSB also considered the comments of those who supported a distinction between forecasts and projections. Those who expressed this view considered that:
- (a) the fact that the terms are used in various international pronouncements should be considered in the context of international harmonisation;
 - (b) there is no research which specifically addresses the impact of removing the distinction on prospective financial information and the assessments of users;
 - (c) the labelling of prospective financial information as forecasts or projections provides useful signals to users as to the reliability of the information and is helpful from an enforcement perspective; and
 - (d) if the distinction is removed, in the absence of more specific guidance, entities may continue to use such terms to convey the nature of prospective financial information to users.
- BC29 After consideration of the matters outlined above, and after having regard to the available international material, the FRSB decided not to require entities to distinguish between a forecast and a projection in prospective financial statements. The FRSB considered that the Standard should require information to be disclosed about the degree of uncertainty associated with prospective financial statements (paragraphs 49 to 59). This includes an explanation of the risks that actual performance as reflected in historical financial statements may differ from prospective financial statements, and an assessment of the impact of such variations on the financial statements (for example, sensitivity analysis).

Assumptions underlying prospective financial information

- BC30 In view of the decision to remove the distinction between forecasts and projections the FRSB decided that the main focus of the Standard should be on the formation of assumptions and the appropriate degree of disclosure required to ensure that information in prospective financial statements is reliable and useful. The Standard states that “Assumptions shall be based on the best information that can reasonably be expected to be available to the entity, be consistent among themselves, be consistent with the current plans of the entity to the extent that this is relevant, and be applied consistently. An entity shall have a reasonable and supportable basis for the determination of assumptions underlying prospective financial statements.” (paragraph 18).
- BC31 The Standard acknowledges that application of the principle of best information and the manner in which an entity demonstrates that it has a reasonable and supportable basis for assumptions will depend on the circumstances (paragraphs 19 to 23). The FRSB considered that where assumptions are uncertain, for example, where they relate to alternative possible scenarios, the entity can help users assess the degree of uncertainty by providing information on the potential range of values and the central estimate for the item. However, difficulties could arise in circumstances such as the following:
- (a) an entity may be in a start-up phase;
 - (b) an entity may substantially change its operations;
 - (c) an entity may be reliant on research and development which is not sufficiently advanced to warrant a reasonable expectation that products will be commercialised;
 - (d) the information in the prospective financial statements indicates a return significantly higher than industry competitors;
 - (e) the prospective financial statements cover a long period of time; and
 - (f) the information in the prospective financial statements relates to possible alternative scenarios.
- BC32 The FRSB questioned whether it would be possible for assumptions to be considered to have a reasonable and supportable basis in such circumstances. The FRSB acknowledges that entities in a start-up phase will have more difficulty in meeting this requirement. Because some entities in start-up phase will be required to prepare prospective financial information in accordance with securities regulations the Standard includes guidance on

how an entity in start-up phase can demonstrate a reasonable and supportable basis for assumptions. In other circumstances an entity will need to consider whether the information in the prospective financial statements meets the criterion of understandability. Application of the requirement that assumptions have a reasonable and supportable basis may lead to less prospective financial information being published than occurred under FRS-29.

- BC33 Users need to know the nature of the uncertainties that will affect an entity over the period of the prospective financial statements and to understand the potential impact on the prospective financial statements if assumptions are not borne out in practice.
- BC34 The FRSB noted that in some circumstances prospective financial statements may be based on assumptions that are not expected to occur, or where an entity is unsure as to which set of assumptions best reflects what will happen in the future. For example, the prospective financial statements may be based on the assumption that an acquisition will occur at the beginning of the period, when the acquisition is expected to occur at some later, but unknown date. It could be argued that such information does not have a reasonable and supportable basis. However, the FRSB considered that where such prospective financial information is presented to assist users in understanding prospective financial statements based on expected events, the purpose of the information is highlighted and the assumptions are clearly disclosed, the requirement that the information have a reasonable and supportable basis would be satisfied.
- BC35 Assumptions should not be misleading. Assumptions may frequently be interdependent and lead to the formation of other assumptions. It is important that assumptions do not overlap or result in conflicting outcomes. Where assumptions are interdependent, the treatment of the interdependent assumptions in the prospective financial statements should be consistent.
- BC36 Assumptions should be relevant and only assumptions which materially affect the prospective financial statements or would be of specific significance to users should be disclosed. Preparers should avoid duplication and inclusion of irrelevant assumptions.

