XRB EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

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(lower case 'L' not figure 1)

Board Meeting Agenda

Thursday 14 December 2017
External Reporting Board, Level 7, 50 Manners Street, Wellington

Est Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
Preliminary					
9.15 am	**1**	**Welcome and Introduction**			
		Apologies			
9.20 am	**2**	**Board Management**			
B: PUBLIC SESSION					
PBE Item for Approval					
9.50 am	**3**	**Revenue and Non-Exchange Expenses**	(AH/ALH)		
	3.1	Cover Memo	Consider	Late paper	
	3.2	Draft Comment Letter	Consider	Late paper	
	3.3	Submissions Received			
	3.3.1	Broadcasting Commission (NZ On Air)	Note	Late Paper	
	3.3.2	BDO	Note	Late Paper	
	3.3.3	NZ Film Commission	Note	Late Paper	
	3.3.4	Auckland Council	Note	Late Paper	
	3.3.5	Te Māngai Pāho	Note	Late Paper	
	3.4	IPSASB CP Accounting for Revenue and Non-Exchange Expenses	Note	See website	
10.30 am		*Morning tea*			
10.45 am	**3**	**Revenue and Non-Exchange Expenses (contd)**	(AH/ALH)		
PBE Item for Consideration					
11.25 am	**4**	**ED 63 *Social Benefits***	(LK/JS)		
	4.1	Cover Memo	Consider	Paper	
	4.2	Education Session – slides	Note	Paper	
	4.3	Draft Comment Letter	Consider	Paper	
	4.4	ED 63 Social Benefits	Note	See website	
	4.5	ED 63 At A Glance	Note	See website	
	4.6	Comment Letter on 2015 CP	Note	Supp paper	

Est Time	Item	Topic	Objective		Page
C: NON-PUBLIC SESSION					
Update from CA ANZ					
12.10 pm	**5**	**Update from CA ANZ**	(CAR)		
	5.1	Receive Update	Discuss	Verbal	
12.30 pm		*Lunch*			
D: PUBLIC SESSION					
For-profit Item for Approval					
1.00 pm	**6**	**RDR NZ IFRS 16 *Leases* (and NZ IAS 7)**	(VSF)		
	6.1	Cover Memo	Consider	Paper	
	6.2	Draft ITC and ED	Approve	Paper	
	6.3	AASB and NZASB Staff Analysis for Proposed RDR for AASB 16/NZ IFRS 16	Note	Paper	
	6.4	Tier 2 Disclosure Prinicples	Note	Paper	
PBE Items for Approval					
1.30 pm	**7**	**ED 62 *Financial Instruments***	(JS)		
	7.1	Cover Memo	Consider	Paper	
	7.2	Draft Comment Letter	Approve	Paper	
	7.3	Submissions Received	Note	Paper	
	7.3.1	BDO Comment Letter on ED 62	Note	Paper	
	7.3.2	Audit NZ Comment Letter on ED 62	Note	Paper	
	7.4	ED 62 Financial Instruments	Note	See website	
1.50 pm	**8**	**Limited Scope Project – Tier 3 and Tier 4 Standards**	(LK/VSF)		
	8.1	Cover Memo	Consider	Paper	
	8.2	Draft ITC and ED	Approve	Paper	
	8.3	Explanatory Guides	Approve	Paper	
For-profit Standard for Approval					
2.50 pm	**9**	***Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28)**	(VSF)		
	9.1	Cover Memo	Consider	Paper	
	9.2	Draft *Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28)	Approve	Paper	
	9.3	Draft Signing Memorandum	Approve	Paper	
	9.4	PBE Policy Approach	Consider	Paper	
	9.5	*Policy Apprach to Developing the Suite of PBE Standards*	Note	Supp paper	
3.00 pm		*Afternoon tea*			

Est Time	Item	Topic	Objective		Page
<u>Standards for Noting</u>					
3.10 pm	**10**	**<u>Standards Approved</u>**	(VSF)		
	10.1	Approval 91 *2017 Omnibus Amendments to NZ IFRS*	Note	Paper	
	10.2	Approval 92 PBE FRS 48 *Service Performance Reporting*	Note	Paper	
	10.3	Approval 93 *Prepayment Features with Negative Compensation* (Amendments to NZ IFRS 9)	Note	Paper	
E: NON-PUBLIC SESSION					
<u>Items for Noting</u>					
3.11 pm	**11**	**<u>International & Domestic Update</u>**			
4.00 pm		*Finish*			

Next NZASB meeting: Wednesday 7 February 2018

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	1 December 2017
To:	NZASB Members
From:	Lisa Kelsey and Joanne Scott
Subject:	**IPSASB ED 63 Social Benefits**

Action required

1. The Board is asked to PROVIDE FEEDBACK on ED 63 *Social Benefits* (ED 63) so that staff can draft the comment letter to the IPSASB.

Background

2. The IPSASB issued ED 63 at the end of October 2017. Comments are due to the IPSASB by 31 March 2018. We have issued this ED in New Zealand and asked for comments by 23 February 2018. We plan to seek approval of this comment letter at the Board's meeting on 21 March 2018.

3. This project has a long history. Back in 2004 the Public Sector Committee of IFAC (now the IPSASB) issued an Invitation to Comment on *Accounting for Social Policies of Governments*. The IPSASB initially planned to develop a comprehensive standard on accounting for social benefits. As it became evident that there were differing views on recognition and measurement the IPSASB decided to see if it could get consensus on disclosure proposals.

4. In March 2008 the IPSASB issued ED 34 *Social Benefits: Disclosure of Cash Transfers to Individuals or Households.* This ED focused on the disclosure of amounts to be transferred to those eligible for benefits at the reporting date. It did not propose to require information about the expected cash flows for future periods for the expected population of beneficiaries in those periods. A number of constituents expressed dissatisfaction with the disclosure proposals in the ED. A number also suggested that general purpose financial statements cannot convey sufficient information about the financial condition of governmental programs providing social benefits.

5. The IPSASB therefore deferred work on developing an ED on social benefits. Instead, it developed RPG 1 *Reporting on the Long-Term Sustainability of an Entity's Finances* (issued 2013) and continued its work on developing a Conceptual Framework.

6. The IPSASB recommenced work on social benefits in 2014 and issued a Consultation Paper *Recognition and Measurement of Social Benefits* in June 2015. The Board commented on the IPSASB's Consultation Paper in February 2016 (see agenda item 4.6).

7. At this meeting we will:
   (a) provide an overview of the proposals in the ED;
   (b) seek the Board's views on the Specific Matters for Comment (SMCs) in ED 63; and
   (c) explain how we plan to seek feedback from constituents.

Seeking Board views

8. Agenda item 4.3 contains an outline of a comment letter. Underneath each SMC we have noted relevant background information (including the NZASB's views on the 2015 CP and non-exchange expenses) and possible responses. We are seeking feedback on those suggestions.

Recommendations

9. We recommend that the Board:
   (a) PROVIDES FEEDBACK on the SMCs (and identifies any further work that would help the Board); and
   (b) PROVIDES FEEDBACK on the proposed outreach.

Next steps

10. We will draft the responses to the SMCs in the ED, taking into account the feedback received at this meeting. We will also undertake outreach as agreed by the Board.

11. We will bring back a revised draft comment letter for consideration in February and approval in March.

Attachments

Agenda item 4.2: Education session – slides

Agenda item 4.3: Draft comment letter

Agenda item 4.4: ED 63 *Social Benefits*

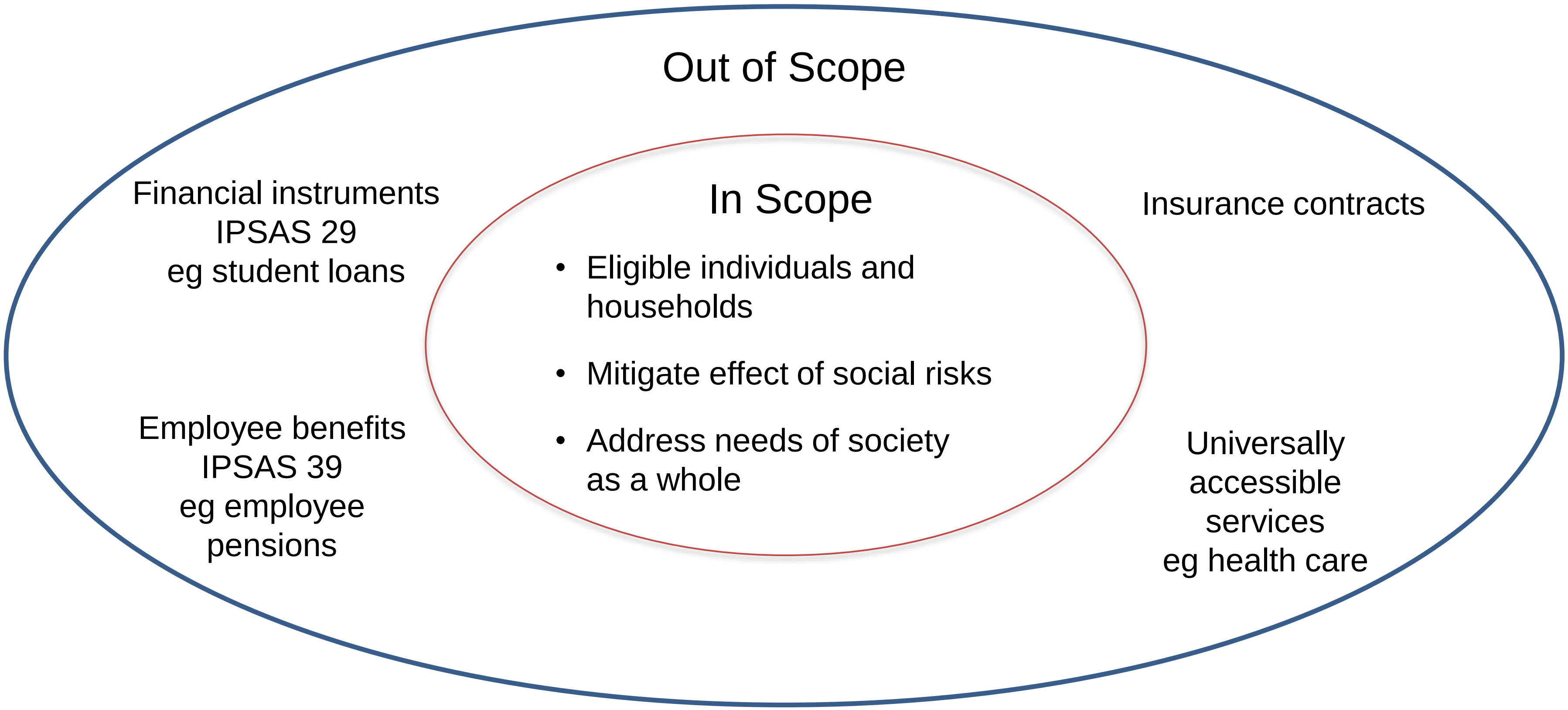
Agenda item 4.5: At A Glance ED 63 *Social Benefits*

Agenda item 4.6: NZASB Comment letter on 2015 CP (in supporting papers)

IPSASB ED 63
Social Benefits

Lisa Kelsey and Joanne Scott

Scope


Out of Scope
In Scope
Eligible individuals and households
Mitigate effect of social risks
Address needs of society as a whole
Financial instruments
IPSAS 29
eg student loans
Insurance contracts
Employee benefits
IPSAS 39
eg employee pensions
Universally accessible services
eg health care

Definitions

Social benefits are provided to:

a) Specific individuals and/or households who meet eligibility criteria ;
b) Mitigate the effect of social risks; and
c) Address the needs of society as a whole; but
d) Are not universally accessible services.

Social risks are events or circumstances that:

a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty or employment status; and
b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

Universally accessible services are those that are made available by a government entity for all individuals and/or households to access, and where eligibility criteria (if any) are not related to social risk.

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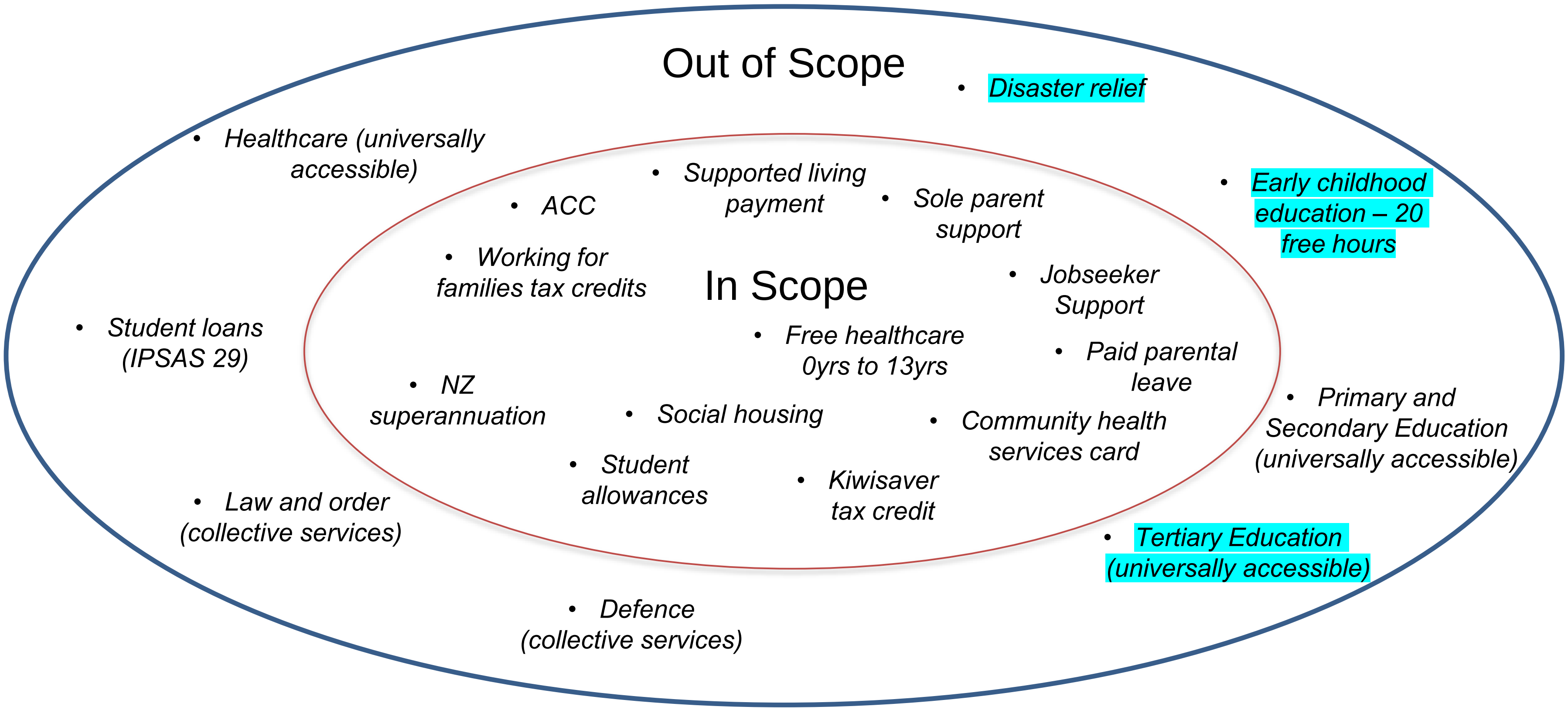
Application to NZ Social Benefits



Two Approaches

- Two approaches in ED 63
  - Insurance approach
  - Obligating events approach

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Insurance Approach

Criteria for using the insurance approach

Intended to be fully funded by contributions

- Contributions, levies, investment income
- Review and adjust rates and/or benefits

Managed as insurer manages insurance contracts

- Bound by scheme
- Separate fund
- Enforceable rights
- Assess financial performance and position
- Possibly separate entity

Insurance Approach Disclosures

- Why insurance approach appropriate
- Disclosures as per insurance standard
- Characteristics of schemes
- Changes to scheme during period

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Obligating Event Approach

- Recognise liability when
  - Present obligation for an outflow of resources
  - Results from a past event
    - Satisfaction by the beneficiary of all eligibility criteria for the next benefit (including being alive)
    - Formal validation of eligibility not required each benefit payment
  - Can be measured in a way that achieves the QCs and takes account of constraints
- Measure at
  - Best estimate of the costs incurred to fulfil present obligation

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Obligating Event Approach Disclosures

- Characteristics of social benefit schemes
  - Nature of the social benefits provided by the scheme
  - Key features of the social benefit scheme
  - Description of how the scheme is funded
  - Description of any significant amendments to social benefit scheme made during reporting period

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Obligating Event Approach Disclosures

- Explanation of amounts in the FS
  - PV and discount assumptions, if relevant
  - Reconcile opening and closing balances
- Explanation of future cash flows
  - Best estimate of undiscounted projected cash outflows for next five years, including key assumptions
  - For current and future beneficiaries

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Long-term Sustainability

- ED 63 encourages information on long-term sustainability
- RPG 1 *Reporting on the Long-Term Sustainability of an Entity's Finances*
  - Not mandatory
  - Projections based on current policy and assumptions about future
  - Report on three dimensions: service, revenue and debt
  - Disclose principles, assumptions and methodologies….

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Alternative View in ED 63

- A single recognition point (as per ED 63) is not appropriate for all social benefits
  - Does not reflect the economic substance of different social benefits
  - Not in accordance with the Conceptual Framework
  - Being alive is a measurement criterion (not a recognition criterion)
  - Disclosure alone is not enough
- The AV does not consider the impact on the FS

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Outreach

- No webinars or presentations
- Direct constituent outreach
  - ACC, MSD, Treasury
  - Parliamentary users
  - Economists
  - Rating agencies
  - Media commentators ……

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Project timeline

Selected outreach

7 Feb 2018
NZASB considers draft comment letter

23 Feb 2018
Comments due to NZASB

21 March 2018
NZASB approves comment letter

31 March 2018
Comments due to IPSASB

NZ ACCOUNTING STANDARDS BOARD

[Date] March 2018

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA
Submitted to: www.ifac.org

Dear John

ED 63 *Social Benefits*

Thank you for the opportunity to comment on ED 63 *Social Benefits* (ED 63). The ED has been exposed in New Zealand and some New Zealand constituents may have made comments directly to you.

Key points to be added here

Our recommendations and responses to the Specific Matters for Comment and Preliminary Views are set out in Appendix 1 to this letter. If you have any queries or require clarification of any matters in this letter, please contact Lisa Kelsey (Lisa.Kelsey@xrb.govt.nz) or me.

Yours sincerely

Kimberley Crook
Chair – New Zealand Accounting Standards Board

Appendix 1: Responses to Specific Questions for Comment

Specific Matter for Comment 1: Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?

Background information

NZASB comment letter on the 2015 CP:

- Disagreed with IPSASB dealing with social benefits and non-exchange expenses in separate projects because it creates an artificial boundary
- Noted desirability of consistent accounting for similar transactions and events
- Noted difficulty of applying the proposed scope to NZ benefits

Following comments on the 2015 CP, the IPSASB decided to exclude universally accessible services from the scope of ED 63. The IPSASB is proposing that they be dealt with in the project on non-exchange expenses.

Extracts from ED 63

Scope

5. **This [draft] Standard applies to a transaction that meets the definition of a social benefit. This [draft] Standard does not apply to:**
   (a) **Financial instruments that are within the scope of IPSAS 29, *Financial Instruments: Recognition and Measurement*;**
   (b) **Employee benefits that are within the scope of IPSAS 39, *Employee Benefits*;**
   (c) **Insurance contracts that are within the scope of the relevant international or national accounting standard dealing with insurance contracts; and**
   (d) **Universally accessible services, as defined in paragraph 6 of this [draft] Standard.**

   Paragraphs AG1–AG3 provide additional guidance.

Definitions

Social benefits are provided to:
(a) Specific individuals and/or households who meet eligibility criteria;
(b) Mitigate the effect of social risks; and
(c) Address the needs of society as a whole; but
(d) Are not universally accessible services.

Paragraphs AG4–AG7 provide additional guidance.

Social risks are events or circumstances that:
(a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and
(b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

Paragraphs AG8–AG10 provide additional guidance.

Universally accessible services are those that are made available by a government entity for all individuals and/or households to access, and where eligibility criteria (if any) are not related to social risk.

Basis for Conclusions

BC21. The IPSASB considered these concerns in developing [draft] IPSAS [X] (ED 63), as follows:

(a) The definition of social risks has been reframed to fit an accounting framework as opposed to an economic/statistical framework. Although the wording of the definition has been amended in [draft] IPSAS [X] (ED 63), the IPSASB's intention in so doing has been to clarify the meaning of the definitions for preparers, rather than to modify the risks that are considered to be social risks. The definition of social benefits has also been amended to improve the clarity of the definition.

(b) [Draft] IPSAS [X] (ED 63) distinguishes between social risks and other risks, for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring. The hazards or events that give rise to these risks are not related to the characteristics of individuals and/or households, which is a distinguishing feature of social risks. The IPSASB also noted that governments' responses to social risks is often different to their response to other risks. Governments usually plan for the occurrence of social risks, with schemes, backed by legislation, in place to address these risks. By contrast, governments' responses to other risks such as geographical risks is often reactive, with any schemes being put in place following the occurrence of an event such as flooding or an earthquake. The IPSASB considered that the reactive nature of responses to other risks was more suited to its non-exchange expenses project than this [draft] Standard. The IPSASB also noted that this approach would be consistent with the approach taken in GFS.

(c) [Draft] IPSAS [X] (ED 63) distinguishes between those benefits that are provided to specific individuals and/or households and those that are universally accessible. This distinction is intended to provide a more principles based, less artificial boundary between social benefits and non-exchange expenses. Liabilities and expenses associated with social risks can be measured by reference to an individual's eligibility to receive the social benefit, which does not apply to non-exchange expenses. In developing this boundary, the IPSASB acknowledges that social benefits and non-exchange expenses form a continuum, and that any boundary will, to some extent, be artificial. However, the IPSASB's earlier experiences convinced the Board that a boundary would be required for a social benefits project to be manageable.

Analysis of NZ benefits and the scope of ED 63 – some classifications are debateable

NZ Benefit		**Social benefit as per ED 63?**
ACC	✓ ✓ ✓ ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
Education – primary and secondary	x x? ✓ x	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
Education – early childhood subsidy	x ? ✓ x	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services

NZ Benefit		**Social benefit as per ED 63?**
Education – out of school care and recreation (OSCAR) subsidy	✓ ? ? ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
Education – tertiary	✓ ? ✓ ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
Health – essential services	x ✓ ✓ x	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
Health – community services card	✓ ✓ ✓ ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
Health – zero fee doctors' visits for children aged under 13	✓ ✓ ✓ ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
Jobseeker support	✓ ✓ ✓ ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
Kiwisaver tax credit	✓ ✓ ✓ ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
New Zealand superannuation	✓ ✓ ✓ ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
Paid parental leave	✓ ✓ ✓ ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
Social housing	✓ ✓ ✓ ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services

NZ Benefit		**Social benefit as per ED 63?**
Sole parent support	✓ ✓ ✓ ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
Student allowances	✓ ✓ ✓ ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
Supported living payment	✓ ✓ ✓ ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services
Working for families tax credit	✓ ✓ ✓ ✓	Specific individuals/households who meet eligibility criteria Mitigate the effect of social risks Address the needs of society as a whole Are not universally accessible services

NZASB draft comment letter on revenue and non-exchange expenses CP

- Notes that similar issues arise for some non-exchange expenses (such as universally accessible services) and social benefits.
- Encourages the IPSASB to take a consistent approach to expense transactions with similar characteristics.

