FRS-29: Prospective Financial Information

FINANCIAL REPORTING STANDARD NO. 29
Issued April 1996, Amended October 2001

Institute of Chartered Accountants of New Zealand

Issued by the Financial Reporting Standards Board of the Institute of Chartered Accountants of New Zealand

Approved April 1996 by the Accounting Standards Review Board under the Financial Reporting Act 1993 for the purposes of the Public Finance Act 1989

This Standard replaces FRS-29: Prospective Financial Information (1993), although that Statement will continue to apply to general purpose prospective financial information published before 1 September 1996.

This Standard should be read in the context of the Explanatory Foreword to General Purpose Financial Reporting published by the Council, Institute of Chartered Accountants of New Zealand.


The Accounting Standards Review Board has also given a direction under the Financial Reporting Act 1993, that FRS-29: Prospective Financial Information has authoritative support within the accounting profession in New Zealand.

The Board has also approved this Standard to apply to local authorities (as defined in the Act) from 1 July 1998.
1 Introduction

The Nature of Prospective Financial Information

COMMENTARY

1.1 Prospective (future oriented or forward looking) financial information is based on assumptions about the future, and thus relates to events and actions which have not yet occurred and may not occur. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself usually future oriented, and therefore speculative in nature.

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

1.3 Prospective financial information is less amenable to objective verification than historical data. When working with or using prospective financial information, it is essential to understand its inherent limitations.

The Objectives of Providing Prospective Financial Information

COMMENTARY

1.4 The objectives of providing prospective financial information are to assist users:
(a) in assessing the entity’s prospective financial performance, prospective financial position and prospective cash flows;
(b) by informing them of the entity’s actual or future likely compliance with legislation, regulations, common law and contractual arrangements, as these relate to the assessment of the entity’s prospective financial performance, prospective financial position and prospective cash flows; and
(c) in making decisions about providing resources to, or doing business with, the entity.

1.5 Financial reporting standards are paragraphs in bold type-face in this Standard. Where appropriate, interpretive commentary paragraphs in plain type-face follow the financial reporting standards.

2 Application

STANDARD

2.1 This Standard shall apply to the preparation and presentation of all general purpose prospective financial information except as exempted by paragraph 2.3.

COMMENTARY

2.2 Prospective financial information may be either general purpose (prepared for external users who are unable to require or contract for information from the governing
body) or special purpose (prepared for external users who are able to require or contract for information from the governing body). Prospective financial information prepared for special purposes may be prepared in a form agreed to by the parties. It is recommended that the provisions of this Standard be considered when preparing prospective financial information for special purposes.

**STANDARD**

**2.3** This Standard does not apply to prospective financial information which is expressed solely in general terms.

**COMMENTARY**

2.4 Examples of prospective financial information which is expressed solely in general terms can be found in:

(a) management’s discussion and analysis within an entity’s financial report;
(b) a Statement of Corporate Intent provided by state-owned enterprises;
(c) a Statement of Corporate Intent provided by Crown entities;
(d) a Statement of Corporate Intent provided by local authority trading enterprises; and
(e) long term financial strategies provided by local authorities.

However, where such reporting includes prospective financial statements, the provisions of this Standard are to apply. Application of the principles set out in this Standard is encouraged for prospective financial information which is expressed solely in general terms.

**STANDARD**

2.5 The financial reporting standards set out in this Standard shall apply to prospective financial information where such application is of material consequence. A statement, fact, or item is material if it is of such a nature or amount that its disclosure, or the method of treating it, given full consideration of the circumstances applying at the time the prospective financial information is prepared, is likely to influence the users of the prospective financial information in making decisions or assessments.

2.6 This Standard applies to general purpose prospective financial information published on or after 1 September 1996.

**3 Statement of Purpose**

**COMMENTARY**

3.1 The purpose of this Standard is to establish principles and to specify minimum disclosures for the preparation and presentation of general purpose prospective financial information.
4 Definitions

STANDARD

The following terms are used in this Standard with these meanings:

4.1 “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).

4.2 “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.

COMMENTARY

4.3 Forecasts reflect the most probable outcome while projections reflect a range of possible outcomes. The date that the information is prepared is the date when the prospective financial information is approved by the governing body of the entity reporting, or otherwise authorised, for issue.