Presentation of prospective financial statements

- BC37 The FRSB noted that the Office of the Controller and Auditor-General had sought clarification of the requirements in FRS-29 regarding the format of prospective financial information. The requirement in FRS-29 to present prospective financial information in the format expected to be used in the future for reporting historical information did not specify whether prospective financial information was to be presented for both a parent entity and a group if the historical financial information was presented in this manner. The FRSB considered whether this issue should be specifically addressed in this Standard. The FRSB noted that the Local Government Act 2002 requires forecast financial statements for the local authority parent entity and permits forecast financial statements for entities under the local authority's control, which would include group financial statements of the local authority. Long-term council community plans are required to cover a 10-year period and the inclusion of group prospective financial statements for the mainly profit-oriented subsidiaries can pose practicality and commercial sensitivity concerns. There are also differing views on the relevance of group prospective financial statements in a local authority context where the primary focus of users is on the proposed level of future rates. In view of this, the FRSB decided that preparers shall determine the format and content of prospective financial statements. Factors that preparers should consider include the purpose for which the prospective financial information is prepared, its relevance and whether, in the absence of an entity's group prospective financial statements, the prospective financial statements as presented meet the qualitative characteristics. The FRSB also agreed that where an entity publishes both parent entity and group financial statements for historical financial reporting purposes but does not publish group prospective financial statements, the reasons for not publishing group prospective financial statements shall be disclosed.
- BC38 The FRSB considered several issues relating to presentation of prospective financial statements, including:
- (a) whether the Standard should encourage or require entities to present a full set of prospective financial statements; and
 - (b) the level of detail required as a minimum to be shown in prospective financial statements.
- BC39 In ED 103, the FRSB proposed to encourage, but not require, entities to present a complete set of prospective financial statements. The FRSB had noted in ED 103 that:
- (a) legislative and regulatory requirements varied. For example, securities regulations required only a cash flow statement but many public sector entities are required by legislation to prepare prospective financial statements; and
 - (b) as a minimum, FRS-29 required entities to prepare a statement of prospective financial performance (referred to in the current Standard as an income statement) and a statement of accounting policies.

The FRSB considered that, as an individual statement, a prospective income statement was of limited usefulness. Rather than requiring any one prospective financial statement to be presented, the FRSB proposed in ED 103 to encourage all entities to present a complete set of prospective financial statements.

- BC40 However, the FRSB re-considered this issue based on submissions to ED 103. As a result, the FRSB agreed to require entities to present a complete set of prospective financial statements. In coming to this decision, the FRSB noted that:
- (a) a fundamental change in the Standard from FRS-29 is the requirement for prospective financial information to meet the same qualitative characteristics as historical financial information. This indicates that the same quality information and the same complete set of financial statements should be required to present historical and prospective financial information. More importantly, the FRSB agreed that an entity is able to meet the necessary qualitative characteristics only if a complete set of statements, rather than one or more individual statements, is disclosed;
 - (b) requiring individual prospective financial statements (for example, the requirement in FRS-29 for a prospective income statement or the requirement in securities regulations for a prospective statement of cash flows) was of limited usefulness. The FRSB considered that each prospective financial statement provides different but complementary information about the entity and only a complete set of prospective financial statements can give users a full picture of the future prospects of the entity; and
 - (c) entities, in drawing up prospective financial statements, will invariably need to consider aspects of all the statements whether one or all statements are published, as information in the statements is interrelated. It is therefore not unduly onerous for the information to be disclosed, compared to the benefits of disclosing the information to users.
- BC41 As far as the level of detail required to be shown in prospective financial statements was concerned, and after due deliberation, the FRSB decided that a requirement to comply with all the disclosure requirements in NZ IAS 1 *Presentation of Financial Statements*⁹ and other presentation standards would be too onerous. However, the FRSB also decided that some additional disclosures over and above those required by FRS-29 were appropriate to meet the objective of high quality financial reporting. For example, the FRSB increased the level of disclosure required in respect of income statements and cash flow statements.
- BC42 FRS-42, paragraph 32, requires that all entities present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity. This requirement mirrors that in NZ IAS 1¹⁰ in respect of general purpose historical financial statements. From 2007 all entities will be required to comply with NZ IAS 1. The FRSB initially proposed (ED 103 paragraph 27) that only public benefit entities be required to present an analysis of expenses. However, following consideration of comments by respondents, the FRSB decided that an entity preparing prospective financial statements should be required to present information on expenses in a manner consistent with that required in its historical financial statements.