<u>Proposed response to SMC1</u>

- The scope of ED 63 creates an artificial boundary between types of benefits
- Paragraph 5 refers to a <u>transaction</u> but the rest of the [draft] standard establishes requirements for <u>schemes</u>. The [draft] standard does not define a scheme. Is this a problem?
- Are we confident that all "schemes" would fall within the scope of ED 63, an insurance standard or the eventual standard on social benefits? Is there a risk that some schemes might have various components, only some of which fall within the scope of ED 63?
- Disagree with argument in paragraph BC21(b) that social risks and other risks (for example, earthquakes and flooding) are different. Governments do react to specific disasters, but they may also have benefits available for natural disasters. For example, New Zealand farmers affected by an adverse event (eg, flood or drought) which is classed as medium or large-scale by the Minister for Primary Industries, may qualify for a Rural Assistance Payment. Although the severity of the adverse event has to be assessed, the benefit is a standing benefit to deal with the social risks resulting from the adverse event.
- Is it feasible to suggest that the IPSASB deals with non-exchange expenses and social benefits in one standard?

Specific Matter for Comment 2: Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft? If not, what changes to the definitions would you make?

Background information

These definitions are set out in paragraph 6 of the ED. They are also shown under SMC 1 above.

We have found it difficult to apply these definitions.

- The IPSASB's 2015 CP and the Revenue CP say that free education is not mitigating a social risk. But education reduces the risk of unemployment – which would be an undesired event.
- If a benefit is available to everyone aged under 5 years, is age an eligibility criterion? If a benefit is available to everyone under 5 years, is it universally accessible?
- If there are eligibility criteria, but most people above a certain age meet the eligibility criteria (for example, NZ Superannuation), should the benefit be regarded as universally accessible?

Extract from ED 63

AG10 Risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks, and consequently benefits provided in respect of these risks are not social benefits.

See also paragraph BC21(b) shown under SMC 1.

Proposed response to SMC2

- Alignment with GFS concepts seems to be the driver for the definitions. We do not find these concepts intuitive or easy to apply.
- We don't see the rationale for distinguishing between aid provided immediately after an earthquake and the subsequent unemployment benefits or housing benefits paid to people who have lost their jobs or home because of an earthquake (see AG10).
- The artificial boundary between projects has created the need for these definitions. If the IPSASB developed a single standard for non-exchange expenses and social benefits these definitions would be less critical/not required. At this stage we don't have any suggestions for improving these definitions.

Specific Matter for Comment 3:
Do you agree that, with respect to the insurance approach:
(a) It should be optional;
(b) The criteria for determining whether the insurance approach may be applied are appropriate;
(c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?
If not, how do you think the insurance approach should be applied?

Background information

- The criteria for using the insurance approach are set out in paragraph 9.
  - (a) The scheme is intended to be fully funded from contributions.
  - (b) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.
- We have identified some entities that currently apply PBE IFRS 4 *Insurance Contracts* (see below). Some of these entities are licensed insurers and would clearly fall within the scope of PBE IFRS 4. Others may have elected to apply PBE IFRS 4. We are not suggesting that all of these entities' transactions would fall within the scope of ED 63, but they would have to decide which standard to apply.

  Not-for-profit entities (that are licensed insurers)
  - Education Benevolent Society Incorporated
  - Health Service Welfare Society Limited (t/a Accuro Health Insurance)
  - Police Health Plan Limited
  - Union Medical Benefits Society Limited

  Public sector PBEs applying insurance accounting
  - Accident Compensation Corporation (ACC)
  - Earthquake Commission (EQC)
  - NZ Export Credit Office: provides export credit insurance to NZ exporters. It is a non-departmental activity, administered by the Treasury on behalf of the Crown.
  - Civic Financial Services Ltd: owned by local governments and supplies local governments with a range of financial services.
  - Local Authority Protection Programme (LAPP): a mutual pool created by local authorities to cater for the replacement of infrastructure following catastrophic damage by natural disaster (administered by Civic Financial Services).
  - NZ Mutual Liability Riskpool (Riskpool): a mutual liability trust fund created by New Zealand local authorities to provide long-term, affordable professional indemnity and public liability protection for local government organisations.
  - ACC Accredited Employers Programme (AEP): the employer assumes management and certain financial responsibilities associated with the costs of work-related accidents and injuries of its employees. On transition to NZ IFRS, this liability was considered an insurance arrangement to which Appendix D of NZ IFRS 4 applied. An entity's participation in this programme is typically valued by actuaries under Appendix D of PBE IFRS 4.

<u>Extract from ACC Annual report 2017</u>

The Accident Compensation Corporation Scheme (as required through the Accident Compensation Act 2001 ('the AC Act')) is managed through five separate Accounts, being the Motor Vehicle, Non-Earners', Earners', Work, and Treatment Injury Accounts. Each Account receives individual funding and is maintained for a separate purpose.

Under the AC Act, unless otherwise provided by that Act, funds held in an Account can only be used to meet costs incurred in the same Account. This means that cross-subsidisation between separate Accounts is not permitted. ACC therefore manages and separately reports on the performance and solvency of each Account.

The basis of setting levies is a full-funding basis for all levy payers other than the Government in respect of the Non-Earners' Account.

The ACC Board recommends sustainable levies to achieve the full funding of the Motor Vehicle, Earners' and Work Accounts, but final levy rates are set by the Government. Claims incurred from 1 July 2001 in the Non-Earners' Account are fully funded by the Government. Claims before that date continue to be funded on a pay-as-you-go basis.

The Treatment Injury Account is funded through levies from the Earners' and Non-Earners' Accounts on the basis of whether the treatment injury claims are from earners or non-earners.

- Although PBE IFRS 4 contains more detailed requirements than IFRS 4 it wouldn't be regarded as having "adopted substantially the same principles as IFRS 17", as required by ED 63 paragraph AG11. When the IPSASB issues a standard on social benefits we would have to think carefully about scope issues and transitional provisions for entities currently applying PBE IFRS 4. If we were to issue a PBE Standard based on IFRS 17 *Insurance Contracts* before a PBE Standard on social benefits, there would be fewer scope and transition issues.

  Extract from ED 63 (paragraph 11)

  11. Where an entity recognizes and measures the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts, the entity shall disclose:

  (a) **The basis for determining that the insurance approach is appropriate;**

  (b) **The information required by the relevant international or national accounting standard dealing with insurance contracts; and**

  (c) **Any additional information required by paragraph 12 of this [draft] Standard.**

  Extracts from NZ IFRS 17 (disclosures section)

  93 The objective of the disclosure requirements is for an entity to disclose information in the notes that, together with the information provided in the statement of financial position, statement(s) of financial performance and statement of cash flows, gives a basis for users of financial statements to assess the effect that contracts within the scope of NZ IFRS 17 have on the entity's financial position, financial performance and cash flows. To achieve that objective, an entity shall disclose qualitative and quantitative information about:

  (a) the amounts recognised in its financial statements for contracts within the scope of NZ IFRS 17 (see paragraphs 97–116);

  (b) the significant judgements, and changes in those judgements, made when applying NZ IFRS 17 (see paragraphs 117–120); and

(c) **the nature and extent of the risks from contracts within the scope of NZ IFRS 17 (see paragraphs 121–132).**

…

124 For each type of risk arising from contracts within the scope of NZ IFRS 17, an entity shall disclose:

(a) **the exposures to risks and how they arise;**

(b) **the entity's objectives, policies and processes for managing the risks and the methods used to measure the risks; and**

(c) **any changes in (a) or (b) from the previous period.**

Proposed response to SMC3

- SMC3(a) Support the availability of the insurance approach for certain social benefits.
- SMC3(a) Agree it should be optional. It aligns the reporting with the management of such schemes. What additional arguments should we give to support this view?
- SMC3(b) Subject to outreach with selected NZ entities, support the criteria for applying the insurance approach. What happens if one component of a scheme is not fully funded? Would that component have to be accounted for using the obligating event approach?
- SMC3(c) Agree with referring to the requirements of IFRS 17. We don't see a problem with this in New Zealand but is this clear enough to be consistently applied internationally. What is meant by "substantially the same principles"?
- SMC3(d) Subject to outreach with NZ entities, agree with proposed additional disclosures.

Proposed outreach

- Which entities, apart from ACC, should we contact directly for feedback on the insurance approach proposals?

Specific Matter for Comment 4:

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.

Background information

Extracts from ED 63

Recognition of a Liability for a Social Benefit Scheme

13. An entity shall recognize a liability for a social benefit scheme when:

(a) **The entity has a present obligation for an outflow of resources that results from a past event; and**

(b) **The present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports.**

Outflow of Resources

…

Past Event

16. The past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions).

    Paragraphs AG16–AG19 provide additional guidance.

…

AV1. These members are of the opinion that prescribing a single recognition point applicable to all social benefits is inappropriate, as this approach:
- Does not reflect the economic substance of different social benefits;
- Is not in accordance with the Conceptual Framework; and
- Treats "being alive" as a recognition criterion instead of a measurement criterion.

AV2. These members therefore propose that the obligating event should be dependent on the economic substance of the social benefit scheme. For some social benefits, recognizing a liability when the eligibility criteria for the next benefit are satisfied will be appropriate. For other social benefits, a liability would be recognized at an earlier point. For example, a liability for all remaining benefits might be recognized when an individual reaches retirement age, or a liability might be accrued over time as an individual makes contributions. Preparers would determine which obligating event is most appropriate for their social benefit schemes, based on their economic substance.

NZASB's response to 2015 CP

- We said the IPSASB should apply the definition of a liability and identify when a past event gives rise to a present obligation.
- The nature of the government's promise differs between benefits. In our view, for some benefits, the obligating event is likely to occur at the "threshold eligibility criteria have been satisfied point".
- We acknowledged that individuals may have valid expectations that they will receive benefits once key participatory events have occurred, and before all eligibility criteria have been met. However, we noted that the extent of reliance on promises of future benefits will vary and expressed the view that recognition before all eligibility criteria have been met would be difficult.
- Definitions vs objectives of GPFR: We expressed concerns about the usefulness of financial statements that are dominated by large liabilities (without more information about the funding of those liabilities).
- We noted the limitations of GPFR. GPFR focus on past events and transactions that have occurred.
- We noted the usefulness of long-term fiscal sustainability reporting.

Points from revenue and non-exchange expenses [draft] comment letter

- Advocating an approach based on the definition of a liability in the Conceptual Framework and guidance in IPSAS 19.

- Need to consider implications for the usefulness of financial statements if large liabilities recognised.
- No substantive difference in concept between social benefits in ED 63 and many collective/universally accessible services, so consistent approach needed.

Proposed response to SMC4

- Support paragraph 13 which is consistent with the definition of a liability and the Conceptual Framework.
- Do not agree with the description of the past event in paragraph 16, specifically the reference to being alive.
- Do not agree with the assertion in paragraph AG19 that a liability cannot extend beyond the point at which the next social benefit will be provided.
- Argue that for some social benefits, such as superannuation, a present obligation for *all future benefits* could exist from the point at which an individual or household first satisfies all the eligibility criteria. This is inconsistent with the obligating event approach in ED 63.
- Acknowledge that, for many social benefits, the obligating event approach in ED 63 is likely to reflect the existence and amount of present obligations.
- Acknowledge that the recognition of large liabilities, without the recognition of future cash flows that will fund those benefits, is unlikely to result in financial statements that satisfy the qualitative characteristics and meet the objectives of financial reporting.
- Limiting the recognition of liabilities for all social benefits (as proposed with the obligating events approach) might be justified by reference to the objectives of financial reporting and user needs, but it is not consistent with the definition of a liability.
- We do not plan to discuss, in the comment letter, the possibility of a present obligation prior to satisfying all eligibility criteria.

Proposed outreach for SMC4

- Propose to contact academics, macro-economists, parliamentary staff and the Office of the Auditor-General.
- Propose to contact key government agencies responsible for reporting social benefits.

Specific Matter for Comment 5:
Regarding the disclosure requirements for the obligating event approach, do you agree that:
(a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
(b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
(c) For the future cash flows related to an entity's social benefit schemes (see paragraph 34):
  (i) It is appropriate to disclose the projected future cash flows; and
  (ii) Five years is the appropriate period over which to disclose those future cash flows.
If not, what disclosure requirements should be included?

Background information

The 2015 CP did not address disclosure. An earlier ED (ED 34, issued in 2008) proposed disclosures of future spending, but only in respect of current beneficiaries. Respondents to ED 34 didn't agree with those proposals because beneficiaries move in and out of the system.

NZASB's response to 2015 CP

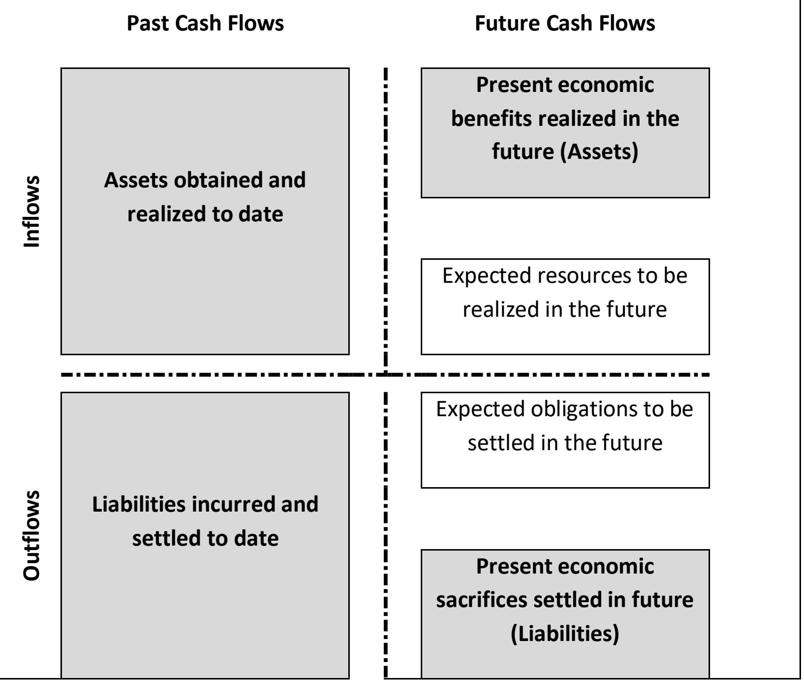
- We highlighted the importance of disclosures about future funding in order to make sense of large liabilities. This point was made in the context of possible recognition of large liabilities.

Extract from RPG 1, Basis for Conclusions

BC3. The deliberations on identifying the point at which liabilities for social benefits arise had led the IPSASB to the view that the financial statements cannot provide all the information that users need on social benefits. This is illustrated in Exhibit One below where the shaded boxes indicate information provided in the financial statements. The IPSASB considered that before launching any further project it should consult constituents. Therefore the IPSASB raised this issue in a further Consultation Paper, *Social Benefits: Issues in Recognition and Measurement,* and issued a Project Brief, *Long-Term Fiscal Sustainability Reporting.* Both these documents were issued at the same time as ED 34.

Exhibit One

Supplementing Information provided in the Statement of Financial Position



Extracts from UK *Fiscal Sustainability Report* (January 2017)

A framework for analysing fiscal sustainability

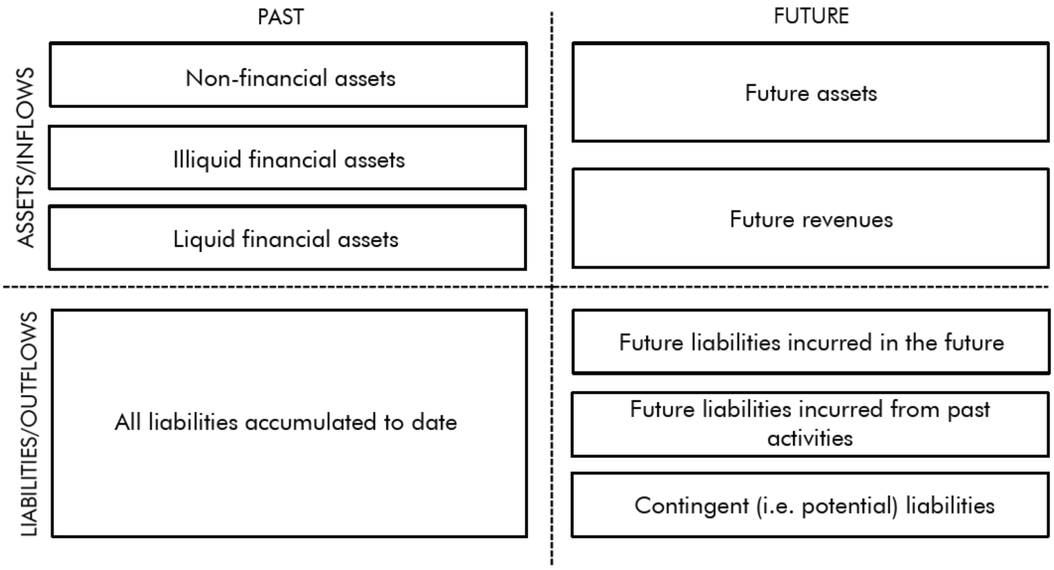
1.1 This chapter sets out the framework we use in this report to analyse fiscal sustainability. We examine the fiscal consequences of:

- past government activity, as a result of which it has accumulated assets (financial and non-financial) and liabilities. Past activity also creates some reasonably certain future financial flows, for example contractually agreed public service pension payments. The government's past activity also creates 'contingent liabilities', where there is a non-zero but less than 50 per cent probability that it will face some cost in the future, such as making good a loan guarantee; and

- future government activity, which will involve future expenditures, some for investment in assets, but mostly to pay for public services and transfer payments. It will also involve receipt of future revenues, mostly from taxation. Governments may also sell, or rent, assets. This may include assets it has not had to pay to accumulate, for example access to the electromagnetic spectrum that it can auction.

1.2 Assessing the long-term sustainability of the public finances in our *Fiscal sustainability reports (FSR)* involves summarising the fiscal consequences of some or all of this past and future activity. Figure 1.1 illustrates the potential elements.[1]

Figure 1.1: Government activity: past and future, stocks and flows



1.3 In summarising the fiscal consequences of government activity, we can focus on flows (future revenues and spending, including those generated by existing assets and liabilities) or stocks (existing assets and liabilities, plus the present value of expected future revenues and spending). In principle, these approaches should tell the same story. In practice it appears they rarely do, because of the widely varying coverage of the different summary stock and flow measures used in policy presentation and discussion. We try in this report to tell a coherent story using both approaches and to warn against drawing inappropriate conclusions from an unrepresentative subset of government activity.

1.4 Our analysis of stocks focuses on measures of the public sector balance sheet. These balance sheet measures provide a snapshot of the fiscal consequences of the government's past activity at any point in time, by providing information on its stock of assets and liabilities. Balance sheets provide interesting information, but their usefulness as an indicator of long-term fiscal sustainability is limited by their backward-looking nature. They exclude the future cost of known expenditure commitments and, crucially, the present value of future revenues. The greatest financial asset of any government is its ability to levy future taxes.

1.5 Transparency regarding the public sector balance sheet is very important. But in assessing fiscal sustainability, we place more emphasis on our analysis of future flows. We make projections of future government expenditure, revenues and financial transactions, and we assess their implications for fiscal sustainability, taking into account the initial balance sheet position. We

[1] Adapted from HM Treasury (2003) and International Federation of Accountants (2009).

then consider indicators that can be used to summarise fiscal sustainability on the basis of such projections.

1.6 Another advantage of looking at flows of spending and revenue is that they provide a more intuitive guide to the nature of the potential policy response: the bulk of any adjustment to move the public finances from an unsustainable path to a sustainable one is likely to take the form of increasing revenues and/or reducing spending rather than selling assets or directly reducing the value of liabilities.

1.7 In analysing these stocks and flows, there is a trade-off between completeness and certainty. Balance sheets provide reasonably reliable estimates of assets and liabilities related to past activity (though even here there are a number of difficulties with estimation and data availability). But they are incomplete, as they do not account for many elements of future activity. Long-term projections paint a fuller picture, but are extremely uncertain.

Proposed response to SMC5(a) Characteristics of social benefit schemes

- This information would be useful, but does it have to be in the financial statements? It would add considerable length to the financial statements. Would this increased length obscure other useful information? Could user needs be met by allowing cross-referencing to other documents or sources of information?

Proposed response to SMC5(b) Explanation of amounts in the financial statements

- These disclosures are in respect of the obligating event approach (which limits the liability to the point at which the social benefit will NEXT be provided). Under the proposed obligating event approach in the ED these liabilities will be constrained. Entities will have to consider materiality in deciding whether they have to make these disclosures. Even if an entity decides it does not have to make the disclosures or can aggregate disclosures, it will still incur costs in making that assessment. Does the ED have the balance right?
- Reconciliations between opening and closing balances are useful – but they do cost money to prepare. If users could get most of this information from analysis of the financial statements, is the additional information provided by the reconciliation worth it?

Proposed response to SMC5(c) Projected cash outflows for next five years

- Can understand why the IPSASB has proposed these disclosures. They would provide more context for the information in the financial statements.
- Likely to be most useful in the case of governments that do not prepare long-term fiscal sustainability reports. For those governments that prepare long-term fiscal information, would these disclosures add anything extra?
- Pros and cons to these proposals. Some of the cons are:
  - The disclosures would focus on outflows. There would still be no information about inflows.
  - Entities would incur compliance costs (both costs of preparation and audit). Although many governments will prepare projections, different parts of government are likely to use different assumptions when preparing projections.
  - The disclosures will make the financial statements longer. Will this affect their accessibility?

- Need to think very carefully about the objective of general purpose financial statements vs fiscal sustainability reporting. Staff consider that the UK government's description of its framework for analysing fiscal sustainability (see extracts above) is useful in considering these differences. Would the Board like us to incorporate some of these points in the comment letter?
- Some accounting standards require disclosures about risks and sensitivity analyses. But the purpose of those disclosures is to help users understand the range of possibilities for numbers that are reported in the financial statements – not the possible numbers that might be reported in future periods.

Proposed outreach for SMC5

- Propose to contact academics, macro-economists, parliamentary staff and the Office of the Auditor-General.
- Contact preparers to discuss proposed disclosures.

Specific Matter for Comment 6:
The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

Advantages	**Disadvantages**
Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing. This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.	The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

Advantages	**Disadvantages**
Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.	The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements. Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.
Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.	RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how? If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

<u>Background information</u>

RPG 1

- Not mandatory
- Encourages same reporting boundary as for the financial statements, but notes that some governments may choose to prepare LTFS reports for the general government sector
- Projections are to be based on current policy and assumptions about future
- Report on three dimensions: service, revenue and debt
- Disclose principles, assumptions and methodologies
- Long-term fiscal sustainability information should not be described as complying with the RPG unless it complies with all the requirements of the RPG.

Countries/jurisdictions that produce LTFS reports include

- Australia
- Canada
- Denmark
- Germany
- New Zealand
- Norway
- Sweden

- Switzerland
- United Kingdom
- USA
- European Union

Some countries also prepare separate fiscal risk reports.

Each jurisdiction has its own indicators, some of which might be required by legislation. The EU has developed three indicators which it uses to compare countries:

- Medium sustainability indicator S1
- Long-term sustainability indicator S2
- Intertemporal net worth indicator INW.

There are debates about which indicators are the most useful/appropriate. For example, the Swedish Fiscal Sustainability Report 2017[2] says the following about the EU's S2 indicator.