STANDARD

4.4 “Errors in prospective financial information”. For the purposes of this Standard, an error in prospective financial information occurs where:

(a) in the case of a forecast:
   (i) an arithmetic error is made in the preparation of the forecast; or
   (ii) an error is made in the process of deriving the assumptions underlying the forecast; or
   (iii) one or more of the assumptions as to future events on which the forecast is based are subsequently deemed not to be reasonably expected.

(b) in the case of a projection:
   (i) an arithmetic error is made in the preparation of the projection; or
   (ii) an error is made in the process of deriving the assumptions underlying the projection; or
   (iii) one or more of the assumptions as to future courses of action on which the projection is based are subsequently deemed not to be realistic or deemed not to reflect possible courses of action.

4.5 “Prospective financial information” means information about future financial performance, future financial position, future cash flows, and future movements in equity based on assumptions about future events and courses of action. Prospective financial information includes prospective financial statements, the notes to the prospective financial statements, and any narrative relating directly to the prospective financial statements.
COMMENTARY

4.6 Prospective financial information will normally comprise a statement of prospective financial performance and a statement of accounting policies, and may include one or more of the following: a statement of prospective movements in equity; a statement of prospective financial position; and a statement of prospective cash flows. Prospective financial information is often provided:

(a) in a prospectus or other offer document issued either to raise capital or offering existing shares for sale, in order to provide potential investors with information about future expectations. The presentation of such information is often required for the issue of securities to the public under appropriate legislation;

(b) in an annual report, to provide information to shareholders, regulatory bodies and other interested parties; and

is always provided:

(c) in forecast financial statements of the Crown;

(d) in forecast financial statements of government departments and Crown entities; and

(e) in the annual plans of local authorities.

4.7 Most financial information is determined to some extent on the basis of estimates. Financial information about current or past financial performance, financial position, cash flows or movements in equity may be based on estimates about the future. An example is the determination of a depreciation charge based on an estimate of the useful life of an asset. Such estimated information is not prospective financial information for the purposes of this Standard.

4.8 For the purposes of this Standard prospective financial information does not include prospective non-financial information. However, where prospective non-financial information is provided, the application of the principles set out in this Standard is encouraged.

5 Financial Reporting

Presentation of Prospective Financial Information

STANDARD

5.1 General purpose prospective financial information shall be presented in the format expected to be used in the future for reporting historically oriented general purpose financial reports.

5.2 Prospective financial information which is subject to this Standard shall be consistent with any general or narrative information that may be presented with it.
Prospective Financial Statements

STANDARD

5.3 Prospective financial information shall be presented as a statement of prospective financial performance and a statement of accounting policies, and may also include one or more of the following:

(a) a statement of prospective movements in equity;
(b) a statement of prospective financial position;
(c) a statement of prospective cash flows.

5.4 A statement of prospective financial performance shall disclose as applicable:

(a) total operating revenue;
(b) operating surplus (deficit) before taxation;
(c) tax expense (not including tax on extraordinary items);
(d) operating surplus (deficit);
(e) extraordinary items net of tax. There shall also be separate disclosure of the nature and amount of each extraordinary item;
(f) unrealised net changes in value or development margins on investment properties; and
(g) net surplus (deficit). Any minority interest in the net surplus (deficit) shall also be separately disclosed in the statement or prospective financial performance.

5.5 Separate disclosure shall also be made of:

(a) the entity's share of the post-acquisition net surpluses (or deficits) of associates determined under the equity method; and
(b) items included in operating revenue or operating expense if they are of such incidence and size, or of such nature, that their disclosure is necessary to explain the prospective financial performance of the entity. An adequate description of each item shall be given to enable its nature to be understood.

5.6 When a statement of movements in equity is presented, it shall separately disclose:

(a) distributions to owners;
(b) contributions by owners; and
(c) total recognised revenues and expenses including:
   (i) net surplus/deficit;
   (ii) increases/decreases in revaluation reserves; and
   (iii) currency translation differences.

5.7 When a statement of prospective financial position is presented, it shall separately disclose:

(a) (i) current assets;
    (ii) non-current assets;
(iii) current liabilities;
(iv) non-current liabilities; and
(v) equity (including separate disclosure of minority interests);

or

(b) where, because of the nature of the activities of the entity, it is not appropriate to disclose the classifications listed in (a):
   (i) the major components of assets and liabilities in the broad order of their liquidity; and
   (ii) equity (including separate disclosure of minority interests).