Periods covered by prospective financial statements

- BC43 Three issues were identified as being important in relation to periods covered by prospective financial statements. These were:
- (a) the length of the reporting period, for example, quarterly, six monthly or annually;
 - (b) consistency of the reporting period with the usual annual reporting period of the entity; and
 - (c) the number of future reporting periods, for example, 2 years, 5 years or 10 years.
- BC44 The FRSB concluded that, except as otherwise required by legislation or regulations, the reporting period should be the same as for historical financial statements (paragraph 44). For example, if the company presented financial statements half yearly and annually then prospective financial statements could be presented half yearly and annually.¹¹

⁹ In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* which replaced NZ IAS 1 when it became mandatory on 1 January 2027. Amendments to FRS-42 due to NZ IFRS 18 are discussed in paragraphs BC9–BC16 in the NZASB’s Basis for Conclusions on FRS-42.

¹⁰ In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 which replaced NZ IAS 1 when it became mandatory on 1 January 2027. Amendments to FRS-42 due to NZ IFRS 18 are discussed in paragraphs BC9–BC16 in the NZASB’s Basis for Conclusions on FRS-42.

¹¹ In 2013 the New Zealand Accounting Standards Board (NZASB) amended paragraph 44 to permit an entity to present prospective financial statements in respect of a reporting period for which interim or annual historical general purpose financial statements will subsequently be presented. The NZASB’s reasons for amending paragraph 44 are set out in the NZASB’s Basis for Conclusions on FRS-42.

- BC45 The Standard requires that the reporting periods covered by prospective financial statements coincide with those for which annual historical general purpose financial statements will subsequently be presented (paragraph 44). ED 103 proposed that entities complying with legislation or regulation which requires prospective financial information to be prepared for a reporting period which differs from the usual reporting period of the entity, be permitted to prepare prospective financial information for only the period required by legislation or regulation. However, based on feedback from respondents, the FRSB agreed to require the use of a consistent reporting period. This requirement enhances comparability between prospective financial statements and subsequent historical financial statements. The FRSB noted that respondents referred to the emerging practice of seeking Securities Commission approval to present prospective financial information for the balance of the current reporting period and for the subsequent reporting period.
- BC46 The FRSB noted that, in general, the greater the time period covered by prospective financial statements, the more unreliable and uncertain the prospective financial statements would become. The FRSB noted that in some cases the number of periods required to be included in prospective financial statements is specified in legislation. In other situations the time period may be dependent on the circumstances and the associated risks. Factors affecting the time period include:
- (a) the operating cycle, for example in the case of a major construction project the time required to complete the project may dictate the period covered;
 - (b) the degree of reliability of the assumptions, for example, if an entity is introducing a new product the prospective period may be relatively short. Alternatively if the entity's business is owning property under long-term lease, a relatively long prospective period might be reasonable; and
 - (c) the needs of users, and/or legislative requirements, for example long-term council community plans are required for 10 years.