> One difficulty with the S2 indicator is that it is sensitive to the assumptions made about demographics and economic growth, and also to the starting point for the calculations. The S2 indicator is also a static and stylised estimate which assumes that tax increases can be made without impacting on the size of the tax bases. There is, however, reason to believe that the tax bases would change following a sharp rise in taxation, with the result that taxes need to be raised even further than the constant increase indicated by the S2 value. To complement the conventional S2 indicator, the NIER also estimates a variant that takes some account of this effect, which we call S2+.

Compliance with RPG 1

- We have not identified any countries asserting compliance with RPG 1. One possibility is that RPG 1 is being used as a reference but, for some reason, the jurisdiction is not prepared to assert compliance with RPG 1.

New Zealand

- The Public Finance Act 1989 requires Treasury to produce a statement on the Crown's long-term fiscal position at least every four years.
- These statements provide 40-year projections on the fiscal position, identify challenges that will face future governments, such as those arising from society's ageing population, and provide members of the public with information on evidence-based options for meeting those challenges.
- The most recent report, He Tirohanga Mokopuna – the *2016 Statement on the Long-Term Fiscal Position*, was published on 22 November 2016.

Comparison of fiscal reporting by 4 jurisdictions

- There is a recent OECD paper, *Rationalising Government Fiscal Reporting – Lessons learned from Australia, Canada, France and the United Kingdom on how to better address users' needs*[3]

[2] https://www.konj.se/english/publications/occasional-studies/other/2017-04-10-fiscal-sustainability-report-2017.html

[3] https://www.ipsasb.org/system/files/meetings/files/Agenda-Item-2-OECD_Moretti_Fiscal_-Reporting_May-2017.pdf

- It looks at four countries (Australia, Canada, France and the United Kingdom) that have endeavoured to rationalise their fiscal reporting with the aim of making it more legible for users.
- Overall, case studies in this paper show (i) an increase in number, volume, and sophistication of fiscal reports, with virtually no fiscal reports discontinued over the last decades; (ii) a trend in rationalising fiscal reporting practices – that is improving, streamlining or simplifying existing budget documents and financial reports; and (iii) an increasing number of stakeholders involved in publishing commentaries and analysis of government-led fiscal reports or data.
- It suggests that there might be room to bring about a clearer and shared understanding of what information the set of fiscal reports and open data systems as a whole should provide, and assessing how each reporting stream should help to achieve the overall fiscal reporting objectives.

- We think that this report shows that fiscal reporting, of which long term sustainability reporting forms a part, is continuing to evolve and that voluntary guidance continues to be more appropriate than mandatory requirements.

<u>Proposed response to SMC6</u>

- Welcome debate on this matter.
- Note that although an increasing number of countries are now producing fiscal sustainability reports, we have not identified any that assert compliance with RPG 1.
- If RPG 1 were to be subsequently issued as a standard, it would need to have an even higher-level focus than it currently does because of the risk of conflicting with legislative requirements in a jurisdiction.
- We would support a disclosure requirement to include a link to any LTFS report produced by the jurisdiction.
- Explore arguments for and against making RPG 1 mandatory, but on balance conclude that it should retain its current status as voluntary guidance.
- LTFS is about risk management – more so than financial reporting. Financial reporting is a component of risk management.

<u>Proposed outreach for SMC6</u>

- Contact Treasury.

Exposure Draft 63
October 2017
Comments due: March 31, 2018

IPSAS®

Proposed International Public Sector Accounting Standard®

Social Benefits

IPSASB International Public Sector Accounting Standards Board®

197006.1

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

197006.1

REQUEST FOR COMMENTS

This Exposure Draft, *Social Benefits*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by March 31, 2017.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft are provided below.

Specific Matter for Comment 1:

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the scope would you make?

Specific Matter for Comment 2:

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

If not, what changes to the definitions would you make?

Specific Matter for Comment 3:

Do you agree that, with respect to the insurance approach:

(a) It should be optional;

(b) The criteria for determining whether the insurance approach may be applied are appropriate;

(c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and

(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

Specific Matter for Comment 4:

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.

Specific Matter for Comment 5:

Regarding the disclosure requirements for the obligating event approach, do you agree that:

(a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;

(b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and

(c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):

  (i) It is appropriate to disclose the projected future cash flows; and

  (ii) Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

Specific Matter for Comment 6:

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

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Advantages	**Disadvantages**
Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing. This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.	The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity’s long-term sustainability, as they do not include the complete information on all of an entity’s future inflows and outflows that long-term financial sustainability reports provide.	The nature of the information required for reporting on the long-term sustainability of an entity’s finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements. Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.
Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.	RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB’s assessment of what work is required?

EXPOSURE DRAFT 63, SOCIAL BENEFITS

CONTENTS

Objective

1. This [draft] Standard sets out the principles for the recognition, measurement, presentation and disclosure of social benefits.

2. The objective of this [draft] Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:

   (a) The nature of social benefits provided by the entity, and the key features of the operation of those social benefit schemes; and

   (b) The impact of social benefits provided on the entity's financial performance, financial position and cash flows.

3. To accomplish that, this IPSAS establishes principles and requirements for:

   (a) Recognizing social benefits;

   (b) Measuring social benefits;

   (c) Presenting information about social benefits in the financial statements; and

   (d) Determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the social benefits provided by the reporting entity.

Scope

4. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for social benefits.**

5. **This [draft] Standard applies to a transaction that meets the definition of a social benefit. This [draft] Standard does not apply to:**

   (a) **Financial instruments that are within the scope of IPSAS 29, *Financial Instruments: Recognition and Measurement*;**

   (b) **Employee benefits that are within the scope of IPSAS 39, *Employee Benefits*;**

   (c) **Insurance contracts that are within the scope of the relevant international or national accounting standard dealing with insurance contracts; and**

   (d) **Universally accessible services, as defined in paragraph 6 of this [draft] Standard.**

   Paragraphs AG1–AG3 provide additional guidance.

Definitions

6. **The following terms are used in this [draft] Standard with the meanings specified:**

   <u>Social benefits</u> are provided to:

   (a) Specific individuals and/or households who meet eligibility criteria;

   (b) Mitigate the effect of social risks; and

   (c) Address the needs of society as a whole; but

(d) Are not universally accessible services.

Paragraphs AG4–AG7 provide additional guidance.

Social risks are events or circumstances that:

(a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and

(b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

Paragraphs AG8–AG10 provide additional guidance.

Universally accessible services are those that are made available by a government entity for all individuals and/or households to access, and where eligibility criteria (if any) are not related to social risk.

Insurance Approach

Recognition and Measurement

7. **Where a social benefit scheme satisfies the criteria in paragraph 9, an entity is permitted, but not required, to recognize and measure the assets, liabilities, revenue and expenses associated with that social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts[1]. Paragraph AG11 provides additional guidance.**

8. Where an entity elects not to apply by analogy the requirements of the relevant international or national accounting standard dealing with insurance contracts, the entity shall recognize and measure the assets, liabilities, revenue and expenses associated with that social benefit scheme in accordance with paragraphs 13–35 of this [draft] Standard.

9. An entity may recognize and measure the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts where:

   (a) The social benefit scheme is intended to be fully funded from contributions; and

   (b) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

   Paragraphs AG12–AG15 provide additional guidance.

Disclosure

10. **The objective of the disclosures is for entities to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and statement of cash flows, gives a basis for users of financial statements to assess the effect that social benefits may**

[1] In this [draft] Standard, the term “the relevant international or national accounting standard dealing with insurance contracts” refers to IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17.

have on the financial position, financial performance and cash flows of the entity. Paragraphs 11 and 12 specify requirements on how to meet this objective.

11. **Where an entity recognizes and measures the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts, the entity shall disclose:**

    (a) **The basis for determining that the insurance approach is appropriate;**

    (b) **The information required by the relevant international or national accounting standard dealing with insurance contracts; and**

    (c) **Any additional information required by paragraph 12 of this [draft] Standard.**

12. To meet the requirements of paragraph 11(c) of this [draft] Standard, an entity shall disclose:

    (a) Information about the characteristics of its social benefit schemes, including:

        (i) The nature of the social benefits provided by the scheme (for example, retirement benefits, unemployment benefits, child benefits); and

        (ii) Key features of the social benefit scheme, such as a description of the legislative framework governing the scheme, for example, a summary of the main eligibility criteria that must be satisfied to receive the social benefit, and a statement about how additional information about the scheme can be obtained; and

    (b) A description of any significant amendments to the social benefit scheme made during the reporting period. Amendments to a social benefit scheme include, but are not limited to:

        (i) Changes to the level of social benefits provided; and

        (ii) Changes to the eligibility criteria, or to the individuals and/or households covered by the social benefit scheme.

Obligating Event Approach

Recognition of a Liability for a Social Benefit Scheme

13. **An entity shall recognize a liability for a social benefit scheme when:**

    (a) **The entity has a present obligation for an outflow of resources that results from a past event; and**

    (b) **The present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports.**

Outflow of Resources

14. A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability.

15. There may be uncertainty associated with the measurement of the liability. The use of estimates is an essential part of the accrual basis of accounting. Uncertainty regarding the outflow of resources does not prevent the recognition of a liability unless the level of uncertainty is so large that the qualitative characteristics of relevance and faithful representativeness cannot be met. Where the

level of uncertainty does not prevent the recognition of a liability, it is taken into account when measuring the liability.

Past Event

16. The past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions).

    Paragraphs AG16–AG19 provide additional guidance.

Recognition of an Expense for a Social Benefit Scheme

17. **An entity shall recognize an expense for a social benefit scheme at the same point that it recognizes a liability.**

18. An entity shall not recognize an expense for a social benefit scheme where a social benefit is provided prior to all eligibility criteria being satisfied. Rather, an entity shall recognize a payment in advance in the statement of financial position, unless the amount is irrecoverable, in which case it shall recognize an expense.

Measurement of a Liability for a Social Benefit Scheme

Initial Measurement of the Liability

19. **An entity shall measure the liability for a social benefit scheme at the best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability.**

20. Being alive is an eligibility criterion for social benefit schemes. Consequently, the maximum amount to be recognized as a liability is the costs that the entity will incur in fulfilling the present obligations represented by the liability until the next point at which eligibility criteria are required to be satisfied.

21. An entity's best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability take into account the possible effect of subsequent events on the level of benefits to be provided.

22. When the liability in respect of a social benefit scheme is not expected to be settled wholly before twelve months after the end of the reporting period in which the liability is recognized, the liability shall be discounted using the discount rate specified in paragraph 27.

23. Paragraphs AG20–AG22 provide additional guidance on measuring the liability.

Subsequent Measurement

24. **The liability for a social benefit scheme shall be reduced as social benefits are provided. Any difference between the cost of providing social benefits and the carrying amount of the liability in respect of the social benefit scheme is recognized in surplus or deficit, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

25. **Where a liability is discounted in accordance with paragraph 22, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.**

26. **The liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate.**

Discount Rate

27. **The rate used to discount a liability in respect of a social benefit scheme shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the social benefit liability.**

Measurement of an Expense for a Social Benefit Scheme

28. **An entity shall initially measure the expense for a social benefit scheme at an amount equivalent to the amount of the liability measured in accordance with paragraph 19. Where the entity provides a social benefit prior to all eligibility criteria being satisfied, it shall measure the payment in advance or expense recognized in accordance with paragraph 18 at the cost the entity has incurred in providing the social benefit.**

Disclosure

29. **The objective of the disclosures is for entities to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and statement of cash flows, gives a basis for users of financial statements to assess the effect that social benefits may have on the financial position, financial performance and cash flows of the entity. Paragraphs 30–35 specify requirements on how to meet this objective.**

30. **An entity shall disclose information that:**

    (a) **Explains the characteristics of its social benefit schemes (see paragraph 31);**

    (b) **Identifies and explains the amounts in its financial statements arising from its social benefit schemes (see paragraphs 32–33); and**

    (c) **Quantifies and explains future cash flows that may arise from its social benefit schemes (see paragraph 34).**

Characteristics of Social Benefit Schemes

31. An entity shall disclose:

    (a) Information about the characteristics of its social benefit schemes, including:

        (i) The nature of the social benefits provided by the scheme (for example, retirement benefits, unemployment benefits, child benefits).

        (ii) Key features of the social benefit scheme, such as a description of the legislative framework governing the scheme, for example, a summary of the main eligibility criteria that must be satisfied to receive the social benefit, and a statement about how additional information about the scheme can be obtained.

        (iii) A description of how the scheme is funded, including whether the funding for the scheme is provided by means of a budget appropriation, a transfer from another public sector entity, or by other means. If a scheme is funded (whether in full or in part) by social contributions, the entity shall provide:

a. A cross reference to the location of information on those social contributions and any dedicated assets (where this information is included in the entity's financial statements); or

b. A statement regarding the availability of information on those social contributions and any dedicated assets in another entity's financial statements (which may be a government's consolidated financial statements) and how that information can be obtained.

(b) A description of any significant amendments to the social benefit scheme made during the reporting period, along with a description of the expected effect of the amendments on future obligations. Amendments to a social benefit scheme include, but are not limited to:

(i) Changes to the level of social benefits provided; and

(ii) Changes to the eligibility criteria, or to the individuals and/or households covered by the social benefit scheme.

Explanation of Amounts in the Financial Statements

32. Where the liability in respect of a social benefit scheme is not expected to be settled by the end of the next reporting period, an entity shall disclose the significant assumptions used to determine the present value of that liability, including the basis on which the discount rate has been determined.

33. An entity shall disclose the total expense recognized in the statement of financial performance, and provide a reconciliation from the opening balance to the closing balance of the liability for each social benefit scheme, showing each of the following, if applicable:

(a) Liabilities and expenses recognized in the reporting period, comprising:

(i) Amounts recognized in the reporting period (including those settled in the reporting period);

(ii) Changes in accounting estimates; and

(iii) Interest expense;

(b) Prepayments; and

(c) Liabilities settled in the reporting period.

Explanation of Future Cash Flows that May Arise from an Entity's Social Benefit Schemes

34. For each social benefit scheme, an entity shall disclose:

(a) Its best estimate of the undiscounted projected cash outflows that will arise from the scheme in each of the five reporting periods immediately following the reporting date; and

(b) The key assumptions that the entity has relied on in making its best estimate of the projected cash outflows.

The amounts to be disclosed include all projected cash outflows that will arise from the social benefit scheme in the five reporting periods immediately following the reporting date. The amounts are not limited to those relating to current beneficiaries.

Reporting on the Long-Term Sustainability of an Entity's Finances

35. Entities with social benefits are encouraged, but not required, to prepare general purpose financial reports that provide information on the long-term sustainability of the entity's finances. Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, provides guidance on the preparation of such reports.

Transitional Provisions

Insurance Approach

36. **An entity shall apply the transitional provisions in the relevant international or national accounting standard dealing with insurance contracts in accounting for a social benefit scheme that is recognized and measured in accordance with the insurance approach (see paragraphs 7–12).**

Obligating Event Approach

37. **In accounting for a social benefit scheme that is recognized and measured in accordance with the obligating event approach (see paragraphs 13–35), an entity shall apply this [draft] Standard retrospectively, in accordance with IPSAS 3.**

38. In the first financial statements in which the requirements of this [draft] Standard are adopted, an entity shall report the total expense recognized in the current reporting period and the comparative period.

Effective Date

39. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after MMMM DD, YY. Earlier adoption is encouraged. If an entity applies this [draft] Standard for a period beginning before MMMM DD, YY, it shall disclose that fact.**

40. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.

Appendix A

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED 63)

Scope (see paragraphs 4–5)

AG1. This [draft] Standard is applied in accounting for transactions and obligations that meet the definition of a social benefit in paragraph 6 of this [draft] Standard. This [draft] Standard does not address transactions that are similar to social benefits, but which are addressed in other IPSASs. Examples of such transactions in some jurisdictions might include employee pensions (which are accounted for in accordance with IPSAS 39, *Employee Benefits*) and concessionary loans such as student loans (which are accounted for in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*).

AG2. Similarly, this [draft] Standard does not apply to insurance contracts, even if the risk covered by the insurance contract is a social risk as defined in paragraph 6 of this [draft] Standard. Insurance contracts are accounted for in accordance with the relevant international or national accounting standard dealing with insurance contracts.

AG3. This [draft] Standard does not apply to universally accessible services as defined in paragraph 6 of this [draft] Standard. The definition of social benefits specifically excludes universally accessible services. Universally accessible services are accounted for in accordance with other IPSASs.

Definitions (see paragraph 6)

Guidance on the Definition of Social Benefits

AG4. Social benefits are only provided when eligibility criteria are met. For example, a government may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be insufficient are met. Although the scheme potentially covers the population as a whole, unemployment benefits are only paid to those who are unemployed, i.e. those who meet the eligibility criteria.

AG5. The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met. Such benefits satisfy the criteria that they are provided to mitigate the effect of social risks.

AG6. Social benefits are organized to ensure that the needs of society as a whole are addressed. This distinguishes them from benefits provided through insurance contracts, which are organized for the benefit of individuals, or groups of individuals. Addressing the needs of society as a whole does not require that each social benefit covers all members of society; in some jurisdictions, social benefits are provided through a range of similar benefits that cover different segments of society. A social benefit that covers a segment of society as part of a wider system of social benefits meets the requirement that it addresses the needs of society as a whole.

AG7. Because social benefits are provided individually, many social benefits will be provided in cash. However, some social benefits may be provided in kind; for example where a government program provides healthcare insurance for those who are unable to afford private healthcare insurance. Where benefits in kind are universally accessible, for example a universal healthcare service, these do not meet the definition of a social benefit for the purposes of this [draft] Standard.

Guidance on the Definition of Social Risks

AG8. Social risks relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status. The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household.

AG9. For example, unemployment benefits are social benefits because the condition, event, or circumstance covered by the unemployment benefit arises from characteristics of the individuals and/or households – in this case a change in an individual's employment status. By contrast, aid provided immediately following an earthquake is not a social benefit. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.

AG10. Risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks, and consequently benefits provided in respect of these risks are not social benefits.

Insurance Approach (see paragraphs 7–9)

AG11. In the insurance approach section of this [draft] Standard, the term "the relevant international or national accounting standard dealing with insurance contracts" refers to IFRS 17, *Insurance Contracts*, and national standards that have adopted substantially the same principles as IFRS 17. IFRS 17 has adopted principles for accounting for insurance contracts that, when applied by analogy to social benefit schemes, will provide information that meets users' needs and satisfies the qualitative characteristics. This may not be the case for other accounting standards dealing with insurance contracts. For example, the IASB has described IFRS 4, *Insurance Contracts*, as an "interim Standard that permits a wide range of practices and includes a "temporary exemption", which explicitly states that an entity does not need to ensure that its accounting policies are relevant to the economic decision-making needs of users of financial statements, or that those accounting policies are reliable."[2] IFRS 4, and national standards that are consistent with the principles of IFRS 4, may not provide information that meets users' needs and satisfies the qualitative characteristics. Consequently, an entity may not recognize and measure the assets, liabilities, revenue and expenses associated with that social benefit scheme by applying, by analogy, the requirements of such standards.

2 Exposure Draft ED/2013/7 *Insurance Contracts*

Guidance on Determining Whether a Social Benefit Scheme is Intended to be Fully Funded from Contributions

AG12. A social benefit scheme is intended to be fully funded from contributions when:

(a) The legislation or other arrangement governing the social benefit scheme provides for the scheme to be funded by contributions or levies paid by or on behalf of either the potential beneficiaries or those whose activities create or exacerbate the risks, together with investment returns arising from the contributions or levies; and

(b) One or more of the following indicators (individually or in combination) is satisfied:

(i) Contribution rates or levy rates are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the revenue from contributions and levies will be sufficient to fully fund the social benefit scheme; and/or

(ii) Social benefit levels are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the levels of social benefits provided will not exceed the level of funding available from contributions or levies.

In subparagraphs (i) and (ii) above, reviews are undertaken on a regular basis when they are performed at a frequency appropriate for the specific scheme. While annual reviews are common, less frequent—or more frequent—reviews will be appropriate for some schemes.

AG13. The reference in paragraph AG12(a) to "those whose activities create or exacerbate the risks" is intended to cover those social benefit schemes such as accident insurance schemes that:

(a) Are funded by levies on, for example, motorists or employers in particular industries; and

(b) Provide coverage against social risks to the wider population.

Guidance on Determining Whether an Entity is Managing a Scheme in the Same Way as an Insurer

AG14. An entity is managing a scheme in the same way as an insurer would manage an insurance portfolio when the social benefit scheme has commercial substance, and has, with the exception of its legislative rather than contractual origins, the look and feel of an insurance contract.

AG15. In determining whether it is managing a scheme in the same way as an insurer would manage an insurance portfolio, an entity considers the following indicators:

(a) Does the entity consider itself bound by the scheme in a similar manner to an insurer being bound by an insurance contract? For example, there may be evidence that the entity considers that it can amend the terms of the scheme for existing participants in a manner that an insurer could not (such as where the entity can make retrospective changes to the scheme). In such cases, the entity will not be bound in a similar manner to an insurer, and the social benefit scheme will not have commercial substance or look and feel like an insurance contract. An entity will be bound by the scheme in a similar manner to an insurer where its ability to amend the scheme for existing participants is limited to:

(i) Circumstances prescribed by the legislation that establishes the scheme (equivalent to a contractual term permitting changes in specific circumstances); or

(ii) When a government is setting new contribution or levy rates (where a trade-off between the contributions and prospective benefits is part of the process of determining an appropriate rate).

(b) Are assets relating to the social benefit scheme held in a separate fund, or otherwise earmarked, and restricted to being used to provide social benefits to participants? If an entity does not separately identify amounts relating to social benefits, this will provide evidence that the entity considers the contributions as a form of taxation. The social benefit scheme will not have commercial substance or look and feel like an insurance contract. There will also be practical difficulties with applying the measurement requirements of the relevant international or national accounting standard dealing with insurance contracts if the assets associated with a social benefit scheme are not separately identified.

(c) Does the legislation that establishes the social benefit give enforceable rights to participants in the event that the social risk occurs? Insurance contracts give such rights to policyholders. If the social benefit scheme does not also include such rights, then any social benefits provided by the entity will have a discretionary nature. The social benefit scheme will not have commercial substance or look and feel like an insurance contract. For rights to be enforceable, a participant would need to have the right to challenge–in a court of law, via an arbitration or dispute resolution process or similar mechanism–decisions by the entity. The decisions that may be challenged include, but are not limited to, those regarding whether an event is covered by a scheme, the level of social benefits payable by a scheme, and the duration of any social benefits payable by a scheme.

(d) An entity assesses the financial performance and financial position of a social benefit scheme on a regular basis where it is required to report internally on the financial performance of the scheme, and, where necessary, to take action to address any under-performance by the scheme. The assessment is expected to involve the use of actuarial reviews, mathematical modelling, or similar techniques to provide information for internal decision-making on the different possible outcomes that might occur.

(e) Is there a separate entity established by the government, which is expected to act like an insurer in relation to a social benefit scheme? The existence of such an entity provides evidence that the entity is managing a scheme in the same way as an insurer would manage an insurance portfolio. However, it is not a requirement for applying the insurance approach that a separate entity has been established. Relevant international and national accounting standards dealing with insurance contracts apply to insurance contracts, not just to insurance companies.

Obligating Event Approach (see paragraphs 13–28)

Recognition of a Liability for a Social Benefit Scheme

AG16. In accordance with paragraph 16 of this [draft] Standard, the past event that gives rise to a liability for a social benefit is the satisfaction by the beneficiary of all eligibility criteria for the provision of the next social benefit. Being alive at the point at which the eligibility criteria are required to be satisfied is an eligibility criterion, whether explicitly stated or implicit. For a liability to be recognized, a beneficiary must satisfy the eligibility criteria for the provision of the next social benefit, even if formal validation of the eligibility criteria occurs less frequently.

