NZ On Air

Feedback on ED 72 – Transfer Expenses

Overview

NZ On Air is a Crown entity funding agency with the principal purpose of providing funding for public media content (TV programmes, online content, music and radio). Once approved, funding is recognised as an expense and paid out over time as contractual milestones are met.

Ownership of the content rests with the applicant. If the applicant differs from the primary platform on which the content is to be initially delivered (which is the case for the majority of content funded), there is a covenant from that platform (e.g. TVNZ) to publish/air/show the content for a period of time but ownership of the content does not transfer to the platform. The platform itself effectively pays for these rights through their "platform contribution" to the cost of the project.

The accounting treatment applied provides the readers of our financial statements with an understanding of how the Crown revenue received in each year is being spent on a range of content for NZ audiences.

ED 72

We acknowledge the value of the <u>objective</u> of ED 72 - to propose improvements to the relevance, faithful representativeness and comparability of the information provided about transfer expenses.

Where there is no performance obligation, for our business, the ED is close to achieving the objective, although we anticipate that there may be some debate around timing of expense recognition.

However, we have concerns about transfers with performance obligations. We acknowledge that there are some complex and material arrangements in place in the public sector where the proposed approach for transfers with performance obligations might provide better information to the readers (for example complex PPPs). However, where organisations are providing funding/grants to providers to deliver services to third parties, the ED potentially adds a significant administrative burden and would result in financial statements that are difficult to follow and lack comparability.

In our case, if we had concluded that we have performance obligations, we would only recognise an expense as funded projects were completed and delivered to the platform either in their entirety or episode by episode. With a time lag between approving funding and completion of up to two years, the financial statements would not provide the readers with a clear view of how the Crown funding for the year under review has been spent.

Further, we would be in the position of having management accounts for internal and governance reporting with different financial statements for end of year reporting. The latter would include reconciliations between the "correct" accounting treatment and how we actually allocate and spend our Crown funding on content for NZ audiences.

Understanding the ED

We found the ED over long and complex. The language used is not conducive to arriving at a quick or straight forward assessment of the principles of the ED. It took some detailed reading and consideration to extract key information to enable an assessment of how this might apply to NZ On Air. Some of the relevant and useful information was presented later in the ED, necessitating a full and detailed read through before a conclusion could be reached.

It would be more helpful to have all the definitions included in the standard rather than having to reference to other standards (in this case EDs 70 and 71).

It would also be more helpful to have all relevant information to enable an assessment of how it applies to an entity's transactions early in the standard with the latter part simply providing the necessary information on the accounting entries and disclosures.

Conclusion

The ED in its current form is overly long, difficult to follow and therefore makes it difficult to reach a conclusion on how to apply it.

For a Government entity which provides funding/transfer expenses in the nature of e.g. social grants for an NGO to provide services to the public, it is hard to see how, where there are performance obligations, the ED would achieve the objectives to improve "the relevance, faithful representativeness and comparability of the information provided about transfer expenses".

In addition to this, there is likely to be a substantial increase in administration to collect information on performance obligations in a way which aligns with the standards for a significant number of grants/transfer expenses.

We acknowledge that the proposed accounting treatment where there are performance obligations may be appropriate for complex contractual arrangements such as PPPs.