Disclosure of bases for assumptions, risks and uncertainties

- BC47 Disclosure of the assumptions underlying prospective financial statements were considered by the FRSB to be the most important factor in providing prospective financial information that would be consistent with the four qualitative characteristics (paragraphs 49 to 59). The main issues which were considered to be important in relation to the disclosure of assumptions were the following:
- (a) the bases on which the significant assumptions have been prepared, including the principal sources of information from which they have been derived;
 - (b) the extent to which actual events and transactions have been reflected in the prospective financial statements;
 - (c) the factors that may lead to a material difference between information in the prospective financial statements and the actual financial results prepared in future reporting periods; and
 - (d) the assumptions made in relation to those sources of uncertainty and the potential financial effect of the uncertainty on the prospective financial statements.
- BC48 The Standard notes that additional disclosures may be used to present information on the possible range for an individual item. Presenting prospective financial information as a range may reduce the risk that investors will place undue weight on it. However, a range must be small enough to give meaningful information about an entity's prospects. If a range is given, the link between the assumptions and the upper and lower ends of the range should be clear and a more favourable figure or fact should not be given undue prominence.
- BC49 The FRSB noted that as well as disclosure of the assumptions relating to prospective financial statements it would also be necessary to disclose the risks in relation to these assumptions and the likelihood that the results in the prospective financial statements might not be achieved. In general it was considered that assumptions and risks go hand in hand. The higher the degree of uncertainty surrounding an assumption the greater the risk that the information in the prospective financial statements would be unreliable or misleading.
- BC50 The FRSB considered that due to the risks and uncertainties relating to prospective financial statements it would be prudent to include a warning to readers regarding the predictive character of prospective financial statements and the risks in placing undue reliance on information in those statements.

Subsequent reporting

- BC51 The Standard notes that NZ IAS 1¹² and FRS-9 *Information to be Disclosed in Financial Statements* establish requirements for the comparison of prospective financial statements or information with historical statements or information. However, these standards do not specify whether the comparison is to be against the originally published information, the most recent information or some other information.
- BC52 The FRSB agreed that the Standard should highlight that comparisons of prospective financial statements with historical financial statements is important in demonstrating accountability – for a range of entities. The FRSB also noted that focusing on accountability will assist an entity to determine the most relevant information to provide as a comparative. Issuers should provide investors with a comparison of historical financial statements against the originally published prospective financial statements because the originally published statements were used to raise funds from the investors. The FRSB noted that public sector entities frequently prepare long-term prospective financial statements. In the case of a 10-year forecast a comparison with the originally published prospective financial statements may lose relevance after a year or so. The Standard suggests that a comparison with the most recent prospective financial statements published prior to the beginning of the period is relevant. However, legislation may also require a comparison with the originally published statements or information. Entities may provide additional comparatives if they wish.

¹² In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* which replaced NZ IAS 1 when it became mandatory on 1 January 2027. Amendments to FRS-42 due to NZ IFRS 18 are discussed in paragraphs BC9–BC16 in the NZASB’s Basis for Conclusions on FRS-42.

References¹³

ICAEW Guidance	Institute of Chartered Accountants in England and Wales, 2003, <i>Prospective Financial Information—Guidance for UK Directors</i>
ICAEW Guidance	Institute of Chartered Accountants in England and Wales, 2000, <i>Discussion Paper Prospective Financial Information—Challenging the Assumptions</i>
AUS 804	Auditing and Assurance Standards Board of the Australian Accounting Research Foundation, revised 2002, <i>Auditing Standard AUS 804—The Audit of Prospective Financial Information</i>
AGS 1062	Auditing and Assurance Standards Board of the Australian Accounting Research Foundation, 2002, <i>Auditing and Assurance Guidance Statement AGS 1062—Reporting in Connection with Proposed Fundraisings</i>
CICA AuG 6	Canadian Institute of Chartered Accountants, 1989, <i>Assurance and Related Services Guideline—The Examination of a Financial Forecast or Projections Included in a Prospectus or Public Offering Document</i>
CICA – Section 4250	Canadian Institute of Chartered Accountants, <i>Section 4250 Future-oriented Financial Information</i>
ISAE 3400	International Auditing and Assurance Standards Board, International Standard on Assurance Engagements 3400— <i>The Examination of Prospective Financial Information, IFAC Handbook of International Auditing, Assurance, and Ethics Pronouncements</i> ; 2005 Edition
ASIC PS 170	Australian Securities and Investments Commission (ASIC), 2002, <i>PS 170 Prospective financial information</i>
ASIC	Draft ASIC Guide, July 2005, <i>Disclosing pro forma financial information</i>