AG17. Where a beneficiary has not previously satisfied the eligibility criteria, or there has been a break in satisfying the eligibility criteria, a liability is recognized at the point that the eligibility criteria are first satisfied. Examples may include:

(a) Reaching retirement age (in the case of a retirement pension);

(b) The death of a partner (in the case of a survivor benefit);

(c) Becoming unemployed (in the case of an unemployment benefit without a waiting period); and

(d) Being unemployed for a specified period (in the case of an unemployment benefit with a waiting period).

An entity will recognize a liability where beneficiaries satisfy the eligibility criteria at or prior to the reporting date. Where a beneficiary satisfies the eligibility criteria prior to the point at which the next social benefit will be provided, but after the reporting date, no liability is recognized, as there is no present obligation as at the reporting date.

AG18. Where a beneficiary has previously satisfied the eligibility criteria, and there has been no break in satisfying those criteria, a liability for future social benefits is recognized each time the criteria are satisfied. This will be the point at which a social benefit is provided.

AG19. Being alive at the point at which the eligibility criteria are satisfied is an eligibility criterion, whether explicitly stated or implicit. Consequently, a liability cannot extend beyond the point at which the next social benefit will be provided.

Measurement of a Liability for a Social Benefit Scheme

AG20. In accordance with paragraph 19 of this [draft] Standard, an entity shall measure the liability for a social benefit scheme at the cost of fulfilment. The maximum amount to be recognized as a liability is the costs that the entity will incur until the next point at which eligibility criteria are required to be satisfied.

AG21. In measuring the liability, an entity takes into account the possibility that beneficiaries may cease to be eligible for the social benefit prior to the next point at which eligibility criteria are required to be satisfied. Examples include:

(a) The death of the beneficiary;

(b) Commencing employment (in the case of an unemployment benefit); and

(c) Exceeding the maximum period for which a social benefit is provided (for example, where an unemployment benefit is provided for a maximum of one year).

Because a liability cannot extend beyond the point at which eligibility criteria will be next satisfied, liabilities in respect of social benefits will usually be short-term liabilities. Consequently, prior to the financial statements being authorized for issue, an entity may receive information regarding beneficiaries who have ceased to be eligible for the social benefit. IPSAS 14, *Events After the Reporting Date*, provides guidance on using this information.

AG22. Because a liability cannot extend beyond the point at which eligibility criteria will be next satisfied, liabilities in respect of social benefits will usually be short-term liabilities, and the time value of money will not be material. Nevertheless, this [draft] Standard requires an entity to discount the liability in those cases where the liability is not expected to be settled within twelve months of the reporting date. IPSAS 39, *Employee Benefits*, provides additional guidance on the discount rate to be used.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 1, 12, 19, and 77 are amended, paragraph 111G is added and paragraphs 7–11, 99 and 104 are deleted. New text is underlined and deleted text is struck through.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for provisions, contingent liabilities, and contingent assets, except:**

   (a) **~~Those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits~~Social benefits within the scope of [draft] IPSAS [X] (ED 63);**

   …

~~Social Benefits~~

~~7. For the purposes of this Standard, "social benefits" refer to goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:~~

~~(a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and~~

~~(b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.~~

~~8. In many cases, obligations to provide social benefits arise as a consequence of a government's commitment to undertake particular activities on an ongoing basis over the long term in order to provide particular goods and services to the community. The need for, and nature and supply of, goods and services to meet social policy obligations will often depend on a range of demographic and social conditions, and are difficult to predict. These benefits generally fall within the social protection, education, and health classifications under the International Monetary Fund's Government Finance Statistics framework, and often require an actuarial assessment to determine the amount of any liability arising in respect of them.~~

~~9. For a provision or contingency arising from a social benefit to be excluded from the scope of this Standard, the public sector entity providing the benefit will not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of the benefit. This exclusion would encompass those circumstances where a charge is levied in respect of the benefit, but there is no direct relationship between the charge and the benefit received. The exclusion of these provisions and contingent liabilities from the scope of this Standard reflects~~

~~the Committee's view that both (a) the determination of what constitutes the obligating event, and (b) the measurement of the liability require further consideration before proposed Standards are exposed. For example, the Committee is aware that there are differing views about whether the obligating event occurs when the individual meets the eligibility criteria for the benefit or at some earlier stage. Similarly, there are differing views about whether the amount of any obligation reflects an estimate of the current period's entitlement, or the present value of all expected future benefits determined on an actuarial basis.~~

~~10. Where an entity elects to recognize a provision for such obligations, the entity discloses the basis on which the provisions have been recognized and the measurement basis adopted. The entity also makes other disclosures required by this Standard in respect of those provisions. IPSAS 1 provides guidance on dealing with matters not specifically dealt with by another IPSAS. IPSAS 1 also includes requirements relating to the selection and disclosure of accounting policies.~~

~~11. In some cases, social benefits may give rise to a liability for which there is:~~

~~(a) Little or no uncertainty as to amount; and~~

~~(b) The timing of the obligation is not uncertain.~~

~~Accordingly, these are not likely to meet the definition of a provision in this Standard. Where such liabilities for social benefits exist, they are recognized where they satisfy the criteria for recognition as liabilities (refer also to paragraph 19). An example would be a period-end accrual for an amount owing to the existing beneficiaries in respect of aged or disability pensions that have been approved for payment consistent with the provisions of a contract or legislation.~~

Other Exclusions from the Scope of the Standard

12. This Standard does not apply to executory contracts unless they are onerous. ~~Contracts to provide social benefits entered into with the expectation that the entity will not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, are excluded from the scope of this Standard.~~

…

Definitions

…

Provisions and Other Liabilities

19. Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

    (a) Payables are liabilities to pay for goods or services that have been received or supplied, and have been invoiced or formally agreed with the supplier ~~(and include payments in respect of social benefits where formal agreements for specified amounts exist)~~; and

    …

Application of the Recognition and Measurement Rules

…

Onerous Contracts

77. Paragraph 76 of this Standard applies only to contracts that are onerous. ~~Contracts to provide social benefits entered into with the expectation that the entity does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, are excluded from the scope of this Standard.~~

…

Disclosure

…

~~99.~~ ~~**Where an entity elects to recognize in its financial statements provisions for social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, it shall make the disclosures required in paragraphs 97 and 98 in respect of those provisions.**~~

…

~~104. The disclosure requirements in paragraph 100 do not apply to contingent liabilities that arise from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods or services provided, directly in return from the recipients of those benefits (see paragraphs 1(a) and 7–11 for a discussion of the exclusion of social benefits from this Standard).~~

…

Effective Date

…

111G. **Paragraphs 1, 12, 19, and 77 were amended and paragraphs 7–11, 99 and 104 were deleted by [draft] IPSAS [X] (ED 63), *Social Benefits*, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED 63) at the same time.**

…

Basis for Conclusions

…

Revision of IPSAS 19 as a result of [draft] IPSAS [X] (ED 63)

BC3. When issued, this Standard excluded provisions and contingent liabilities relating to social benefits from the scope of the Standard. This reflected the view at that time that both (a) the determination of what constitutes the obligating event, and (b) the measurement of the liability required further consideration. There were differing views about whether the obligating event occurs when the individual meets the eligibility criteria for the social benefit or at some earlier stage. Similarly, there were differing views about whether the amount of any obligation reflects an estimate of the current period's entitlement, or the present value of all expected future social benefits determined on an actuarial basis.

BC4. This Standard did not, however, prohibit the recognition of provisions relating to social benefits, and required disclosures where an entity elected to recognize a provision for such obligations.

BC5. Following the publication of [draft] IPSAS [X] (ED 63), all social benefits will be accounted for in accordance with that Standard. This Standard has therefore been revised to exclude all social benefits within the scope of [draft] IPSAS [X] (ED 63) and to remove the requirements within this Standard that related to social benefits.

Comparison with IAS 37

IPSAS 19 is drawn primarily from IAS 37 (1998). The main differences between IPSAS 19 and IAS 37 are as follows:

- IPSAS 19 includes commentary additional to that in IAS 37 to clarify the applicability of the standards to accounting by public sector entities.~~ In particular, the scope of IPSAS 19 clarifies that it does not apply to provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of the goods and services provided directly in return from recipients of those benefits. However, if the entity elects to recognize provisions for social benefits, IPSAS 19 requires certain disclosures in this respect.~~

Amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Paragraph 2 is amended and paragraph 124F is added. New text is underlined and deleted text is struck through.

…

Scope

2 **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to:**

(a) **A ~~a~~ public sector combination that is a non-exchange transaction; and**

(b) **Contributions to social benefit schemes that are accounted for in accordance with paragraphs 7–12 of [draft] IPSAS [X] (ED 63), *Social Benefits* (the insurance approach).**

…

124F **Paragraph 2 was amended by [draft] IPSAS [X] (ED 63), *Social Benefits*, issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED 63) at the same time.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 23.

…

Compulsory Contributions to Social Security Schemes

BC26. This Standard does not exclude from its scope compulsory contributions to social security schemes that are non-exchange transactions. There are a variety of different arrangements for funding social security schemes in different jurisdictions. At the time that IPSAS 23 was developed, the IPSASB considered that ~~W~~whether or not compulsory contributions to social security schemes give rise to exchange or non-exchange transactions depends on the particular arrangements of a given scheme, and professional judgment is exercised to determine whether the contributions to a social security scheme are recognized in accordance with the principles established in this Standard, or in accordance with principles established in international or national standards addressing such schemes.

BC26A The IPSASB reconsidered this issue in developing [draft] IPSAS [X] (ED 63), *Social Benefits*. The IPSASB concluded that such contributions are non-exchange transactions, and should be accounted for in accordance with this Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to social benefit schemes accounted for under the insurance approach are not accounted for as revenue under this Standard.

Amendments to IPSAS 28, *Financial Instruments: Presentation*

Paragraph 60E is added and paragraph AG23 is amended. New text is underlined and deleted text is struck through.

…

Effective date

60E. **Paragraph AG23 was amended by [draft] IPSAS [X] (ED 63), *Social Benefits*, issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED 63) at the same time.**

Application Guidance

…

Definitions (paragraphs 9–12)

Financial Assets and Financial Liabilities

…

AG23. Statutory obligations can be accounted for in a number of ways:

- Obligations to pay income taxes are accounted for in accordance with the relevant international or national accounting standard dealing with income taxes.
- Obligations to provide social benefits are accounted for in accordance with ~~IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors and IPSAS 19~~[draft] IPSAS [X] (ED 63), *Social Benefits*.
- Other statutory obligations are accounted for in accordance with IPSAS 19.

Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraph 36 is amended and paragraphs 134A, 134B and 157 are added. New text is underlined and deleted text is struck through.

…

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

…

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

36. **Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs:**

    (a) **Inventories (see IPSAS 12, *Inventories*);**

    (b) **Investment property (see IPSAS 16, *Investment Property*);**

    (c) **Property, plant and equipment (see IPSAS 17, *Property, Plant and Equipment*);**

    (d) **Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);**

    (e) **Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);**

    (f) **Intangible assets (see IPSAS 31, *Intangible Assets*);**

    (g) **Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*);~~ and~~**

    (h) **Financial instruments (see IPSAS 29, *Financial Instruments; Recognition and Measurement*)~~.~~; and**

    (i) **Social benefits (see [draft] IPSAS [X] (ED 63), *Social Benefits*).**

…

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Adoption

…

[Draft] IPSAS [X] (ED 63), *Social Benefits*

134A **On the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional exemption, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for a social benefit scheme at that date in accordance with [Draft] IPSAS [X] (ED 63).**

134B. **If the initial liability in accordance with paragraph 134A is more or less than the liability that was recognized and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter shall recognize that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.**

Effective Date

…

157. **Paragraph 36 was amended and paragraphs 134A and 134B were added by [draft] IPSAS [X] (ED 63), *Social Benefits*, issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED 63) at the same time.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 33.

…

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

…

[Draft] IPSAS [X] (ED 63), *Social Benefits*

BC60A. The IPSASB issued [draft] IPSAS [X] (ED 63), *Social Benefits*, in Month YYYY. The IPSASB acknowledged that the recognition and/or measurement of liabilities related to social benefits may be challenging for some public sector entities. The IPSASB therefore agreed that a first-time adopter should be given a three year relief period for the recognition and/or measurement of liabilities related to social benefits.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

…

Presentation and Disclosure

…

Summary of Transitional Exemptions and Provisions Included in IPSAS 33 First-time Adoption of Accrual Basis IPSASs

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs

…

	Transitional exemption provided							
	NO	**YES**						
		Deemed cost	**3 year transitional relief for recognition**	**3 year transitional relief for measurement**	**3 year transitional relief for recognition and/or measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
[Draft] IPSAS [X] (ED 63), *Social Benefits*			✓ liabilities for social benefits not recognized under previous basis of accounting	✓ liabilities for social benefits recognized under previous basis of accounting				

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED 63)

Objective (paragraphs 1–3)

BC1. In the absence of an International Public Sector Accounting Standard (IPSAS) dealing with social benefits, public sector entities are required to develop their own accounting policies for recognizing, measuring and presenting social benefits. As a result, there may not be consistent or appropriate reporting of transactions and obligations related to social benefits in general purpose financial statements (GPFSs). Consequently, users may not be able to obtain the information needed to identify the social benefits provided by an entity and evaluate their financial effect. The IPSASB believes that [draft] IPSAS [X] (ED 63) will promote consistency and comparability in how social benefits are reported by public sector entities.

Scope and Definitions (paragraphs 4–6)

History

BC2. In developing [draft] IPSAS [X] (ED 63), the IPSASB noted that existing IPSASs do not define social benefits. Instead, a broad description is given in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

BC3. IPSAS 19 describes social benefits as "goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:

(a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and

(b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income."

BC4. The IPSASB also had regard to its previous work in this area. The 2004 Invitation to Comment (ITC), *Accounting for Social Policies of Government*, sought views on how to account for a wide range of social benefits. The ITC noted that "Social benefits could also be provided under other categories of government activity (for example, Defense, Public Order and Safety and Community Amenities)." These are often referred to as "collective services" or "collective goods and services."

BC5. Responses to the ITC supported the development of an IPSAS on social benefits. However, the IPSASB failed to reach a consensus on when a present obligation arises especially for contributory cash transfer schemes. Consequently, in 2008 the IPSASB issued Exposure Draft ((ED) 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*, and a Consultation Paper (CP), *Social Benefits: Issues in Recognition and Measurement*. At this time the IPSASB also issued a Project Brief, *Long-Term Fiscal Sustainability*.

BC6. Respondents did not consider that the proposed disclosures in the financial statements could convey sufficient information about social benefits. Consequently, the IPSASB agreed not to proceed with ED 34.

BC7. The CP, *Social Benefits: Issues in Recognition and Measurement*, proposed a narrower definition of social benefits than had been included in the 2004 ITC. The CP included the following definition of social benefits:

"The IPSASB defines social benefits as;

(a) Cash transfers; and

(b) Collective and individual goods and services

that are provided by an entity to individuals or households in non-exchange transactions to protect the entire population, or a particular segment of the population, against certain social risks."

BC8. This definition introduced the idea of social benefits being related to social risks for the first time in the IPSASB's literature. According to this definition, not all cash transfers or collective and individual goods and services are social benefits. Only those cash transfers or collective and individual goods and services that are provided to protect the entire population, or a particular segment of the population, against certain social risks meet the definition of social benefits. The CP did not, however, define social risks.

BC9. Despite the narrower scope and the link with social risks, the IPSASB did not reach a consensus on when a present obligation arises for social benefits within the scope of the CP. The IPSASB recognized the linkages between its work in developing *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* and accounting for social benefits. The elements and recognition phase of the Conceptual Framework would define a liability. This definition and supporting analysis would influence the accounting for social benefits. The IPSASB therefore decided to defer further work on this topic until after the completion of the Conceptual Framework.

BC10. In the interim, the IPSASB initiated a project on the long-term sustainability of the public finances in 2008, based on the project brief. Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* was published in 2013.

BC11. RPG 1 provides guidance on preparing general purpose financial reports that can meet users' needs for information about the long-term fiscal sustainability of an entity, including the social benefit schemes the entity provides.

BC12. In the context of social benefits, general purpose financial reports prepared in accordance with RPG 1 will provide information about expected obligations to be settled in the future, including obligations to individuals who have not met the eligibility criteria for a scheme, or who are not currently contributing to a scheme that would entitle them to future social benefits. RPG 1 does not address the question of whether such obligations meet the definition of a present obligation, and so should be recognized in the financial statements.

BC13. The general purpose financial report will also include information about the expected resources to be realized in the future that will be used to finance social benefits. In many jurisdictions this will include future taxation income. Because an entity does not currently control these resources, they are not recognized in the financial statements.

BC14. The IPSASB restarted its work on social benefits in 2014. The IPSASB noted that the broad scope of social benefits included in previous projects had been a factor in the IPSASB failing to reach consensus. Consequently, the IPSASB decided to adopt a narrower definition of social benefits. At this time, the IPSASB had agreed to commence work on a non-exchange expenses project; the

IPSASB considered that adopting a narrower definition of social benefits would best meet the project management needs of both projects.

Role of Government Finance Statistics (GFS)

BC15. The IPSASB considers it important to reduce differences with the statistical basis of reporting where appropriate. The IPSASB therefore considered the approach to social benefits taken in GFS.

BC16. The IPSASB considered that social benefits, other transfers in kind and collective services would be expected to raise similar issues regarding the recognition and measurement of liabilities and expenses. However, the IPSASB considered that different factors would arise in the recognition and measurement of transactions that address specific social risks (i.e., social benefits) and those transactions that do not. For example, the recognition and measurement of an obligation in respect of social benefits may be related to individuals satisfying eligibility criteria.

BC17. Having reviewed the approach to social benefits taken in GFS, the IPSASB noted that the economic consequences described in GFS were likely to be similar to those in a future IPSAS. The IPSASB decided to align, as far as possible, its definition of social benefit with those in GFS. This was the approach taken in the CP, *Recognition and Measurement of Social Benefits*, issued in 2015.

BC18. The alignment with GFS was intended to provide clearer definitions that demarcate transactions and events which are, in substance dissimilar. It also maximized consistency between the two frameworks, in line with the IPSASB policy paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*.

Responses to Consultation Paper, Recognition and Measurement of Social Benefits

BC19. A majority of respondents supported the scope of the project as set out in the CP, and the IPSASB's intention to align the scope of the project, and the definitions of social benefits and social risks, with GFS. These respondents considered that alignment with GFS would assist with interpreting an IPSAS and help ensure consistency in its application.

BC20. However, a significant minority raised concerns. The main concerns were:

(a) Definition of social risk. A number of respondents considered that the definition of social risk was difficult to apply in practice, and that it was therefore difficult to differentiate between social benefits and certain other non-exchange expenses of government.

(b) The boundary between social benefits and non-exchange expenses. Some respondents considered that social benefits in kind and other transfers in kind give rise to the same issues. These respondents considered that the scope of the CP creates an artificial boundary between social benefits and non-exchange expenses.

BC21. The IPSASB considered these concerns in developing [draft] IPSAS [X] (ED 63), as follows:

(a) The definition of social risks has been reframed to fit an accounting framework as opposed to an economic/statistical framework. Although the wording of the definition has been amended in [draft] IPSAS [X] (ED 63), the IPSASB's intention in so doing has been to clarify the meaning of the definitions for preparers, rather than to modify the risks that are considered to be social risks. The definition of social benefits has also been amended to improve the clarity of the definition.

(b) [Draft] IPSAS [X] (ED 63) distinguishes between social risks and other risks, for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring. The hazards or events that give rise to these risks are not related to the characteristics of individuals and/or households, which is a distinguishing feature of social risks. The IPSASB also noted that governments' responses to social risks is often different to their response to other risks. Governments usually plan for the occurrence of social risks, with schemes, backed by legislation, in place to address these risks. By contrast, governments' responses to other risks such as geographical risks is often reactive, with any schemes being put in place following the occurrence of an event such as flooding or an earthquake. The IPSASB considered that the reactive nature of responses to other risks was more suited to its non-exchange expenses project than this [draft] Standard. The IPSASB also noted that this approach would be consistent with the approach taken in GFS.

(c) [Draft] IPSAS [X] (ED 63) distinguishes between those benefits that are provided to specific individuals and/or households and those that are universally accessible. This distinction is intended to provide a more principles based, less artificial boundary between social benefits and non-exchange expenses. Liabilities and expenses associated with social risks can be measured by reference to an individual's eligibility to receive the social benefit, which does not apply to non-exchange expenses. In developing this boundary, the IPSASB acknowledges that social benefits and non-exchange expenses form a continuum, and that any boundary will, to some extent, be artificial. However, the IPSASB's earlier experiences convinced the Board that a boundary would be required for a social benefits project to be manageable.

BC22. The effect of these decisions is to align the scope of [draft] IPSAS [X] (ED 63), and its definitions of social benefits and social risks, with those in GFS, with the exception of universally accessible services. Universally accessible services such as a universal healthcare service are considered to be social benefits under GFS, but are outside the scope of [draft] IPSAS [X] (ED 63). The IPSASB considered that outcome would satisfy the majority of respondents who supported alignment with GFS, whilst addressing the concerns of the significant minority of respondents who had concerns with the boundary between social benefits and non-exchange expenses.

Approaches to Accounting for Social Benefits

BC23. The IPSASB consulted on three approaches to accounting for social benefits in the CP, *Recognition and Measurement of Social Benefits*. These were the obligating event approach, the social contract approach and the insurance approach.

BC24. The social contract approach viewed obligations to provide social benefits by governments as quasi-contractual in nature, and adopted executory contract accounting.

BC25. In developing the CP, the IPSASB came to a preliminary view that the social contract approach was not consistent with the Conceptual Framework. Respondents to the CP supported this preliminary view. Respondents considered that the social contract approach would result in items that met the definition of a liability not being recognized. Consequently, respondents considered that the social contract approach would not provide information that is useful for accountability and decision-making purposes.

BC26. The IPSASB noted the support for its preliminary view, and agreed not to proceed with the social contract approach.

BC27. In developing the CP, the IPSASB came to a preliminary view that a combination of the obligating event approach and (for some or all contributory schemes) the insurance approach might be required to reflect the different economic circumstances arising in respect of social benefits.

BC28. Respondents to the CP supported this preliminary view. The IPSASB therefore agreed to develop both the insurance approach and the obligating event approach in [draft] IPSAS [X] (ED 63).

Non-Exchange Expenses Project

BC29. As noted in paragraph BC14, the IPSASB has adopted a narrower definition of social benefits, considering that this would best meet the project management needs of both the social benefits project and the non-exchange expenses project.

BC30. The IPSASB issued a CP, *Accounting for Revenue and Non-Exchange Expenses*, in August 2017. In this CP, the IPSASB expressed a preliminary view a performance obligation approach would be appropriate for recognizing and measuring some types of non-exchange expense transaction. Consequently, the IPSASB considered whether such an approach could be applied to social benefits.

BC31. The IPSASB noted that social benefits are provided where a social risk has occurred, for example an individual has become unemployed or an individual has reached retirement age. The IPSASB concluded that social risks do not involve performance of an obligation by the individual and, consequently, the performance obligation approach would not be appropriate for recognizing and measuring social benefits. For similar reasons, the IPSASB is not proposing to adopt the performance obligation approach to non-exchange expenses for universally accessible services and collective services.