5.8 When a statement of prospective cash flows is presented, it shall separately disclose:
   (a) net cash flows from operating activities;
   (b) net cash flows from investing activities;
   (c) net cash flows from financing activities; and
   (d) net increase (decrease) in cash.

5.9 Prospective financial information shall be prepared in accordance with the accounting policies expected to be used in the future for reporting historically oriented general purpose financial reports.

5.10 Accounting policies used as a basis for the preparation of the prospective financial information shall be disclosed in accordance with FRS-1: Disclosure of Accounting Policies.

5.11 Where the prospective financial information gives effect to a change in accounting policy from one used in the prior period historically oriented financial statements, this change shall be disclosed, including the reason for the change and its effect on the prospective financial information.

**Periods Covered by Prospective Financial Information**

**STANDARD**

5.12 The periods covered by prospective financial information shall coincide with those for which historically oriented financial statements or information will subsequently be presented.

5.13 The period covered by prospective financial information shall not extend beyond the point in time for which such information can reasonably be estimated.

**COMMENTARY**

5.14 No fixed minimum or maximum time period can be specified due to different levels of uncertainty prevailing in different operating environments. However, the degree of uncertainty normally increases with the length of the future period covered. Forecasts are therefore not normally presented for periods extending beyond the following reporting period, unless there is reasonable assurance as to the expected operations in the future.
forecast period, and there is a reasonable degree of control over the nature and extent of those operations. An example of this would be forecasts for entities in industries with a lengthy operating cycle and fixed contracts such as the construction industry. Projections may be presented for longer periods as long as the nature of the hypothetical assumptions is made clear.

**Disclosure of Assumptions Underlying Prospective Financial Information**

**STANDARD**

5.15 All significant assumptions underlying prospective financial information shall be disclosed separately and clearly identified. Where significant assumptions are subject to a high degree of uncertainty, this uncertainty, together with its potential financial effect on the prospective financial information, shall be disclosed.

**COMMENTARY**

5.16 Prospective financial information will be based on many assumptions about future conditions and events which may or may not occur. The quality of the information will be dependent largely on the appropriateness of these assumptions. Therefore, users are to be provided with these assumptions so as to make their own informed judgement on the quality and reliability of the assumptions. For users to make their own informed judgement, it is necessary to provide information which assists them in assessing the sensitivity of prospective financial information to changes in assumptions which are subject to high degrees of uncertainty.

5.17 The governing body is responsible for the process of developing assumptions and for ensuring that the assumptions developed are appropriate in the circumstances. The quality of the prospective financial information is largely dependent on the completeness and reasonableness of these assumptions.

5.18 It is usual to examine closely for inherent flaws the process used to develop the assumptions. The use of an independent third party to review these assumptions is often a valuable aid to reduce internal bias, and to provide an additional perspective on the validity of the assumptions. This is particularly so when the development of assumptions requires specialist skills.

5.19 Assumptions are frequently interdependent, and one assumption may affect many parts of a business and lead to the formulation of other assumptions. These assumptions therefore need to be reflected consistently in the prospective financial information. For example, an assumption that sales volume will increase would be coupled in most circumstances with an assumption that wages and raw material costs will also increase and may also require capital expenditure in order to increase capacity.

**STANDARD**

5.20 Assumptions used in preparing forecasts shall be reasonable, supportable, consistent among themselves and with the strategic plans of the entity, and be applied consistently.
COMMENTARY

5.21 To be reasonable, best-estimate assumptions are to be consistent with the strategic plans of the entity. Assumptions are consistent with the plans of the entity if they reflect the expected economic effects of anticipated strategies, programmes and actions, including those being planned in response to expected future economic conditions.

5.22 To be supportable, best-estimate assumptions need to be based on the past performance of the entity itself, the performance of similar entities, feasibility or other studies that provide objective corroboration, and the prevailing economic environment. The extent of detailed information supporting each assumption and an assessment of the reasonableness of each assumption will vary according to circumstances, and will be influenced by factors such as the significance of the assumption and the availability and quality of the supporting information.

5.23 The responsibility of the governing body extends beyond ensuring that individual assumptions used to prepare the prospective financial information are appropriate in the circumstances, to ensuring that the assumptions taken as a whole are appropriate.