¹³ This Appendix refers to documents that were relevant at the time FRS-42 was first issued. Some of these documents have since been superseded.

HISTORY OF AMENDMENTS

Table of Pronouncements – FRS-42: *Prospective Financial Statements*

This table lists the pronouncements establishing and amending FRS-42. The table is based on amendments approved as at 31 January 2026.

Pronouncements	Date issued	Early operative date	Mandatory date (prospective financial statements published... on or after ...)
FRS-42: <i>Prospective Financial Statements</i>	Dec 2005	Early application permitted	March 2006 for Local Authorities, June 2006 for other entities
NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007) ¹⁴	Nov 2007	Early application permitted	1 Jan 2009
NZ IAS 27 <i>Consolidated and Separate Financial Statements</i> (amended 2008)	Feb 2008	Early application permitted	1 July 2009
<i>Omnibus Amendments</i> (2009-1)	May 2009	Early application permitted	1 July 2009
<i>Presentation of Items of Other Comprehensive Income</i> (Amendments to NZ IAS 1)	Aug 2011	Early application permitted	1 July 2012
<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> ¹⁵	Nov 2012	Early application permitted	1 Dec 2012
<i>Amendments to Prospective Financial Statements</i> (Amendments to FRS-42)	Aug 2013	Early application permitted	1 Jan 2014
<i>Amendments to Accounting Standards: Omnibus Amendments (Legislative Update)</i> , issued in February 2014	Feb 2014	Early application not permitted	1 Apr 2014
<i>Amendments to the Scope of FRS-42</i>	May 2018	Early application permitted	1 Jan 2019
<i>Disclosure of Accounting Policies</i>	Mar 2021	Early application permitted	1 Jan 2023
NZ IFRS 18 <i>Presentation and Disclosure in Financial Statements</i>	May 2024	Early application permitted	1 Jan 2027
<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> ¹⁶	Aug 2025	Early application permitted	1 Jan 2027

Table of Amended Paragraphs in FRS-42		
Paragraph affected	How affected	By ... [date]
Paragraph 1	Amended	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Paragraph 1	Amended	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 2.1	Added	<i>Presentation of Items of Other Comprehensive Income</i> [Aug 2011]
Paragraph 3	Amended	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Paragraph 3A	Added	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Paragraph 4(b)	Amended	<i>Legislative Update</i> [Feb 2014]
Paragraphs 4–9	Deleted	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Paragraph 10	Amended	<i>Omnibus Amendments</i> (2009-1) [May 2009]
Paragraph 10	Amended	<i>Amendments to the Scope of FRS-42</i> [May 2018]

¹⁴ Superseded by NZ IFRS 18 *Presentation and Disclosure in Financial Statements*.

¹⁵ This pronouncement amended extant NZ IFRSs by (i) deleting any public benefit entity paragraphs, (ii) deleting any differential reporting paragraphs, (iii) adding scope paragraphs for Tier 1 and Tier 2 for-profit entities, and (iv) adding RDR disclosure concessions.

¹⁶ In addition to adding and amending paragraphs in FRS-42 as listed in the 'Table of Amended Paragraphs in FRS-42' below, this pronouncement also added paragraphs BC9 – BC16 to NZASB Basis for Conclusions, which accompany but are not part of FRS-42.