Insurance Approach (paragraphs 7–12)

Application of the Insurance Approach

BC32. In the CP, *Recognition and Measurement of Social Benefits*, the IPSASB proposed an approach based on insurance accounting for some or all contributory schemes. The IPSASB proposed that this approach should be based on the IASB's proposed IFRS Standard on insurance contracts, contained in Exposure Draft ED/2013/7, *Insurance Contracts* (June 2013). This ED has subsequently been further developed and issued as IFRS 17, *Insurance Contracts*.

BC33. Respondents to the CP generally supported the IPSASB's proposals regarding the insurance approach, although a number of concerns were raised. Respondents considered that the insurance approach should only be applied in limited circumstances. These were that the social benefit scheme operated in a similar manner to an insurance contract, and that the scheme was funded from dedicated sources of revenue, not general taxation. Respondents considered that applying the insurance approach to other social benefit schemes would not faithfully represent the economic substance of those schemes.

BC34. The IPSASB concurred with this view. Consequently, the IPSASB agreed that the insurance approach should only be applied where:

(a) The social benefit scheme is intended to be fully funded from contributions; and

(b) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

BC35. In developing [draft] IPSAS [X] (ED 63), the IPSASB then considered whether the insurance approach should be mandatory for social benefit schemes that meet the criteria, or optional.

BC36. The IPSASB considered that, for social benefit schemes that meet the criteria to apply the insurance approach, that approach is expected to provide the information that best meets users' needs. In order to assess whether the entity is managing the financial performance of the social benefit scheme appropriately, users will need information as to whether the contributions are sufficient to meet the expected liabilities. Where a loss is recorded under the insurance approach, this will provide users with the information they need to question whether a scheme is sustainable without changes to contribution rates or benefits. Similarly, if a social benefit scheme has ongoing large surpluses, this will allow a debate as to whether that scheme is being used to subsidize other expenditure, and if so, whether this is appropriate. The IPSASB initially considered that the fact that users' needs are best met by the insurance approach was the main reason for making the insurance approach mandatory.

BC37. The insurance approach is, however, expected to be more costly and complex to implement than the obligating event approach. Actuarial estimates may not be required under the obligating event approach. Where actuarial estimates are required, only estimates of cash outflows for the next five years are required. The insurance approach will require those estimates and estimates of cash outflows for subsequent years, along with estimates of cash inflows. In addition, the IASB had only recently issued IFRS 17 and that Standard has significantly different requirements from many existing national standards dealing with insurance. Consequently, it may take some time for any practical issues to be fully identified and addressed. Applying these new requirements to social benefits would introduce a further level of complexity. The IPSASB considered that there may be cost/benefit reasons for not using the insurance approach, and that this was the main reason for making the insurance approach an optional approach.

BC38. The IPSASB did note that, if an entity is managing a social benefit scheme as if it were a portfolio of insurance contracts, the entity may already have the information required to implement the insurance approach. It may also need that information in order to be able to effectively manage the social benefit scheme. This suggested that, where a social benefit scheme meets the criteria to be accounted for under the insurance approach, the costs associated with so doing may not be as high as it would initially appear.

BC39. The IPSASB considered that a further advantage of making the insurance approach optional would arise where an entity is having difficulty determining whether the criteria for applying the insurance approach have been met. The entity could avoid expending additional resources to make that determination by electing to apply the obligating event approach.

BC40. However, the IPSASB accepted that making the insurance approach optional would carry the risk that very few entities adopt the approach, and that users would not be provided with the most appropriate information about some social benefit schemes. Social benefit schemes that could be accounted for under the insurance approach are likely to have a different economic substance to other social benefit schemes, which the obligating event approach may not fully capture.

BC41. On balance, the IPSASB considered that the insurance approach should be optional, based on the cost/benefit reasons given above. The IPSASB noted that this could be revisited at a future date, once entities have experience with applying the new IFRS Standard, and the insurance approach in [draft] IPSAS [X] (ED 63).

Accounting Requirements

BC42. In the CP, *Recognition and Measurement of Social Benefits*, the IPSASB proposed that the insurance approach should be based on the IASB's Exposure Draft.

BC43. The IPSASB identified three options for introducing the insurance approach:

(a) Develop the insurance approach in [draft] IPSAS [X] (ED 63). The IPSASB noted that this option would be consistent with the proposals in the CP, and would be tailored to social benefits. However, this option would significantly increase the duration of the project, and would not have wider application.

(b) Develop a separate IPSAS on insurance. The IPSASB noted that this would fill a gap in the IPSASB's literature and could address social benefits as well as having wider application. However, the IPSASB noted that such an IPSAS was not included in the IPSASB's work plan, and that developing an additional Standard would delay the social benefits project.

(c) Direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to social benefit schemes that meet the criteria for applying the insurance approach. The IPSASB noted that this would require less resources and would ensure consistency with IFRS. However, guidance on social benefit specific issues might be required.

BC44. The IPSASB noted that the number of preparers to whom the insurance approach will be relevant is likely to be small. The IPSASB also noted that the criteria for applying the insurance approach meant that only those social benefit schemes that were very similar to insurance contracts would be affected.

BC45. The IPSASB concluded, therefore, that the additional time and resources required to develop the insurance approach, either in [draft] IPSAS [X] (ED 63) or as a separate IPSAS on insurance, could not be justified. The IPSASB agreed to direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to social benefit schemes:

(a) That meet the criteria for applying the insurance approach; and

(b) Which the entity elects to account for under the insurance approach.

BC46. The IPSASB then considered whether any guidance on social benefit specific issues was required when applying IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to social benefit schemes. In particular, the IPSASB considered whether the arrangements in IFRS 17 in respect of the discount rate and the risk adjustment were appropriate for a social benefit scheme. In considering these questions, the IPSASB agreed to limit the application of the insurance approach to those cases where an entity would be referring to IFRS 17 or a national standard that has adopted substantially the same principles as IFRS 17. This is because other standards, for example IFRS 4, *Insurance Contracts* (and national standards based on IFRS 4) may not provide information that meets users' needs and satisfy the qualitative characteristics.

BC47. The requirements in IFRS 17 specify that the selected discount rate should adjust the future cash flows to reflect the time value of money. Such rates should be consistent with observable market prices for instruments with cash flows that are consistent with the timing, currency and liquidity of the insurance contract. The IPSASB noted that these requirements differ from those in IPSAS 39, *Employee Benefits*, where no liquidity adjustment is included in the discount rate.

BC48. The IPSASB noted that statistical reporting uses consistent discount rates for accounting for employee benefits and social benefits. Consistency with statistical reporting would suggest adopting the approach to discount rates specified in IPSAS 39.

BC49. The IPSASB considered the nature of a liquidity adjustment. Where financial markets are illiquid, a seller of a financial instrument may have to accept a lower price for the instrument. This may lead them to demand a higher market yield. Longer duration insurance contracts may be seen as illiquid. In developing the CP, the IPSASB questioned whether the notion of a policy holder demanding a higher market yield is relevant where the terms of a social benefit are prescribed by government.

BC50. For these reasons, the IPSASB came to the view, in developing the CP, that the discount rate used under the insurance approach should not include a liquidity adjustment. The IPSASB took the view at that time that the discount rate approach in IPSAS 39 was appropriate. Respondents to the CP generally concurred with this view.

BC51. The IPSASB noted that IFRS 17 requires the use of a risk adjustment. In developing the CP, the IPSASB had noted that there were differing views on the appropriateness of a risk adjustment in the context of social benefits:

> 6.42 For some social security schemes, uncertainty regarding future cash flows will be relatively small. An example would be where past experience shows that the level of both contributions received and benefits provided is relatively stable. In these circumstances, information about the best estimate of the entity's liability related to the scheme may be most useful to users of the financial statements.
>
> 6.43 For other social security schemes, there may be significant uncertainty regarding future cash flows. In these circumstances, some consider that the use of the assumption price measurement basis may be more appropriate. They argue that information regarding the risk adjustment applied by the entity may enable users of the financial statements to better evaluate the risks borne by the entity in operating the scheme. Others consider that the use of the assumption price measurement basis is not appropriate for the public sector where there is no third party that might assume the liability. They argue that applying a risk adjustment results in an estimate other than the best estimate of the claims on the entity's resources in regard to the scheme; such an estimate may not be neutral and may therefore not satisfy the qualitative characteristic of faithful representation.

BC52. The IPSASB sought the views of respondents to the CP regarding a risk adjustment. Respondents generally considered that the cost of fulfilment measurement basis, which does not include a risk adjustment, was the most appropriate measurement basis for social benefits.

BC53. In the light of these comments, the publication of IFRS 17 by the IASB, and the decision to direct preparers to apply IFRS 17 (or the relevant national accounting standard) by analogy, the IPSASB revisited its conclusions in the CP.

BC54. The IPSASB acknowledged that the views discussed in the CP were still valid. The IPSASB also accepted that adopting the discount rate included in IPSAS 39, and not including a risk adjustment, would produce greater consistency with social benefit schemes recognized and measured using the obligating event approach. Conversely, retaining the discount rate included in IFRS 17, and retaining the risk adjustment, might result in significantly different amounts being included in the financial statements.

BC55. However, the IPSASB considered that amending the requirements of IFRS 17 could only be achieved by undertaking significant due process on that standard, in order to ensure there were no unintended consequences. This would require a significant use of resources, which would defeat the IPSASB's intentions in directing preparers to apply IFRS 17 (or the relevant national accounting standard) by analogy (see paragraph BC45 above).

BC56. The IPSASB also noted that inconsistencies in the application of discount rates was a wider issue, and that a number of standard setters, including the IASB, were undertaking work on this area.

BC57. Finally, the IPSASB noted that the insurance approach was optional, not a requirement (although, as noted in paragraph BC41 above, this might be subject to review at a later date). An entity that considered the use of different discount rates problematic could elect to account for all its social benefit schemes using the obligating event approach.

BC58. For these reasons, the IPSASB agreed not to amend the requirements in IFRS 17 when applying that standard by analogy to social benefit schemes.

Obligating Event Approach (paragraphs 13–35)

Recognition

BC59. In developing the CP, *Recognition and Measurement of Social Benefits*, the IPSASB identified five distinct points at which a case could be made for recognizing an obligation in the financial statements. These were:

(a) Key participatory events have occurred;

(b) Threshold eligibility criteria have been satisfied;

(c) The eligibility criteria to receive the next benefit have been satisfied;

(d) A claim has been approved; and

(e) A claim is enforceable.

BC60. The CP sought respondents' views on these possible obligating events. The CP also asked respondents whether a future IPSAS should consider that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose.

BC61. In reviewing the responses to the CP, the IPSASB noted that there was substantial support for the view that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose. The IPSASB agreed to take this view into account in determining which obligating events should be included in [draft] IPSAS [X] (ED 63).

BC62. The IPSASB also noted, however, that there was no consensus as to the range of different points at which an obligating event could arise. The IPSASB therefore focused on analyzing the various obligating events by reference to the Conceptual Framework, noting respondents' comments where these provided evidence about a particular obligating event or raised other matters that required consideration.

BC63. In developing the CP, the IPSASB had initially agreed that aligning the recognition and measurement of social benefits with GFS could only be considered once responses had been reviewed. Subsequently, the IPSASB noted that a range of recognition points might be appropriate under the obligating event approach.

BC64. If this were the case, this would implicitly reject aligning the recognition and measurement of social benefits with GFS under the obligating event approach. This is because, under GFS, an expense is recorded only when the payment of the social benefits is due (i.e., in line with the claim is enforceable obligating event only).

BC65. The IPSASB also concluded that the recognition and measurement of social benefits should be consistent with the Conceptual Framework, and that this should take priority over alignment with the GFS treatment. Any alignment that emerged from the IPSASB's deliberations would, therefore, be coincidental.

Requirement to Satisfy Ongoing Eligibility Criteria (Including Revalidation) Affects Recognition

BC66. The IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement. This could be the case where a social benefit was intended to be provided on a "one-off" or short-term basis. The IPSASB therefore considered when it would be appropriate to recognize a liability that took account of the requirement to satisfy ongoing eligibility criteria.

BC67. The first possible obligating event identified in the CP that took account of the requirement to satisfy ongoing eligibility criteria was that the eligibility criteria to receive the next benefit have been satisfied. Respondents to the CP gave significant support to the inclusion of this obligating event. Respondents noted that for some social benefits, the satisfaction of the eligibility criteria by a potential beneficiary would be sufficient to give rise to a legal obligation for an entity. Where this was not the case, respondents considered that this obligating event would give rise to a non-legally binding obligation. The IPSASB agreed with these comments.

BC68. A small number of respondents did not support this obligating event, arguing that an entity still had discretion to avoid payment until a claim has been approved. These respondents commented that no government can bind its successor, and any social benefit obligation can be changed at the whim of the government in power.

BC69. The IPSASB did not support this view. The IPSASB noted that paragraph 5.22 of the Conceptual Framework addressed the issue of sovereign power:

"Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability."

BC70. The IPSASB concluded that a beneficiary satisfying the eligibility criteria to receive the next social benefit would give rise to an obligation that meets the definition of a liability. Consequently, the IPSASB agreed that the eligibility criteria to receive the next social benefit have been satisfied obligating event should be included as an obligating event in [draft] IPSAS [X] (ED 63).

BC71. The IPSASB next considered the claim has been approved and claim is enforceable obligating events. The IPSASB noted that respondents generally did not support the use of these obligating events. In particular, a significant majority of respondents opposed the use of the claim is enforceable obligating event, arguing that it would limit the recognition of a liability to those cases where a legal obligation existed. Respondents argued that this was inconsistent with the

Conceptual Framework, which recognized that liabilities could arise from non-legally binding obligations.

BC72. Respondents also argued that, once eligibility criteria have been satisfied, an obligation that the entity would have little or no realistic alternative to avoid would usually arise. Consequently, a liability would arise prior to a claim being approved or becoming enforceable.

BC73. The IPSASB concurred with respondents' views, and agreed that, for social benefits where there was a requirement to satisfy ongoing eligibility criteria only the 'eligibility criteria to receive the next social benefit have been satisfied' obligating event should be included in [draft] IPSAS [X] (ED 63).

BC74. In coming to this conclusion, the IPSASB noted that there may be social benefits where the eligibility criteria are not met until a claim has been approved or is enforceable. The IPSASB considered these obligating events to be effectively subsets of the 'eligibility criteria to receive the next social benefit have been satisfied' obligating event. Consequently, these obligating events did not need to be separately addressed.

Requirement to Satisfy Ongoing Eligibility Criteria (Including Revalidation) Affects Measurement Only

BC75. As noted in paragraph BC66, the IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement.

BC76. The IPSASB considered whether, for some other social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition.

BC77. The IPSASB noted that for a liability to exist, there has to be a past event that gives rise to the liability. The IPSASB considered the nature of the past event for a social benefit and concluded that the past event is the satisfaction of all eligibility criteria, including being alive. Consequently, any liability that arises is only for the next social benefit. Additional liabilities only arise when all eligibility criteria, including being alive, are met for further social benefits. Until an individual has remained alive, they have not satisfied the eligibility criteria and hence the past event that is required for a liability to be recognized has not occurred.

BC78. In coming to this conclusion, the IPSASB also had regard to a number of supporting points:

(a) Accepting that the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition, could result in obligations for long-term social benefits for certain social benefit schemes (primarily old-age pensions). Other social benefit schemes would recognize relatively short-term social benefits, even though for certain schemes, they may ultimately be paid to beneficiaries over a long-term horizon (e.g., income-based welfare benefits).

(b) Being alive is an explicit eligibility criterion for some social benefits programs, established through law or policy, and in these cases there is frequently active compliance monitoring and enforcement. Many public sector entities take active steps to periodically validate that a beneficiary is alive and actively monitor and enforce compliance with this eligibility criterion. For example, annual certifications that the beneficiary is alive may be required. Also, there may be requirements for hospitals, funeral homes, or others to report deaths. Further, many public sector entities retract social benefits improperly paid to beneficiaries who are not alive or prosecute fraudulent non-reporting of a beneficiary's death.

(c) Meeting all eligibility requirements creates an obligation to provide a social benefit related to eligibility requirement(s) that are met, consistent with social benefit schemes where there are ongoing eligibility requirements. Typically, for an individual social benefit scheme, eligibility requirements and related social benefits are clearly established. For example, a social benefit may be paid monthly based on meeting eligibility criteria as of the end of the prior month. This would be true both for schemes that have ongoing eligibility criteria (other than being alive) and those where being alive is the only ongoing eligibility criteria.

(d) The requirement to satisfy ongoing eligibility criteria (including revalidation) is consistent with the approach the IPSASB proposed for universally accessible services and collective services in its CP, *Accounting for Revenue and Non-Exchange Expenses*.

BC79. The IPSASB also considered paragraph 5.21 of the Conceptual Framework, which states (emphasis added):

"Some obligations related to **exchange transactions** are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions—or having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability."

BC80. The IPSASB considered whether, although social benefits are not exchange transactions, a liability should be recognized for social benefit schemes such as retirement benefits when threshold eligibility criteria are met. This would be as a result of legal obligations arising with the passage of time without the beneficiary having to take any further action or meet further conditions.

BC81. The IPSASB concluded this was not appropriate. Paragraph 5.21 of the Conceptual Framework relates solely to legal obligations in the context of exchange transactions, as indicated. Specifically, this paragraph would apply where the external party in the exchange transaction has met all of the conditions of the exchange transaction and it is unconditionally enforceable, but the public sector entity will not meet its conditions until after the reporting date.

BC82. Consequently, the IPSASB considered that the only appropriate obligating event is that all eligibility criteria for the next social benefit have been met. The IPSASB concluded that this approach, combined with the insurance approach, would recognize the nature of the social benefit and the legal framework under which the social benefit arises.

BC83. The IPSASB also considered that there would be practical difficulties with recognizing a liability prior to all eligibility criteria (including being alive) being satisfied. The IPSASB noted that approaches such as 'threshold eligibility criteria have been met' are said to give rise to a non-legally binding obligation where there is a valid expectation that results in an entity having little or no realistic alternative to settling the obligation. The basis for including threshold eligibility is that a valid expectation will arise when there are no further eligibility criteria (excluding being alive) to be satisfied. The IPSASB was not convinced that this would be the case in all instances, and considered that there may be situations where:

(a) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation did not arise, even though there were no further eligibility criteria (excluding being alive) to be satisfied; or

(b) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation arose, even though there were further eligibility criteria (excluding being alive) to be satisfied.

BC84. The IPSASB considered that similar difficulties would arise with other obligating events that occur prior to all eligibility criteria (including being alive) being satisfied, such as 'key participatory events have occurred'.

BC85. The IPSASB considered that, under these alternative obligating events, determining whether a valid expectation that results in an entity having little or no realistic alternative to settling the obligation has arisen could only be determined on a case by case basis. The IPSASB considered that this would result in inconsistent application of [draft] IPSAS [X] (ED 63), and considered that this was a further reason for not including the 'threshold eligibility criteria obligating event' in [draft] IPSAS [X] (ED 63).

BC86. The IPSASB concluded that only the 'eligibility criteria for the next social benefit have been met' recognition point should be included in [draft] IPSAS [X] (ED 63), and that the accounting treatment should reflect that being alive is an eligibility criterion (whether explicitly stated or implicit) that affects recognition.

Approach to Developing Exposure Draft 63

BC87. In coming to the conclusion that only the 'eligibility criteria for the next social benefit have been met' recognition point should be included in [draft] IPSAS [X] (ED 63), the IPSASB did not reach consensus, with some members holding the view that other recognition points should also be included in ED 63.

BC88. As a consequence of the lack of consensus, the IPSASB agreed to develop ED 63 in a manner that would allow stakeholders to consider the different arguments. The 'eligibility criteria for the next social benefit have been met' recognition point was included in ED 63 as all members agreed that this would be appropriate for at least some social benefits. Other recognition points were not included in ED 63 as some members considered that these recognition points would never be an appropriate recognition point for a social benefit. In agreeing to develop ED 63 in this manner, the IPSASB noted that members who supported the inclusion of other recognition points were likely to set out their reasoning in an Alternative View. The IPSASB considered it important from a public interest perspective that this reasoning was exposed to stakeholders.

BC89. In agreeing to develop ED 63 in this manner, the IPSASB confirmed its previously expressed view that the financial statements cannot satisfy all of a user's information needs on social benefits. Further information about the long-term fiscal sustainability of those schemes is required. The IPSASB considered that adoption of the guidance in RPG 1, would provide users with the information they need. Consequently, the IPSASB agreed to encourage entities to prepare general purpose financial reports that provide information on the long-term sustainability of the entity's finances.

Measurement

BC90. In developing the CP, the IPSASB came to a preliminary view that, "under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfillment. The cost of fulfillment should reflect the estimated value of the required benefits." The Conceptual

Framework defines the cost of fulfillment as "the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner."

BC91. The IPSASB came to this view because:

(a) Many social benefits liabilities will arise from non-exchange transactions. There may be no consideration on which a historical cost value could be based. Historical cost can also be difficult to apply to liabilities that may vary in amount, which may be the case with some social benefits.

(b) It is extremely unlikely that there will be a market value for social benefits.

(c) In the context of social benefits, the cost of release is the amount that "a third party would charge to accept the transfer of the liability." For social benefits, a transfer of the liability will rarely be practically possible.

(d) Assumption price "is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability." This is not relevant to the measurement of social benefits under the obligating event approach. Under this approach, the liability is viewed as arising as a result of the public sector entity's own actions.

BC92. Respondents to the CP supported this view. Consequently, the IPSASB agreed that liabilities in respect of social benefits should be measured using the cost of fulfillment.

Revenue

BC93. At the time of developing ED 63, the IPSASB had an ongoing project to review the requirements in all of its revenue standards. The IPSASB decided that social contributions (revenue in respect of a social benefit scheme) would be best addressed in that project, to ensure that all revenue is accounted for on a consistent basis.

Disclosure

BC94. The IPSASB agreed that entities should disclose information that explains the characteristics of its social benefit schemes; identifies and explains the amounts in its financial statements arising from its social benefit schemes; and quantifies and explains the future cash flows that may arise from its social benefit schemes.

BC95. The IPSASB considered whether to provide guidance on aggregating the disclosures for social benefit schemes that are not individually material. The IPSASB noted that IPSAS 1, *Presentation of Financial Statements*, contains guidance on materiality and aggregation, and concluded that no further guidance was required.

BC96. As part of the explanation of the characteristics of a social benefit scheme, the IPSASB agreed that an entity should explain how a social benefit scheme is funded. Where a scheme is funded, (whether in full or in part) by social contributions, an entity is required to provide a cross reference to the location of information on those social contributions. Although [draft] IPSAS [X] (ED 63) does not address social contributions (as explained in paragraph BC93 above), the IPSASB considers that users will need information about social contributions in order to make assessments of social benefit schemes. However, the IPSASB acknowledges that in some jurisdictions, social contributions for various social benefits may be collected by one entity, and the social benefits provided by another entity. In these circumstances, the entity that provides the social benefits would include a cross reference to the financial statements of the entity that collects the social contributions.

BC97. The IPSASB considered whether to require an entity to describe how its social benefit schemes may give rise to future obligations. The IPSASB decided not to require such disclosures. However, the IPSASB agreed that providing the entity's best estimate of the projected cash outflows for the next five reporting periods would provide useful information for users of the financial statements. Such information would assist users in assessing the liquidity and solvency of the entity. The IPSASB considered that a five-year period was appropriate as it would encompass the political cycle in many jurisdictions. The IPSASB also noted that IPSAS 1 permits an entity to present additional information to assist users in assessing the performance of the entity[3]. IPSAS 1 also requires an entity to provide additional disclosures when compliance with the specific requirements in IPSAS is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance[4]. Consequently, where an entity considers that, in order to understand the impact of a social benefit scheme, users will need information on cash outflows over a longer period or information on cash inflows (for example, social contributions or earmarked taxation revenue), IPSAS 1 permits or requires the disclosure of that information.