Disclosure of the Nature of Prospective Financial Information

STANDARD

5.24 All disclosed prospective financial information shall be labelled clearly as either a forecast or a projection. The distinction between a forecast and a projection, emphasising that a forecast is based on assumptions which the governing body reasonably expects to occur while a projection is based on one or more hypothetical but realistic assumptions, shall be made clear in any prospective financial information being presented.

COMMENTARY

5.25 The labelling of prospective financial information as either a forecast or a projection, with emphasis given to the nature of each, reduces the possibility that unwarranted credibility may be attached to the information.

Disclosure of the Basis of Assumptions

STANDARD

5.26 When a forecast is presented, it shall be disclosed that a forecast has been 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.

5.27 When a projection is presented, it shall be disclosed that a projection has been prepared on the basis of one or more hypothetical but realistic assumptions that reflect possible courses of action for the reporting periods concerned as at the date that the information is prepared.
COMMENTARY

5.28 A projection is based on hypothetical assumptions. While these assumptions need to be reasonable, they need not necessarily be supportable. For example, a projection might be used by an entity in its start-up phase when certain key assumptions cannot be supported.

5.29 Due to the inherent uncertainty noted above, it will be acceptable to present each item of financial data as a single monetary amount, a range, or both, depending on the perception of the governing body as to the most useful method of presentation. The use of a range emphasises the imprecision inherent in a projection. When a range is used, care should be taken to ensure that the bands are not so broad that they cease to be meaningful.

Disclosure of a Cautionary Note

STANDARD

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

Disclosure of the Purpose of Prospective Financial Information

STANDARD

5.31 When prospective financial information is presented, the purpose for which it has been prepared shall be disclosed together with a caution that the information may not be appropriate for purposes other than that described.

Other Disclosures

STANDARD

5.32 When prospective financial information is presented, the following shall be disclosed:

(a) the date of adoption of the underlying assumptions;
(b) the extent to which actual financial results are incorporated and the period covered by those results; and
(c) whether or not it is intended to update the prospective financial information subsequent to presentation and, if so, when.

COMMENTARY

5.33 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. Further disclosure of whether or not it is intended to update the prospective financial information subsequent to presentation

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may alert the user to the extent of the intention to communicate such updated information.

**Material Errors in Prospective Financial Information**

*STANDARD*

5.34 If a material error is discovered in prospective financial information presented by an issuer in a registered prospectus, and that prospectus remains current, then the provisions of the Securities Act 1978 and the Securities Regulations 1983 shall apply and the prospectus shall be amended or withdrawn immediately.

*COMMENTARY*

5.35 Whether or not prospective financial information remains “current” may, in some circumstances, be uncertain and it may be necessary to obtain legal advice. In general, a prospectus remains current until the securities offered have been allotted. With respect to certain continuous offers for debt securities, a prospectus remains current until it has been replaced by a later registered prospectus. However, notwithstanding the above, the prospective financial information, having been contained in a prospectus, may form a representation leading to an investment contract. In that sense, the prospective financial information is possibly “current” throughout the forecast or projection period and is to be corrected, to the extent that it still applies, even if only for the purpose of mitigating possible liability.

*STANDARD*

5.36 If a material error is discovered in prospective financial information presented, other than in a registered prospectus, then consideration shall be given to whether it is necessary to withdraw that prospective financial information. If withdrawal of such information is not permitted by legislation, consideration shall be given to whether it is necessary to issue revised prospective financial information.

*COMMENTARY*

5.37 If it is considered necessary to withdraw prospective financial information, a reasonable effort is to be made to inform users that the prospective financial information is not to be relied on.

**Disclosure of Reasons for Revising Prospective Financial Information**

*STANDARD*

5.38 Where corrected prospective financial information is issued, the reasons for revising the information shall be disclosed.
APPENDIX

Comparison of FRS-29 with International and Australian Accounting Standards

This comparison appendix, which was prepared as at 1 April 1996 and deals only with significant differences in the standards, is produced for information purposes only and does not form part of the standards in FRS-29.

Neither the International Accounting Standards Committee, the Australian Accounting Standards Board, nor the Australian Public Sector Accounting Standards Board has issued a financial reporting standard equivalent to FRS-29.

HISTORY

Previously issued accounting standards superseded by this Financial Reporting Standard:

FRS-29: Prospective Financial Information (issued in March 1993 and effective for prospective financial information published on or after 31 October 1993)