Table of Amended Paragraphs in FRS-42		
Paragraph affected	How affected	By ... [date]
Paragraph 10	Amended	NZ IFRS 18 [May 2024]
Paragraph 16 (footnote amended)	Amended	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Heading preceding paragraph 26	Deleted	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 26	Amended	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 27	Deleted	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Heading preceding paragraph 28	Added	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 28	Amended	<i>Presentation of Items of Other Comprehensive Income</i> [Aug 2011]
Paragraph 28	Amended	<i>Disclosure of Accounting Policies</i> [Mar 2021]
Paragraph 28	Amended	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraphs 28A–28N and related headings	Added	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 29	Deleted	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraphs 29A–29B and related headings	Added	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 30	Deleted	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 31	Amended	NZ IAS 1 [Nov 2007]
Paragraph 31	Amended	<i>Presentation of Items of Other Comprehensive Income</i> [Aug 2011]
Paragraph 31	Deleted	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraphs 31A–31D and related heading	Added	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 32	Amended	<i>Presentation of Items of Other Comprehensive Income</i> [Aug 2011]
Paragraph 32	Deleted	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 33	Amended	NZ IAS 1 [Nov 2007]
Paragraph 33	Amended	<i>Presentation of Items of Other Comprehensive Income</i> [Aug 2011]
Paragraph 33	Deleted	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraphs 33A–33C and related heading	Added	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Heading preceding paragraph 34	Added	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 34	Amended	NZ IAS 1 [Nov 2007]
Paragraph 35	Deleted	NZ IAS 1 [Nov 2007]
Heading preceding paragraph 37	Added	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 37	Amended	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Paragraph 37	Amended	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 38	Amended	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Paragraph 38	Amended	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 40	Amended	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Paragraph 39–41 and related headings	Deleted	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 42	Deleted	<i>Amendments to the Scope of FRS-42</i> [May 2018]

Table of Amended Paragraphs in FRS-42		
Paragraph affected	How affected	By ... [date]
Paragraph 43	Amended	<i>Legislative Update</i> [Feb 2014]
Paragraph 43	Deleted	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Paragraph 44	Amended	<i>Amendments to Prospective Financial Statements</i> [Aug 2013]
Paragraph 45	Amended	<i>Amendments to Prospective Financial Statements</i> [Aug 2013]
Paragraph 45	Amended	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Paragraph 46	Amended	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Paragraph 44–46	Deleted	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 47	Amended	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 60	Amended	<i>Disclosure of Accounting Policies</i> [Mar 2021]
Paragraph 60	Amended	NZ IFRS 18 [May 2024]
Paragraph 60	Amended	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 63	Deleted	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Paragraph 64	Deleted	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Paragraphs 64A–64C and related headings	Added	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 71	Amended	<i>Legislative Update</i> [Feb 2014]
Paragraph 71	Amended	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Heading preceding paragraph 72	Amended	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraph 72A	Added	NZ IAS 1 [Nov 2007]
Paragraph 72A (footnote added)	Amended	NZ IFRS 18 [May 2024]
Paragraph 72B	Added	<i>Omnibus Amendments (2009-1)</i> [May 2009]
Paragraph 72C	Amended	<i>Presentation of Items of Other Comprehensive Income</i> [Aug 2011]
Paragraph 72C (footnote added)	Amended	NZ IFRS 18 [May 2024]
Paragraph 72D	Added	<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> [Nov 2012]
Paragraph 72E	Added	<i>Amendments to Prospective Financial Statements</i> [Aug 2013]
Paragraph 72F	Added	<i>Legislative Update</i> [Feb 2014]
Paragraph 72G	Added	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Paragraph 72H	Added	<i>Disclosure of Accounting Policies</i> [Mar 2021]
Paragraph 72H (footnote added)	Amended	NZ IFRS 18 [May 2024]
Paragraph 72I	Added	NZ IFRS 18 [May 2024]
Paragraph 72J – 72M and related headings	Added	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Appendix A: definition of general purpose prospective financial information	Deleted	<i>Amendments to the Scope of FRS-42</i> [May 2018]
Appendix A	Amended	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]
Paragraphs C1–C11 and related headings	Added	<i>Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18</i> [Aug 2025]