BC98. The IPSASB considered whether the disclosure of projected cash flows should be limited to current beneficiaries. The IPSASB decided that limiting the disclosure to current beneficiaries would artificially limit the amounts disclosed. The IPSASB considered that decision makers need to take into account all future social benefits cash flows and, therefore, limiting the disclosure to current beneficiaries would not satisfy the qualitative characteristic of relevance.

BC99. The IPSASB noted that different entities may develop their cash flow projections using various estimation approaches. Some entities may develop detailed projections using actuarial models. Other entities may develop their projections by rolling forward existing budgets, updated for inflation and limited demographic information. The IPSASB noted that, as a result, the qualitative characteristic of comparability may not be met. However, the IPSASB considered that the advantages of providing relevant, timely information outweighed the potential loss of comparability, particularly as ED 63 requires entities to disclose the key assumptions that the entity has relied on in making its best estimate of the projected cash outflows. In this context, the IPSASB noted that the disclosure of projected cash flows would supplement the information in the financial statements.

BC100. In coming to its decision to require an entity to disclose its best estimate of projected cash outflows, the IPSASB considered the costs and benefits of providing information about future obligations. The IPSASB considered that disclosing projected cash outflows for the next five years would provide information that partially meets users' needs regarding the performance of the entity, the liquidity of the entity, the sustainability of the entity's service delivery, and the capacity of the entity to adapt to changing circumstances[5]. The IPSASB considered that the benefits of providing this information would outweigh the costs involved. The IPSASB noted that this disclosure would not fully satisfy users' needs, but it considered that the costs of providing additional information about the present value of all future obligations would outweigh the benefits of that additional information.

[3] IPSAS 1, paragraph 25.

[4] IPSAS 1, paragraph 29.

[5] See paragraph 2.11 of the Conceptual Framework.

Alternative View

Alternative View of Ms. Lindy Bodewig, Mr. Sebastian Heintges and Mr. Kenji Izawa

AV1. These members are of the opinion that prescribing a single recognition point applicable to all social benefits is inappropriate, as this approach:

- Does not reflect the economic substance of different social benefits;
- Is not in accordance with the Conceptual Framework; and
- Treats "being alive" as a recognition criterion instead of a measurement criterion.

AV2. These members therefore propose that the obligating event should be dependent on the economic substance of the social benefit scheme. For some social benefits, recognizing a liability when the eligibility criteria for the next benefit are satisfied will be appropriate. For other social benefits, a liability would be recognized at an earlier point. For example, a liability for all remaining benefits might be recognized when an individual reaches retirement age, or a liability might be accrued over time as an individual makes contributions. Preparers would determine which obligating event is most appropriate for their social benefit schemes, based on their economic substance.

The approach set forth in ED 63 does not reflect the economic substance of different social benefits and thus does not result in information that meets the needs of financial statement users

AV3. These members note that IPSASB's constituents who responded to the Consultation Paper, *Recognition and Measurement of Social Benefits*, expressed substantial support for the view that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose. Therefore, these members do not dispute that in some cases a liability in respect of social benefits should be recognized only when the eligibility criteria for receipt of the next benefit (but not with the inclusion of being alive) have been satisfied, but they dispute this for other cases.

AV4. They consider that since social benefit schemes vary, they can give rise to differing expectations throughout the population as a whole. For example, a social benefit scheme designed to be funded by future beneficiaries (i.e., operating on a pay-as-you-go basis) will give rise to expectations at the reporting date of entitlement amongst current recipients and potential future recipients, for example, based on the fact that individuals have contributed in the past. A differently designed social benefit scheme may not give rise to equal expectations.

AV5. These members accept that relative validity of these expectations may differ, for example expectations may be based on a legal right to receive a benefit notified to the scheme's recipients and participants, on a long running precedent, on other, or less compelling grounds. Thus they contend that the nature of the expectations in any given case must be taken into account in the determination of whether an entity has a realistic alternative to avoid an outflow of resources when recognizing a liability in relation to social benefits.

AV6. These members therefore consider that treating all social benefits in the same manner, regardless of different economic substance, will not provide users with the information they need to assess social benefits.

AV7. These members believe that financial statement users need relevant, faithfully representative information as to the economic substance of social benefits for their different decision making purposes, including, where relevant, assessing the intergenerational impacts of social benefits.

AV8. For example, in respect of a state pension scheme designed to be funded on an inter-generational basis, the amount of the entity's present obligation at the reporting date (excluding being alive as an entitlement criterion) to both current beneficiaries and participants provides useful information as to the magnitude as at the reporting date of pension payments that will need to be funded by future contributions from current and future participants.

AV9. Not recognizing a liability at the reporting date beyond the next payment will not facilitate, for example, the reflection of changes in policy for state pensions (e.g., raising retirement age) in the amount of the liability at a subsequent reporting date. It will also give a false message to current beneficiaries and participants as well as to future contributions as to the entity's acknowledgement of their respective entitlements.

AV10. Furthermore, not recognizing an obligation at the reporting date beyond the next payment does not reflect the economic substance of contributory schemes. Contributions will be shown as revenue when paid by the participant, whereas the part of the benefit that is earned with this payment will not be shown at this point in time as obligation, but only (probably years later) when the payment is made to the then beneficiary, respectively the former participant.

The approach set forth in ED 63 is not in accordance with the IPSASB's Conceptual Framework

AV11. In their view the approach in ED 63 will not achieve the qualitative characteristics: relevance, faithful representation, understandability or comparability.

AV12. These members also consider that reflecting the economic substance of a social benefit is necessary to meet the qualitative characteristic of comparability, which the Conceptual Framework defines as "the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena." Therefore, these members refute their fellow board members' argument of inconsistent application, as explained in ED 63 paragraph BC85. In contrast these members content that if the economic substance of the social benefit differs amongst schemes and jurisdictions, those differences should be reflected in the financial statements accounting for social benefits. This is consistent application of accounting principles to different economic phenomena resulting in different accounting outcomes.

AV13. Consequently, these members consider that, for some social benefits, it is appropriate to recognize a liability that exceeds the amount of benefit until the next point at which eligibility criteria are required to be satisfied. They note that paragraph 8.15 of the IPSASB's Conceptual Framework's explains that disclosure (in the notes accompanying the financial statements) is not a substitute for display (on the face of a financial statement).

AV14. They point out that the IPSASB's Conceptual Framework states the following:

> 5.14. A liability is: A present obligation of the entity for an outflow of resources that results from a past event.
>
> 5.15. Public sector entities can have a number of obligations. A present obligation is a **legally binding obligation** (legal obligation) or **non-legally binding obligation**, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless

> they are binding and there is little or no realistic alternative to avoid an outflow of resources.
>
> 5.20. …For some types of non-exchange transactions, judgement will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law, there can be no doubt that an entity has no realistic alternative to avoid the obligation and a liability exists.
>
> 5.25. The point at which an obligation gives rise to a liability depends on the nature of the obligation. Factors that are likely to impact on judgements whether other parties can validly conclude that the obligation is such that the entity has little or no realistic alternative to avoid an outflow of resources include:
>
> - The nature of the past event or events that give rise to the obligation…
> - The ability of the entity to modify or change the obligation before it crystallizes…
> - There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation….
>
> 5.26. "Economic coercion", "political necessity" or other circumstances may give rise to situations where, although the public sector entity is not legally obliged to incur an outflow of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation."

AV15. They contend that in accordance with the IPSASB's Conceptual Framework, in some cases a liability may arise from a key participatory event that occurs prior to the eligibility criteria for the next benefit having been satisfied. This may be the case, for example, in respect of certain contributory social benefit schemes, or where there is a legally binding present obligation.

The criterion "being alive" is not a recognition criterion, but a measurement criterion

AV16. These members do not consider that being alive at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the recognition of an entity's present obligation in respect of all social benefits.

AV17. They note that whilst it cannot be certain that a specific individual who meets the eligibility criteria at the reporting date will be alive at the point in time the next provision of social benefit is due, it is reasonable to assume that a given number of individual beneficiaries (measurable) will be alive into the future and therefore the entity can have a binding present obligation at the reporting date in respect of provision of the social benefit beyond the next due installment of the social benefit.

AV18. They do not believe that there is a social benefit-specific imperative to treat "being alive" differently in comparison to its treatment in regard to other economic phenomena such as a pension payable as a post-employment benefit to public sector employees pursuant to IPSAS 25 (IPSAS 39). Where applicable, reference to e.g., mortality statistics etc. can equally be made in measuring liabilities for social benefits.

AV19. These members consider that the inclusion of being alive as a recognition criterion resulting in a present obligation for only the next due benefit for all social benefits, would distort the recognition of entity's present obligation in relation to social benefits e.g., pension schemes, since in many cases it would result in recognition of a liability for only the provision of the next social benefit. Such an approach fails to recognize the valid expectation of longevity in a given recipient population and cannot provide relevant information about social benefit schemes.

AV20. In their view, being alive is therefore a criterion to be taken into account in the measurement of social benefit liabilities. In this context, they also note that the material in ED 63 in regard to measurement may need further consideration in order to include being alive as a measurement criterion.

AV21. The definition of a liability in the Conceptual Framework requires that an item can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in general purpose financial reports. These members consider that recognizing that accounting estimates are subject to inherent estimation uncertainty; this requirement can usually be met when recognizing liabilities existing at the reporting date for future payments for appropriate social benefits. Uncertainties as to the actual amount likely to be settled at a future date or the ability of the entity to settle would be reflected in the measurement of the liability. Uncertainties such as how many recipients will reach which age before dying are dealt with by reference to mortality statistics etc.

The disclosures proposed in ED 63

AV22. These members believe that the proposed disclosures in ED 63 similarly will not provide sufficient information to meet users' needs (see AV1–AV10). They do not consider that restricting the disclosure of future payments for the immediate next few years can provide a view of the impact of social benefits in line with the qualitative characteristics (see AV11–AV15).

AV23. In their view, relevant information for disclosure will need to be determined during the IPSASB's ongoing project in relation to revenue. In particular for contributory social benefit schemes, disclosure of future expectations as to contributions from social benefit scheme participants might provide useful information in regard to a liability recognized for that scheme.

Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED 63)

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of [draft] IPSAS [X] (ED 63).

Scope of [draft] IPSAS [X] (ED 63)

IG2. The following diagram illustrates the scope of [draft] IPSAS [X] (ED 63) and the boundaries between social benefits and other transactions.

Category	Examples	Exchange or Non-Exchange Transaction?	Provided to specific individuals/households who meet eligibility criteria?	Mitigates effect of social risks?	Addresses needs of society as a whole?	Excludes universally accessible services?		
Grants, Contributions and Other Transfers	Grants to other public sector entities Grants to charities Disaster Relief	Non-Exchange	Sometimes	No	Sometimes	Sometimes	Non-Exchange Expenses Project	
Collective Services	Defense Street lighting	Non-Exchange	No	No	Yes	Yes	Non-Exchange Expenses Project	
Universally Accessible Services	Universal Education	Non-Exchange	No	No	Yes	No	Non-Exchange Expenses Project	
Universally Accessible Services	Universal Healthcare	Non-Exchange	No	Yes	Yes	No	Non-Exchange Expenses Project	Scope of Social Benefits in GFS
Social Benefits	**State pensions Unemployment benefits Income support Healthcare (other than universal healthcare, employee benefits or private insurance)**	**Non-Exchange**	**Yes**	**Yes**	**Yes**	**Yes**	Social Benefits	Scope of Social Benefits in GFS
Employee Benefits	Salaries Healthcare Employee pensions	Exchange	Yes	Yes	No	Yes	Other IPSAS / IFRS	Scope of Social Benefits in GFS
Contracts for Insurance	Vehicle insurance Private medical insurance	Exchange	No	No	No	Yes	Other IPSAS / IFRS	
Contracts for Goods and Services	Purchase of goods Payment for services	Exchange	No	No	No	Yes	Other IPSAS / IFRS	

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Recognition and Measurement of Liabilities and Expenses in [draft] IPSAS [X] (ED 63)

IG3. **Where a retirement pension is paid monthly in arrears, how will the liability at the reporting date be the same as the amount paid in the following month?**

IG4. The liability at the reporting date is unlikely to be exactly the same as the amount paid the following month. The extent of the difference will depend on the circumstances of the retirement benefit. Factors that will affect the extent of the difference include the following:

(a) Timing differences. The payment in the month following the reporting date may include payments that do not form part of the liability at that reporting date. For example, an entity prepares its financial statements as at December 31. If retirement benefits are paid on the 15th of each month, the payment made on January 15 may include payments made to individuals who reached retirement age between January 1 and January 15. The payments to these individuals will not form part of the liability as at December 31, because, at that date, those individuals had not met the eligibility criteria for the retirement pension.

(b) Incomplete information. The information which is used to calculate payments may be incomplete, and consequently the payment in the following month may not exactly match the liability at the reporting date. For example, payments are usually calculated a number of days prior to the payment being made. Changes in circumstances notified after that date are not reflected in the payment, but are adjusted in subsequent periods.

IG5. In considering the liability to be recognized as at the reporting date, entities may find it helpful to refer to the discussion of materiality in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

IG6. **How do breaks in meeting the eligibility criteria for a social benefit scheme affect the recognition and measurement of the liability?**

IG7. For social benefit schemes that have ongoing eligibility criteria in addition to being alive, an individual may alternate between periods when they meet the eligibility criteria for the social benefit, and periods when they do not meet those eligibility criteria. In these circumstances, each instance of an individual satisfying the eligibility criteria is recognized and measured separately.

IG8. For example, an entity prepares its financial statements as at December 31. As at that date, an individual was unemployed, and eligible to receive unemployment benefits. Consequently, the entity has a present obligation to the individual at the reporting date. The individual finds temporary employment on January 10 and ceases to be eligible for the unemployment benefits. This employment ends on January 24, when the individual once more becomes eligible for unemployment benefits. Only the first period of unemployment would be included in the liability at the reporting date, as the eligibility criteria for the subsequent period were not satisfied until after that reporting date.

Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS [X] (ED 63)

Scope and Definitions

Illustrating the Consequences of Applying Paragraphs 4–6 and AG1–AG10 of [draft] IPSAS [X] (ED 63)

IE1. The following scenarios illustrate the process for determining whether a transaction is within the scope of [draft] IPSAS [X] (ED 63). These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying [draft] IPSAS [X] (ED 63).

Example 1–Provision of Retirement Benefits to Government Employees

IE2. Employees of Province A are entitled, under the terms of their employment contracts, to retirement benefits once they reach the age of 65. The employees are required to contribute a percentage of their salary while they are employed. The retirement benefits provided are based on the final salary of the employees, and their length of service.

IE3. The retirement benefits are provided to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that the employees have sufficient income once they reach retirement age. The retirement benefits are not universally accessible services.

IE4. However, the retirement benefits do not address the needs of society as a whole, as they are only available to former employees of Province A. The retirement benefits are paid as compensation for employment services rendered. It follows that the retirement benefits do not meet all the elements of the definition of a social benefit. Consequently, the retirement benefits are outside the scope of [draft] IPSAS [X] (ED 63).

Example 2–Provision of State Retirement Pension

IE5. Government B pays a minimum state retirement pension to all citizens and residents who have reached the retirement age of 65. The state retirement pension is governed by legislation. Individuals are required to make contributions during their working life, based on their salary. However, the state retirement pension pays the same amount to each retiree regardless of the contributions made.

IE6. The retirement benefits are provided to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income once they reach retirement age.

IE7. The retirement benefits address the needs of society as a whole. Paragraph AG5 of [draft] IPSAS [X] (ED 63) notes that the "assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met."

IE8. The state retirement pension does not meet the definition of universally accessible services. Consequently, the state retirement pension is within the scope of [draft] IPSAS [X] (ED 63).

Example 3–Provision of Universal Healthcare Services

IE9. Government C provides basic healthcare services to all its citizens, and to other individuals who meet residency requirements. The healthcare services are provided free at the point of delivery.

IE10. The healthcare services are provided to specific individuals who meet eligibility criteria. The healthcare services are intended to mitigate social risks, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by ill health. In doing so, they address the needs of society as a whole.

IE11. However, the healthcare services meet the definition of universally accessible services, in that they are made available by Government C for all individuals and/or households to access, and the eligibility criteria relate to citizenship or residency, not to social risk. Consequently, the healthcare services are outside the scope of [draft] IPSAS [X] (ED 63).

Example 4–Provision of Disability Pensions

IE12. State Government D pays disability pensions to individuals who have a permanent disability that prevents them from working, regardless of their age. A disability pension is only payable after a medical examiner certifies that the disability is permanent, and that the disability will prevent the individual affected from undertaking paid employment. The level of disability pension is dependent on the individual, and is intended to cover basic needs and to allow the individual to pay for an appropriate level of care.

IE13. The disability pensions are provided to specific individuals who meet eligibility criteria. The disability pensions are intended to mitigate the social risk of ill health, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by disability. In doing so, they address the needs of society as a whole.

IE14. The disability pensions do not meet the definition of universally accessible services. Consequently, the disability pensions are within the scope of [draft] IPSAS [X] (ED 63).

Example 5–Provision of Unemployment Benefits

IE15. Province E pays unemployment benefits to individuals who are resident in the province and who become unemployed. The unemployment benefits are payable for a maximum of one year, and there is a two week ‘waiting period’ before the unemployment benefits are payable.

IE16. The unemployment benefits are provided to specific individuals who meet eligibility criteria. The unemployment benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income during periods of unemployment. In doing so, they address the needs of society as a whole.

IE17. The unemployment benefits do not meet the definition of universally accessible services. Consequently, the unemployment benefits are within the scope of [draft] IPSAS [X] (ED 63).

Example 6–Provision of Disaster Relief

IE18. Following an earthquake that has caused significant damage in a region, Government F provides disaster relief to assist with reconstruction and with providing services such as temporary housing to those affected by the earthquake.

IE19. Some costs will relate to providing benefits to specific individuals who meet eligibility criteria. Other costs will relate to the provision of assets and services that are universally accessible, for example the reconstruction of roads damaged by the earthquake.

IE20. However, the disaster relief does not mitigate the effects of social risks, but instead mitigates the effects of a geographical risk – the risk of earthquake. Paragraph AG10 of [draft] IPSAS [X] (ED 63) explains that risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks. Consequently, the disaster relief is outside the scope of [draft] IPSAS [X] (ED 63).

Example 7–Provision of Defense Services

IE21. Government G maintains an army, navy and air force to provide defense for the country.

IE22. These defense services are not provided to specific individuals who meet eligibility criteria, but instead are collective services, in that:

(a) They are delivered simultaneously to each member of the community or section of the community; and

(b) Individuals cannot be excluded from the benefits of collective goods and services.

IE23. Consequently, the provision of defense services is outside the scope of [draft] IPSAS [X] (ED 63).

Obligating Event Approach: Recognition and Measurement

Illustrating the Consequences of Applying Paragraphs 13–28 and AG16–AG22 of [draft] IPSAS [X] (ED 63)

Example 8

IE24. The following example illustrates the process for recognizing and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.

IE25. Government H provides a retirement pension to its citizens and permanent residents. The scheme pays a fixed amount of CU250 per month to each individual who has reached the retirement age of 65. Amounts are paid in full to those individuals who satisfied the eligibility criteria in full at the end of the previous month.

IE26. Government H prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.

IE27. As at December 31, 20X1, Government H recognized a liability for retirement pensions of CU1,950,500. During 20X2, Government H paid retirement pensions as follows:

Month(s)	**Pensions Paid (CU)**
January 20X2	1,950,500
February - December 20X2	22,258,000
Total	24,208,500

IE28. During January 20X3, Government H pays retirement pensions totaling CU2,095,750.

IE29. As at December 31, 20X2, Government H recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Consequently, Government H recognizes a liability of CU2,095,750, the full amount of the retirement pensions paid in January.

IE30. During 20X2, the total amount recognized as an expense is CU24,353,750. The breakdown of this amount is as follows:

	CU
Pensions paid in February 20X2 (recognized in January 20X2) to December 20X2 (recognized in November 20X2)	22,258,000
Pensions paid in January 20X3 (recognized in December 20X2)	2,095,750
Total	24,353,750

IE31. The movement in the liability during 20X2 can be summarized as follows:

	CU
Liability as at January 1, 20X2	1,950,500
Total expense recognized in 20X2	24,353,750
Total liabilities settled/benefits paid in 20X2	(24,208,500)
Liability as at December 31, 20X2	2,095,750

Example 9

IE32. The following example illustrates the process for recognizing and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.

IE33. Government I provides a retirement pension to its citizens and permanent residents. The scheme pays a fixed amount of CU100 per month (in arrears) to each individual who has reached the retirement age of 70. Amounts are pro-rated in the months in which an individual reaches the retirement age, and in the months in which an individual dies.

IE34. Government I prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.

IE35. As at December 31, 20X7, Government I recognized a liability for retirement pensions of CU2,990,656. During 20X8, Government I paid retirement pensions as follows:

Month(s)	**Pensions Paid (CU)**
January 20X8	3,024,997
February - December 20X8	33,435,183
Total	36,460,180

IE36. In this example, it is assumed that Government I has complete information at the date it pays retirement pensions. Consequently, the difference between the amount paid in January 20X8 (CU3,024,997) and the liability recognized as at December 31, 20X7 (CU2,990,656) represents the

pro-rated retirement pensions paid to those who reached retirement age during January 20X8 (CU34,341).

IE37. During January 20X9, Government I pays retirement pensions totaling CU3,053,576. There are three elements to this payment:

	CU
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9	36,420
Pro-rated pensions paid to those who reached retirement age during January 20X9	37,556
Total	3,053,576

IE38. As at December 31, 20X8, Government I recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Because its 20X8 financial statements are issued after the January 20X9 retirement pensions have been paid, Government I uses the information available at that time to prepare its financial statements.

IE39. Consequently, Government I recognizes a liability of CU3,016,020. This includes the full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (CU2,979,600) and the pro-rated pensions paid to those pensioners eligible at December 31 who died during January 20X9 (CU36,420). The liability does not include the pro-rated pensions paid to those who reached retirement age during January 20X9 because they had not satisfied the eligibility criteria as at December 31, 20X8.

IE40. During 20X8, the total amount recognized as an expense is CU36,485,544. The breakdown of this amount is as follows:

	CU
Pro-rated pensions paid to those who reached retirement age during January 20X8 (recognized in January 20X8)	34,341
Pensions paid in February 20X8 (recognized in January 20X8) to December 20X8 (recognized in November 20X8)	33,435,183
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (recognized in December 20X8)	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31 who died during January 20X9 (recognized in December 20X8)	36,420
Total	36,485,544

IE41. The movement in the liability during 20X8 can be summarized as follows:

	CU
Liability as at January 1, 20X8	2,990,656
Total expense recognized in 20X8	36,485,544
Total liabilities settled/benefits paid in 20X8	(36,460,180)
Liability as at December 31, 20X8	3,016,020

Example 10

IE42. The following example illustrates the process for recognizing and measuring the liability and expense for an unemployment pension. This example is not based on actual transactions.

IE43. State Government J provides unemployment benefits to its citizens and permanent residents. The scheme pays monthly amounts of 50% of an individual's previous salary, to a maximum of CU500 per month (in arrears). Unemployment benefits are payable for a maximum of eighteen months. To be eligible to receive benefits, an individual must have been in paid employment in the State for at least 100 days in the past twelve months. Eligibility commences fourteen days after the individual last worked. Amounts are pro-rated in the months in which an individual first meets the eligibility criteria, and in the months in which an individual's eligibility comes to an end (finding paid employment, becoming self-employed, expiry of the eighteen month maximum period, moving out of the State or dying).

IE44. State Government J prepares its financial statements as at June 30. Unemployment benefits are paid on the 15th day of each month.

IE45. As at June 30, 20X1, State Government J recognized a liability for unemployment benefits of CU125,067. During the financial year July 1, 20X1–June 30, 20X2, State Government J paid unemployment benefits as follows:

Month	**Unemployment Benefits Paid (CU)**
July 20X1	129,745
August 20X1 – June 20X2	1,582,131
Total	1,711,876

IE46. In this example, it is assumed that State Government J has complete information at the date it pays unemployment benefits. Consequently, the difference between the amount paid on July 15, 20X1 (CU129,745) and the liability recognized as at June 30 20X1 (CU125,067) represents the pro-rated unemployment benefit paid to those who became eligible for unemployment benefits between July 1, 20X1 and July 15, 20X1 (CU4,678).

IE47. On July 15, 20X2, State Government J pays unemployment benefits totaling CU132,952. There are four elements to this payment:

	CU
Unemployment benefits paid to unemployed persons eligible at June 15, 20X2 and remaining eligible at July 15, 20X2	113,120
Pro-rated unemployment benefits paid to those unemployed persons eligible at June 15 20X2 whose eligibility had come to an end by July 15, 20X2	9,975
Pro-rated unemployment benefits paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2	5,045
Pro-rated unemployment benefits paid to those unemployed persons who became eligible between July 1, 20X2 and July 15, 20X2	4,812
Total	132,952

IE48. As at June 30, 20X2, State Government J recognizes a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. Because its July 20X1–June 20X2 financial statements are issued after the July 20X2 unemployment benefits have been paid, State Government J uses the information available at that time to prepare its financial statements.

IE49. Consequently, State Government J recognizes a liability of CU128,140. This includes:

(a) The unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 and remaining eligible at July 15, 20X2 (CU113,120);

(b) The pro-rated unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 whose eligibility had come to an end by July 15, 20X2 (CU9,975); and

(c) The pro-rated unemployment benefits paid to those unemployed persons who became eligible who became eligible between June 15, 20X2 and June 30, 20X2 (CU5,045).

IE50. The liability does not include the pro-rated unemployment benefits paid to those who became eligible between July 1, 20X2 and July 15, 20X2 because they had not satisfied the eligibility criteria as at June 30, 20X2.

IE51. During the financial year July 1, 20X1–June 30, 20X2, the total amount recognized as an expense is CU1,714,949. The breakdown of this amount is as follows:

	CU('000)
Pro-rated unemployment benefits paid in July 20X1 to those who became eligible between July 1, 20X1 and July 15, 20X1 (recognized in July 20X1)	4,678
Unemployment benefits paid in between August 20X1 and June 20X2 and recognized in the financial year July 1, 20X1–June 30, 20X2	1,582,131
Unemployment benefits paid in July 20X2 to unemployed persons eligible at June 15, 20X2, both those remaining eligible and those whose eligibility had come to an end by July 15, 20X2; and those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (recognized in June 20X2)	128,140
	1,714,949

IE52. The movement in the liability during the financial year July 1, 20X1–June 30, 20X2 can be summarized as follows:

	CU
Liability as at July 1, 20X1	125,067
Total expense recognized in year	1,714,949
Total liabilities settled/benefits paid in year	(1,711,876)
Liability as at June 30, 20X2	128,140

Obligating Event Approach: Disclosure

Illustrating the consequences of applying paragraphs 29–34 of [draft] IPSAS [X] (ED 63)

Explanation of Amounts in the Financial Statements

Example 11

IE53. The following example illustrates some of the disclosure requirements that explain the amounts in the financial statements; it is not based on actual transactions. The example assumes that the Government K provides unemployment benefits and employment injury benefits.

Paragraph reference

33 **Amounts Recognized in the Statement of Financial Position as at December 31, 20X4 and Statement of Financial Performance for 20X4**

	Unemployment Benefits CU (,000)	Employment Injury Benefits CU (,000)
Balance as at December 31, 20X3	16,675	3,098
Liabilities and expenses recognized during 20X4	213,704	41,355
Liabilities settled during 20X4	(212,456)	(40,992)
Balance as at December 31, 20X4	17,923	3,461

Example 12

IE54. The following example illustrates some of the disclosure requirements that explain the amounts in the financial statements; it is not based on actual transactions. The example assumes that the Agency L provides retirement pensions.

Paragraph reference

33

Retirement Pension Amounts Recognized in the Statement of Financial Position as at December 31, 20X6 and Statement of Financial Performance for 20X6

	CU (,000)
Balance as at December 31, 20X5	122,371
Liabilities recognized in 20X6	1,537,228
Liabilities settled in 20X6	(1,523,919)
Balance as at December 31, 20X6	135,680

Explanation of Future Cash Flows that May Arise from an Entity's Social Benefit Schemes

Example 13

IE55. The following example illustrates some of the disclosure requirements that explain future cash flows that may arise from an entity's social benefit schemes; it is not based on actual transactions. The example assumes that Agency M provides unemployment benefits and retirement benefits.

Paragraph reference

34(a)

Expected Cash Outflows during the Years Ending December 31, 20X5 - December 31, 20X9

Agency M estimates that the undiscounted cash outflows in respect of its social benefit schemes will be as follows:

Year Ending	Unemployment Benefits CU (,000)	Retirement Benefits CU (,000)	Total CU (,000)
December 31, 20X5	413,400	2,445,900	2,859,300
December 31, 20X6	415,700	2,507,100	2,922,800
December 31, 20X7	416,800	2,571,900	2,988,700
December 31, 20X8	418,100	2,640,500	3,058,600
December 31, 20X9	420,000	2,705,000	3,125,000
Total projected cash outflows in the next five years	**2,084,000**	**12,870,400**	**14,954,400**

Paragraph reference

34(b)

Key Assumptions

Agency M has based its estimates of the undiscounted cash outflows in respect of its unemployment benefit scheme on the following key assumptions:

Unemployment rate 20X5	6.4%
Unemployment rate 20X6	6.4%
Unemployment rate 20X7	6.3%
Unemployment rate 20X8	6.3%
Unemployment rate 20X9	6.2%
Inflation	2.5% per annum

Agency M has based its estimates of the undiscounted cash outflows in respect of its retirement benefit scheme on the following key assumptions:

Life expectancy at age 70 – Male	15.9 years
Life expectancy at age 70 – Female	17.6 years
Inflation	2.5% per annum

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Exposure Draft (ED) 63 Summary—*Social Benefits*

This summary provides an overview of Exposure Draft (ED) 63, *Social Benefits.*

Project objective: The objective of this project is to establish the recognition and measurement requirements for social benefits.

The project and stage: The International Public Sector Accounting Standards Board® (IPSASB®) issued the Consultation Paper (CP) *Recognition and Measurement of Social Benefits*, in July 2015. The IPSASB issued Exposure Draft (ED) 63 in October 2017.

Next steps: The IPSASB seeks feedback on ED 63 to guide it in developing a final International Public Sector Accounting Standard® (IPSAS®) that establishes requirements for accounting for social benefits

Comment deadline: ED 63 is open for public comment until March 31, 2018.

How to respond: Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

197005.1

Why the IPSASB Undertook this Project

The purpose of the IPSASB's project on social benefits is to establish requirements for defining, recognizing and measuring social benefits.

The delivery of social benefits to the public is a primary objective of most governments and accounts for a large proportion of their expenditure. Existing IPSAS do not provide requirements and guidance on how to account for social benefits.

IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, excludes provisions related to social benefits in non-exchange transactions from its scope.

As a result, users may not be able to obtain the information needed to evaluate the nature and financial effect of a social benefit scheme, and the impact of social benefits on the finances of the government as a whole.

There is an opportunity for the IPSASB to improve its suite of standards by developing a new IPSAS on social benefits. An IPSAS on social benefits will enhance accountability and transparency and improve decision making, which are in the public interest.

The IPSASB issued a CP, *Recognition and Measurement of Social Benefits*, in July 2015. This was an important step in determining the appropriate reporting of social benefits.

As well as building on the previous work of the IPSASB on social benefits, the CP was influenced by more recent developments in the IPSASB's literature:

- *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*
- Recommended Practice Guideline 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*
- Policy Paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*

ED 63 provides a definition of a social benefit, and proposes requirements for the recognition and measurement of social benefit schemes. ED 63 also proposes disclosure requirements that will provide additional information that users will need to evaluate the effect that social benefits have on finances of a government.

The IPSASB believes the proposals in ED 63, will promote consistency and comparability in how social benefit schemes are reported by public sector entities.

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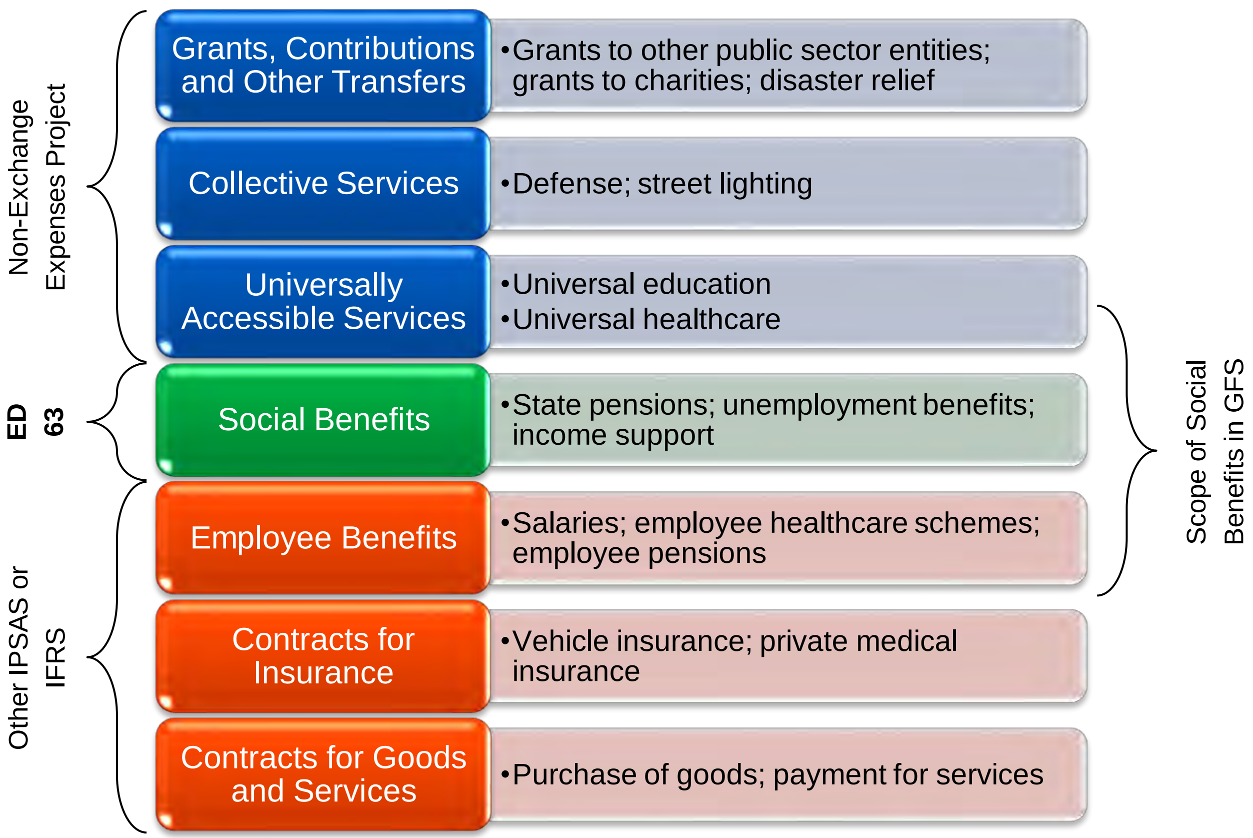
Scope of Exposure Draft 63

Figure 1 illustrates the scope of Exposure Draft 63 and the boundaries between social benefits and other transactions. Examples of each type of transaction are also provided.

Where a transaction is outside the scope of ED 63, Figure 1 indicates how the transaction is addressed by IPSAS.

For many governments, alignment with Government Finance Statistics (GFS) is important, and Figure 1 also indicates which transactions are within the GFS scope of social benefits.

Figure 1: Scope of Exposure Draft 63



Definitions

ED 63 defines social benefits, social risks and universally accessible services.

Definitions in ED 63

Social benefits are provided to:

(a) Specific individuals and/or households who meet eligibility criteria;

(b) Mitigate the effect of social risks; and

(c) Address the needs of society as a whole; but

(d) Are not universally accessible services.

Social risks are events or circumstances that:

(a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and

(b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

Universally accessible services are those that are made available by a government entity for all individuals and/or households to access, and where eligibility criteria (if any) are not related to social risk.

Which Benefits are Social Benefits?

✗ Retirement Benefits (Government Employees)
Does not address the needs of society as a whole.

✓ State Retirement Pensions
Paid to all those over a certain age as a means of ensuring those in need are covered.

✗ Universal Healthcare Services
Meet the definition of universally accessible services.

✓ Disability Pensions
Meets the definition of a social benefit – addresses social risk, paid when criteria met.

✓ Unemployment Benefits
Meets the definition of a social benefit – addresses social risk, paid when criteria met.

✗ Disaster Relief
Mitigates the effects of a geographical risk rather than a social risk.

✗ Defense Services
Services are not provided to specific individuals but are collective services.

Insurance Approach

The Consultation Paper proposed an insurance approach (based on the insurance accounting model being developed at that time by the IASB) as being appropriate for some or all contributory social benefit schemes.

ED 63 includes the insurance approach. Entities are permitted, *but not required*, to use this approach where a social benefit scheme meets certain criteria.

ED 63 does not include requirements for the insurance approach, but directs entities to apply relevant international or national accounting standards by analogy.

Criteria for Using the Insurance Approach

ED 63 permits entities to use the insurance approach where:

- The social benefit scheme is intended to be fully funded from contributions; and
- There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

ED 63 includes guidance on how to determine whether a social benefit scheme is intended to be fully funded from contributions.

ED 63 also includes indicators to assist entities in determining whether they are managing a scheme in the same way as an issuer of insurance contracts.

Which Insurance Standards?

Within ED 63, the term “the relevant international or national accounting standard dealing with insurance contracts” refers to IFRS 17, *Insurance Contracts*, and national standards that have adopted substantially the same principles as IFRS 17.

IFRS 17 has adopted principles for accounting for insurance contracts that, when applied by analogy to social benefit schemes, will provide information that meets users’ needs and satisfy the qualitative characteristics.

This may not be the case for other accounting standards dealing with insurance contracts. Consequently, ED 63 does not allow an entity to apply by analogy an insurance standard that has not adopted substantially the same principles as IFRS 17.

Disclosures

Where an entity has elected to use the insurance approach, ED 63 requires the entity to make the following disclosures:

- The basis for determining that the insurance approach is appropriate;
- The information required by the international or national accounting standard dealing with insurance contracts;
- Information about the characteristics of its social benefit schemes; and
- A description of any significant amendments to the social benefit scheme made during the reporting period.

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Obligating Event Approach: Recognition and Measurement

ED 63 proposes a single recognition point for all social benefits.

Under ED 63, a liability for a social benefit is recognized when the eligibility criteria to receive the next social benefit have been satisfied.

ED 63 does not include requirements for social contributions (revenue received in relation to a social benefit scheme). Social contributions are accounted for in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Recognition

The IPSASB defines a liability as a present obligation for an outflow of resources that results from a past event.

The key factor in determining when a liability for a social benefit arises is identifying the past event.

ED 63 proposes that, for a social benefit scheme, the past event that gives rise to a liability is the satisfaction by the beneficiary of all eligibility criteria for the provision of the next social benefit.

ED 63 also proposes that, for a social benefit scheme, being alive at the point at which the eligibility criteria are required to be satisfied is an eligibility criterion, whether explicitly stated or implicit. This is the case even if formal validation of the eligibility criteria occurs less frequently.

Recognition Examples

Examples of when a beneficiary will have first satisfied all the eligibility criteria for the provision of the next social benefit include:

- Reaching retirement age (in the case of a retirement pension);
- The death of a partner (in the case of a survivor benefit);
- Becoming unemployed (in the case of an unemployment benefit without a waiting period);
- Being unemployed for a specified period (in the case of an unemployment benefit with a waiting period).

Measurement

Under ED 63, the liability for a social benefit scheme is measured at the best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability.

Because a liability cannot extend beyond the point at which eligibility criteria are next required to be satisfied, liabilities in respect of social benefits will usually be short-term liabilities.

Consequently, an entity will often know the amounts involved without needing to make estimates.

Similarly, because liabilities in respect of social benefits will usually be short-term liabilities, discounting will not be required for most social benefits.

Obligating Event Approach: Disclosures

ED 63 requires entities to disclose information that:

(a) Explains the characteristics of its social benefit schemes;

(b) Identifies and explains the amounts in its financial statements arising from its social benefit schemes; and

(c) Quantifies and explains future cash flows that may arise from its social benefit schemes

Characteristics of the social benefit scheme and explanation of the amount in the financial statements

Characteristics of Social Benefit Schemes:

- The nature of the social benefits provided
- Key features of the social benefit scheme
- A description of how the scheme is funded
- A description of any significant amendments to the social benefit scheme

Explanation of Amounts in the Financial Statements:

- The total expense recognized in the statement of financial performance
- A reconciliation from the opening balance to the closing balance of the liability for each social benefit scheme, showing (where applicable):
  - (a) Liabilities and expenses recognized in the reporting period, comprising:
    - (i) Amounts recognized in the period
    - (ii) Changes in accounting estimates
    - (iii) Interest expense
  - (b) Prepayments
  - (c) Liabilities settled in the period

Explanation of Future Obligations that May Arise from an Entity's Social Benefit Schemes

- The best estimate of the undiscounted projected cash outflows that will arise from the scheme in each of the five reporting periods immediately following the reporting date
- The key assumptions that the entity has relied on in making its best estimate of the projected cash outflows.

The amounts to be disclosed include all projected cash outflows that will arise from the social benefit scheme in the five reporting periods immediately following the reporting date. The amounts are not limited to those relating to current beneficiaries.

The IPSASB considers that users will need more information about social benefits than is given in the financial statements. However, requiring entities to provide information about future obligations that could, for some social benefit schemes, extend many years into the future was considered to be onerous for preparers. The requirement to disclose future cash flows for a five year period was considered to be an appropriate compromise between the need for more information and the cost of providing that information.

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Alternative View

Not all IPSASB members agree with the requirements proposed in ED 63.

In an Alternative View, some members propose that the obligating event should be dependent on the economic substance of the social benefit scheme. For some social benefits, recognizing a liability when the eligibility criteria for the next benefit are satisfied will be appropriate. For others, a liability would be recognized at an earlier point. Preparers would determine which obligating event is most appropriate for their social benefit schemes, based on their economic substance.

ED 63 does not reflect the economic substance of different social benefits

These members consider that since social benefit schemes vary, they can give rise to differing expectations throughout the population as a whole.

For example, a social benefit scheme designed to be funded by future beneficiaries (such as a pay-as-you-go scheme) may give rise to valid expectations that benefits will be paid amongst current beneficiaries and future recipients, based on the fact that individuals have contributed in the past.

A differently designed social benefit scheme may not give rise to equal expectations.

Consequently, these members consider that treating all social benefits in the same manner will not provide users with the information they need to assess social benefits.

ED 63 is not in accordance with the Conceptual Framework

These members consider that the approach in ED 63 will not achieve the qualitative characteristics of relevance, faithful representation, understandability or comparability.

The Conceptual Framework defines comparability as “the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena.” These members consider that this can only be achieved by reflecting the economic substance of the specific social benefit.

Consequently, these members do not agree that determining when an obligating event has occurred on a case by case basis will result in inconsistent application of ED 63.

“Being alive” is a measurement criterion not a recognition criterion

These members do not consider that being alive at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the recognition of a liability.

They note that, whilst it cannot be certain that a specific individual who meets the eligibility criteria at the reporting date will be alive when the next provision of social benefit is due, a measurable number of individual beneficiaries will be alive into the future. The entity can, therefore, have a present obligation at the reporting date in respect of provision of the next social benefit.

They do not believe that there is a social benefit-specific reason to treat “being alive” differently to other transactions.

Next Steps

The deadline for comments is March 31, 2018.

During the comment period, IPSASB members are available to discuss the proposals with a wide range of parties.

How can I comment on the proposals?

The ED includes Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters respondents think it should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay informed

The IPSASB's website will indicate the meetings at which feedback on ED 63 will be discussed. The dates and locations of 2018 meetings are available at:

http://www.ipsasb.org/meetings

To stay up to date about the project, please visit:

http://www.ipsasb.org/projects/social-benefits

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	1 December 2017
To:	NZASB Members
From:	Vanessa Sealy-Fisher
Subject:	**RDR NZ IFRS 16 *Leases* (and NZ IAS 7)**

Purpose and introduction[1]

1. The purpose of this agenda item is to seek approval to issue ED NZASB 201x-x *Proposed RDR Concessions for NZ IFRS 16 and NZ IAS 7* (the ED) and its accompanying Invitation to Comment (ITC) (attached at agenda item 6.2).

2. The proposals seek to:

   (a) provide disclosure concessions for Tier 2 for-profit entities for NZ IFRS 16 *Leases* before the standard's fast approaching effective date (1 January 2019); and

   (b) address the current difference in the Tier 2 disclosure requirements in NZ IAS 7 *Statement of Cash Flows* with the AASB equivalent standard.

3. The proposed disclosure concessions for NZ IFRS 16 are an interim measure until the Board finalises the proposed RDR decision-making framework contained in ED NZASB 2017-1 *Amendments to RDR for Tier 2 For-profit Entities*.

4. The AASB is planning to conduct further outreach on its exposure draft and on its financial reporting framework project, to which the RDR decision-making framework project is linked. This will likely mean that the proposals in the respective EDs will not be finalised in time for the effective date of AASB 16/NZ IFRS 16 *Leases*.

5. The staff analysis for the proposals in the ED (see agenda item 6.3) has been undertaken jointly by AASB staff and NZASB staff.

6. The AASB will be considering proposed disclosure concessions for AASB 16 *Leases* at its meeting on 12 December 2017. An update on the outcome from that meeting will be provided at the Board meeting.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

Recommendations

7. We recommend that the Board:

   (a) APPROVES for issue Exposure Draft *Proposed RDR for NZ IFRS 16 and NZ IAS 7* (the ED) and the accompanying Invitation to Comment (ITC); and

   (b) AGREES a comment period of 90 days.

Structure of the memo

8. This remainder of this memo is structured as follows.

   (a) Background

   (b) Proposed RDR for AASB 16/NZ IFRS 16 *Leases*

   (c) Proposed RDR for NZ IAS 7 *Statement of Cash Flows*

   (d) Effective date

   (e) Comment period

   (f) Next steps

Background

9. In April 2016 the AASB and the Board commenced a joint project to review the framework for determining RDR concessions. The AASB's proposals were for all Tier 2 entities while the Board's proposals were for Tier 2 for-profit entities only.

10. The Boards issued their respective exposure drafts (the 2017 EDs) for comment in January 2017, with comments due by 26 May 2017. The exposure drafts proposed an effective date of annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

11. The Boards considered a high-level summary of constituents' comments at their respective meetings in August 2017. However, the Boards have not yet considered constituents' comments in detail.

12. AASB 16/NZ IFRS 16 *Leases* is effective for annual reporting periods beginning on or after 1 January 2019, with early application permitted. We are proposing RDR concessions for AASB 16/NZ IFRS 16 as an interim measure until the Boards have considered constituents' comments on the 2017 EDs. AASB 16/NZ IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Proposed RDR for AASB 16/NZ IFRS 16 *Leases*

13. Agenda item 6.3 contains the AASB and NZASB staff analysis for determining the proposed RDR for AASB 16/NZ IFRS 16. AASB staff and NZASB staff have determined the proposed RDR for AASB 16/NZ IFRS 16 by applying the current Tier 2 Disclosure Principles (attached at agenda item 6.4)

14. The table contains the following information.

    (a) *Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework.* Proposed RDR is shown as shaded text. Where an RDR paragraph is needed for both AASB 16 and NZ IFRS 16, this paragraph is shown as underlined text. The rationale for the proposals is shown as blue text in the Comments column.

    (b) *Proposed RDR for AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs.* Proposed RDR is shown as shaded text. The rationale for the proposals in the 2017 EDs is shown as red text in the Comments column. Constituents' comments on the proposals in the 2017 EDs is shown as green text in the Comments column.

    (c) *Disclosure requirements in IFRS for SMEs Standard Section 20 Leases.* This column contains the disclosure requirements in the IFRS for SMEs Standard that are equivalent to the disclosures in AASB 116/NZ IFRS 16. The disclosures in Section 20 are based on the disclosure requirements in AASB 117/NZ IAS 17 *Leases*, which is superseded by AASB 16/NZ IFRS 16. Comments regarding the disclosures in the IFRS for SMEs Standard and AASB 117/NZ IAS 17 are shown as purple text.

15. In New Zealand the differences between the proposals under the current framework and the 2017 EDs relate to the following.

    (a) *Paragraph 53(a).* This paragraph requires disclosure of the depreciation charge for right-of-use assets by class of underlying asset. The 2017 EDs proposed to require disclosure of only the depreciation charge for right-of-use assets rather than disclosure of the depreciation charge by class of underlying asset.

    (b) *Paragraph 54*. This paragraph contains guidance and a measurement requirement. The 2017 EDs identified all of this paragraph as guidance which was reduced. We are proposing to add an RDR paragraph for the second sentence of the paragraph which we have identified as a measurement requirement.

    (c) *Paragraph 94*. This paragraph requires disclosure of a maturity analysis of lease payments receivable and a reconciliation to the net investment in leases. The 2017 EDs proposed to reduce the requirement to prepare a reconciliation because reconciliations are not required by Tier 2 entities.

16. There are fewer differences between the proposals under the current framework and the proposals in the 2017 EDs for New Zealand. This is because of the different approaches taken by the AASB and the Board in the 2017 EDs in respect of disclosures about accounting policies, and the treatment of guidance and cross-references of a general nature.

17. Application of the current RDR framework also results in different RDR proposals for AASB 16/NZ IFRS 16 compared with the equivalent disclosure requirement in AASB 117/NZ IAS 17. Those differences are as follows.

    (a) Paragraph 53(e), which requires disclosure of the expense relating to variable lease payments not included in the measurement of lease liabilities. This paragraph is kept for AASB 16/NZ IFRS 16 but the same requirement in paragraphs 31(c) and 35(c) is reduced in AASB 117/NZ IAS 17.

(b) Paragraph 53(h), which requires disclosure of additions to right-of-use assets. This paragraph is reduced for AASB 16/NZ IFRS 16 but is kept in AASB 117/NZ IAS 17 (by reference to paragraph 73(e)(i) of AASB 116/NZ IAS 16 *Property, Plant and Equipment*, which is kept).

(c) Paragraph 58, which requires a lessee to disclose a maturity analysis of lease liabilities applying paragraphs 39[2] and B11[3] of AASB 7/NZ IFRS 7 *Financial Instruments: Disclosures*. Paragraph 31(b) of AASB 117/NZ IAS 17 requires a lessee to disclose for finance leases, in addition to meeting the requirements of AASB 7/NZ IFRS 7, a reconciliation between the total of future minimum lease payments at the end of the reporting period and their present value. In addition, the lessee discloses the total of future minimum lease payments at the end of the reporting period and their present value for (i) not later than one year; (ii) later than one year but not later than five years; and (iii) later than five years. Paragraph 35(a) requires a lessee to make similar disclosures to those in paragraph 31(b) for non-cancellable operating leases. These paragraphs are considered comparable by analogy. Paragraph 58 is reduced for AASB 16/NZ IFRS 16 (because paragraphs 39 and B11 of AASB 7/NZ IFRS 7 are reduced) but paragraphs 31(b) and 35(a) of AASB 117/NZ IAS 17 are kept.

(d) Paragraph 90(b), which requires a lessor to disclose lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate. Paragraph 56(b) of AASB 117/NZ IAS 17 requires a lessor to disclose, in addition to the requirement of AASB 7/NZ IFRS 7, total contingent rents recognised as income in the period. The requirement to disclose the variable lease payments separately in paragraph 90(b) is reduced in AASB 16/NZ IFRS 16 but paragraph 56(b) is kept in AASB 117/NZ IAS 17.

(e) Paragraph B52, which provides guidance about additional information that may need to be disclosed about sale and leaseback transactions. Paragraph 65 of AASB 117/NZ IAS 17 specifies that disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions, and that the required description of material leasing arrangements leads to disclosure of unique or unusual provisions of the

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[2] *39 An entity shall disclose:

(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

(b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).

(c) a description of how it manages the liquidity risk inherent in (a) and (b).

[3] *B11 In preparing the maturity analyses required by paragraph 39(a) and (b), an entity uses its judgement to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

(a) not later than one month;

(b) later than one month and not later than three months;

(c) later than three months and not later than one year; and

(d) later than one year and not later than five years.

agreement or terms of the sale and leaseback transactions. Paragraph B52 is reduced in AASB 16/NZ IFRS 16 but paragraph 65 is kept in AASB 117/NZ IAS 17.

18. We are also proposing some RDR concessions for the disclosures required when an entity transitions to AASB 16/NZ IFRS 16. The transition disclosure that is kept requires an entity to provide the disclosures in paragraph 28 of AASB 108/NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Paragraph 28 of AASB 108/NZ IAS 8 contains RDR concessions for Tier 2 entities. These disclosures were inadvertently omitted from the 2017 EDs.

Proposed RDR for NZ IAS 7 *Statement of Cash Flows*

19. In December 2014 the International Accounting Standards Board (IASB) issued for comment IASB ED/2014/6 *Disclosure Initiative* (Proposed amendments to IAS 7). This ED proposed amendments to IAS 7 to require an entity to provide a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items.

20. In January 2016 the IASB issued *Disclosure Initiative* (Amendments to IAS 7), which finalised the proposals in IASB ED/2016/4. However, rather than an entity preparing a reconciliation of net debt, an entity is required to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The paragraphs following this requirement (i) list the changes in liabilities to be disclosed; (ii) explain what types of liabilities arise from financing activities; (iii) explain that preparing a reconciliation is one way to fulfil the disclosure requirement; and (iv) require the disclosure of changes in liabilities from financing activities to be disclosed separately.

21. In May 2016 the Board issued *Disclosure Initiative* (Amendments to NZ IAS 7) with no RDR concessions. The Board was of the view that no due process for RDR concessions had been undertaken, because RDR concessions were not proposed when IASB ED/2014/6 was issued for comment in New Zealand. Furthermore, the AASB and the NZASB had commenced the review of the RDR framework and decided that including proposed RDR concessions as part of that project would be a more efficient means of providing RDR concessions for the amendments to NZ IAS 7.

22. The AASB approved the equivalent amendments to AASB 107 *Statement of Cash Flows* in February 2016. Despite the fact that the proposals had changed considerably from those in IASB ED/2014/6, the AASB agreed to provide RDR concessions for all the paragraphs added.

23. We are proposing to provide RDR concessions for paragraphs 44A–44E of NZ IAS 7, all of which were added by the amendments to NZ IAS 7. This will result in a harmonised position with Australia for for-profit entities and provide concessions until the review of the RDR framework is finalised.

Effective date

24. We are proposing an effective date of 1 January 2019, with early application permitted.

Comment period

25. We are proposing the usual comment period of 90 days.

26. If the ED is issued in mid-January 2018, with comments due by 14 April 2018, we would be able to finalise the proposals at the Board meeting scheduled for 27 June 2018.

27. However, if the ED is issued before Christmas with a comment period of 90 days, comments would be due by 19 March 2018 and we would be able to finalise the proposals at the Board meeting scheduled for 3 May 2018.

28. AASB staff are proposing to issue the Australian ED before Christmas. AASB meetings are scheduled for 10–11 May 2018 and June 14–15 2018.

Question for the Board
Does the Board want to issue the ED in December 2017 or January 2018?

Next steps

29. Staff will be dialling into the AASB meeting for this agenda item on Tuesday 12 December. We will update the Board on the decisions taken at that meeting and, if needed, will identify any changes that are needed to the proposals in the ED.

30. We will also update the ITC and the ED for the decisions taken by the Board at this meeting and issue the ITC and ED for comment.

Attachments

Agenda item 6.2:	Draft Invitation to Comment and ED NZASB 201x-x *Proposed RDR for NZ IFRS 16 and NZ IAS 7*
Agenda item 6.3:	AASB and NZASB staff analysis for proposed RDR for AASB 16/NZ IFRS 16
Agenda item 6.4:	Tier 2 Disclosure Principles

Agenda Item 6.2

Exposure Draft NZASB 201X-X

Proposed RDR for NZ IFRS 16 and NZ IAS 7 (for Tier 2 For-profit Entities)

(ED NZASB 201X-X)

Invitation to Comment

January 2018

PO Box 11250
Manners St Central, Wellington 6142
New Zealand
http://www.xrb.govt.nz

Table of Contents

Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposals for disclosure concessions in NZ IFRS 16 *Leases* and NZ IAS 7 *Statement of Cash Flows* for Tier 2 for-profit entities.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand
Email: submissions@xrb.govt.nz
(please refer to *Title of document* in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is **14 April 2018**.

Publication of submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

[1] The NZASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting accounting standards.

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

AASB	Australian Accounting Standards Board
ED	Exposure Draft
IASB	International Accounting Standards Board
ITC	Invitation to Comment
NZ IFRS	New Zealand equivalents to International Financial Reporting Standard
NZ IFRS RDR	NZ IFRS with disclosure concessions for Tier 2 for-profit entities
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
RDR	Reduced Disclosure Regime

Questions for respondents

		Paragraphs
1	Do you agree with the proposed RDR concessions for NZ IFRS 16 *Leases*? If you disagree, please provide reasons.	13–15
2	Do you agree with the proposed additional RDR concessions for NZ IAS 7 *Statement of Cash Flows*? If you disagree, please provide reasons.	16–21
3	Do you agree with the proposed effective date of annual periods beginning on or after 1 January 2019? If you disagree, please explain why.	22
4	Do you have any other comments on the ED?	

1. Introduction

1.1 Background

1. The New Zealand Accounting Standards Board (NZASB) and the Australian Accounting Standards Board (AASB) have jointly developed a proposed RDR decision-making framework (proposed RDR framework). This framework was issued for comment in January 2017, with comments due by 26 May 2017.[2]

2. At their meetings in August 2017, both the NZASB and the AASB noted a summary of the comments received on their respective exposure drafts (EDs).

3. The AASB is planning to conduct further outreach on its exposure draft and on its financial reporting framework project, to which the RDR decision making framework project is linked. This will likely mean that the proposals in the respective EDs will not be finalised in time for the effective date of AASB 16/NZ IFRS 16 *Leases*.

4. AASB 16/NZ IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Boards are proposing to provide RDR concessions for AASB 16/NZ IFRS 16 *Leases* as an interim measure until they have considered respondents' comments on the EDs and finalised that project.

5. In addition, the NZASB is proposing some additional RDR concessions for the disclosures added to NZ IAS 7 *Statement of Cash Flows* by *Disclosure Initiative* (Amendments to NZ IAS 7), issued in May 2016.

1.2 Purpose of this Invitation to Comment

6. The purpose of this ITC and associated ED is to seek comments on the proposed RDR concessions for NZ IFRS 16 and NZ IAS 7.

7. The proposals in this ITC and accompanying ED do not change which for-profit entities are permitted to report in accordance with Tier 2 Accounting Requirements (that is, NZ IFRS RDR).

8. When finalised, the proposals will amend the disclosure requirements in NZ IFRS 16 and NZ IAS 7 for Tier 2 for-profit entities.

1.3 Timeline and next steps

9. Submissions on ED NZASB 201X-X are due by **14 April 2018**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

10. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the amendments.

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[2] See ED NZASB 2017-2 *Amendments to RDR for Tier 2 For-profit Entities* (available at http://www.xrb.govt.nz/accounting-standards/standards-in-development/closed-for-comment/nzasb-ed-2017-2/) and AASB ED 277 *Reduced Disclosure Requirements for Tier 2 Entities* (available at http://www.aasb.gov.au/admin/file/content105/c9/ACCED277_01-17.pdf)

2. Overview of Invitation to Comment and ED

2.1 Summary

12. This Invitation to Comment and accompanying ED, ED NZASB 201X-X *Proposed RDR for NZ IFRS 16 and NZ IAS 7*, contain proposals for:

    (a) RDR concessions for NZ IFRS 16 *Leases*; and

    (b) additional RDR concessions for NZ IAS 7 *Statement of Cash Flows*.

13. The proposed concessions have been determined based on the current Tier 2 Disclosure Principles.[3]

2.2 NZ IFRS 16 *Leases*

14. NZ IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

15. ED NZASB 201X-X includes all the disclosures in NZ IFRS 16 and identifies the proposed RDR concessions by means of an underlined asterisk (*). Where a partial concession is proposed, this is sometimes identified by means of a concession for the entire paragraph and an RDR paragraph to explain the requirement for Tier 2 entities.

16. Concessions are also being proposed for some of the transition disclosures in Appendix C.

Question for respondents
1. Do you agree with the proposed RDR concessions for NZ IFRS 16 *Leases*? If you disagree, please provide reasons.

2.3 NZ IAS 7 *Statement of Cash Flows*

17. In December 2014 the IASB issued for comment IASB ED/2014/6 *Disclosure Initiative* (Proposed amendments to IAS 7). This ED proposed amendments to IAS 7 to require an entity to provide a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items.

18. In January 2016 the IASB issued *Disclosure Initiative* (Amendments to IAS 7), which finalised the proposals in IASB ED/2016/4.

19. However, rather than an entity preparing a reconciliation of net debt, an entity is required to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The paragraphs following this requirement (i) list the changes in liabilities to be disclosed; (ii) explain what types of liabilities arise from financing activities; (iii) explain that preparing a reconciliation is one way to fulfil the disclosure requirement; and (iv) require the disclosure of changes in liabilities from financing activities to be disclosed separately.

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3 The current Tier 2 Disclosure Principles are available at http://www.aasb.gov.au/admin/file/content102/c3/Tier_2_Disclosure_Principles.pdf

20. In May 2016 the NZASB issued *Disclosure Initiative* (Amendments to NZ IAS 7) with no RDR concessions. At that time the AASB and the NZASB had commenced the review of the RDR framework, therefore the NZASB decided that it would be more appropriate to consider any proposed RDR concessions as part of that project.

21. The AASB approved the equivalent amendments to AASB 107 *Statement of Cash Flows* in February 2016. The AASB provided RDR concessions for all the paragraphs added.

22. The NZASB is proposing to provide RDR concessions for paragraphs 44A–44E of NZ IAS 7, all of which were added by Amendments to NZ IAS 7. This will result in a harmonised position with AASB 107 and provide concessions until the review of the RDR framework is finalised.

Question for respondents

2. Do you agree with the proposed additional RDR concessions for NZ IAS 7 *Statement of Cash Flows*? If you disagree, please provide reasons.

2.4 Effective date and other comments

23. The proposed effective date in the ED is 1 January 2019, with early adoption permitted.

Questions for respondents

3. Do you agree with the proposed effective date of 1 January 2019, with early adoption permitted? If you disagree, please explain why.
4. Do you have any other comments on the ED?

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho
NZ ACCOUNTING STANDARDS BOARD

EXPOSURE DRAFT NZASB 201X-X

Proposed RDR for NZ IFRS 16 and NZ IAS 7

This [draft] Standard was issued on [date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

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

For-profit reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date, which is set out in Part C.

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

This [draft] Standard provides disclosure concessions for Tier 2 for-profit entities applying NZ IFRS 16 *Leases* and NZ IAS 7 *Statement of Cash Flows*.

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CONTENTS

Part A

Introduction

This [draft] Standard contains disclosure concessions for Tier 2 for-profit entities applying NZ IFRS 16 *Leases* and NZ IAS 7 *Statement of Cash Flows*.

Part B – Amendments to NZ IFRS 16 and NZ IAS 7

Scope

This Standard applies to Tier 2 for-profit entities.

Amendments to NZ IFRS 16 *Leases*

Paragraphs 53(h), 54, 58, 90(b), 91, B50(a), B50(b), B50(d), B51(a), B51(b), B510(d), B52, C12 and C13 are amended and paragraphs RDR 54.1, RDR 90.1, NZ C1.1, RDR C4.1 and RDR C12.1 are added. New text is underlined.

Lessee

Disclosure

51 **The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 52–60 specify requirements on how to meet this objective.**

52 A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.

53 A lessee shall disclose the following amounts for the reporting period:

(a) depreciation charge for right-of-use assets by class of underlying asset;

(b) interest expense on lease liabilities;

(c) the expense relating to short-term leases accounted for applying paragraph 6. This expense need not include the expense relating to leases with a lease term of one month or less;

(d) the expense relating to leases of low-value assets accounted for applying paragraph 6. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 53(c);

(e) the expense relating to variable lease payments not included in the measurement of lease liabilities;

(f) income from subleasing right-of-use assets;

(g) total cash outflow for leases;

<u>*</u>(h) additions to right-of-use assets;

(i) gains or losses arising from sale and leaseback transactions; and

(j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.

<u>*</u>54 A lessee shall provide the disclosures specified in paragraph 53 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.

RDR 54.1 <u>The amounts disclosed in accordance with paragraph 53 shall include costs that a Tier 2 lessee has included in the carrying amount of another asset during the reporting period.</u>

55 A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 6 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 53(c) relates.

56 If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in NZ IAS 40. In that case, a lessee is not required to provide the disclosures in paragraph 53(a), (f), (h) or (j) for those right-of-use assets.

57 If a lessee measures right-of-use assets at revalued amounts applying NZ IAS 16, the lessee shall disclose the information required by paragraph 77 of NZ IAS 16 for those right-of-use assets.

*58 A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of NZ IFRS 7 *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities.

59 In addition to the disclosures required in paragraphs 53–58, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 51 (as described in paragraph B48). This additional information may include, but is not limited to, information that helps users of financial statements to assess:

(a) the nature of the lessee's leasing activities;

(b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:

(i) variable lease payments (as described in paragraph B49);

(ii) extension options and termination options (as described in paragraph B50);

(iii) residual value guarantees (as described in paragraph B51); and

(iv) leases not yet commenced to which the lessee is committed.

(c) restrictions or covenants imposed by leases; and

(d) sale and leaseback transactions (as described in paragraph B52).

60 A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 6 shall disclose that fact.

Lessor

Disclosure

89 The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. Paragraphs 90–97 specify requirements on how to meet this objective.

90 A lessor shall disclose the following amounts for the reporting period:

(a) for finance leases:

(i) selling profit or loss;

(ii) finance income on the net investment in the lease; and

(iii) income relating to variable lease payments not included in the measurement of the net investment in the lease.

*(b) for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.

<u>RDR 90.1 For operating leases, a Tier 2 entity shall disclose lease income.</u>

*91 A lessor shall provide the disclosures specified in paragraph 90 in a tabular format, unless another format is more appropriate.

92 A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 89. This additional information includes, but is not limited to, information that helps users of financial statements to assess:

(a) the nature of the lessor's leasing activities; and

(b) how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

Finance leases

93 A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.

94 A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance income relating to the lease payments receivable and any discounted unguaranteed residual value.

Operating leases

95 For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of NZ IAS 16. In applying the disclosure requirements in NZ IAS 16, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by NZ IAS 16 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.

96 A lessor shall apply the disclosure requirements in NZ IAS 36, NZ IAS 38, NZ IAS 40 and NZ IAS 41 for assets subject to operating leases.

97 A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

Sale and leaseback transactions

98 If an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying paragraphs 99–103.

Assessing whether the transfer of the asset is a sale

99 An entity shall apply the requirements for determining when a performance obligation is satisfied in NZ IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset.

Transfer of the asset is a sale

100 If the transfer of an asset by the seller-lessee satisfies the requirements of NZ IFRS 15 to be accounted for as a sale of the asset:

(a) the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

(b) the buyer-lessor shall account for the purchase of the asset applying applicable Standards, and for the lease applying the lessor accounting requirements in this Standard.

101 If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:

(a) any below-market terms shall be accounted for as a prepayment of lease payments; and

(b) any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

102 The entity shall measure any potential adjustment required by paragraph 101 on the basis of the more readily determinable of:

(a) the difference between the fair value of the consideration for the sale and the fair value of the asset; and

(b) the difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

Transfer of the asset is not a sale

103 If the transfer of an asset by the seller-lessee does not satisfy the requirements of NZ IFRS 15 to be accounted for as a sale of the asset:

(a) the seller-lessee shall continue to recognise the transferred asset and shall recognise a financial liability equal to the transfer proceeds. It shall account for the financial liability applying NZ IFRS 9.

(b) the buyer-lessor shall not recognise the transferred asset and shall recognise a financial asset equal to the transfer proceeds. It shall account for the financial asset applying NZ IFRS 9.

Appendix B
Application guidance

This appendix is an integral part of the Standard. It describes the application of paragraphs 1–103 and has the same authority as the other parts of the Standard.

Lessee disclosures (paragraph 59)

B48 In determining whether additional information about leasing activities is necessary to meet the disclosure objective in paragraph 51, a lessee shall consider:

(a) whether that information is relevant to users of financial statements. A lessee shall provide additional information specified in paragraph 59 only if that information is expected to be relevant to users of financial statements. In this context, this is likely to be the case if it helps those users to understand:

(i) the flexibility provided by leases. Leases may provide flexibility if, for example, a lessee can reduce its exposure by exercising termination options or renewing leases with favourable terms and conditions.

(ii) restrictions imposed by leases. Leases may impose restrictions, for example, by requiring the lessee to maintain particular financial ratios.

(iii) sensitivity of reported information to key variables. Reported information may be sensitive to, for example, future variable lease payments.

(iv) exposure to other risks arising from leases.

(v) deviations from industry practice. Such deviations may include, for example, unusual or unique lease terms and conditions that affect a lessee's lease portfolio.

(b) whether that information is apparent from information either presented in the primary financial statements or disclosed in the notes. A lessee need not duplicate information that is already presented elsewhere in the financial statements.

B49 Additional information relating to variable lease payments that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:

(a) the lessee's reasons for using variable lease payments and the prevalence of those payments;

(b) the relative magnitude of variable lease payments to fixed payments;

(c) key variables upon which variable lease payments depend and how payments are expected to vary in response to changes in those key variables; and

(d) other operational and financial effects of variable lease payments.

B50 Additional information relating to extension options or termination options that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:

*(a) the lessee's reasons for using extension options or termination options and the prevalence of those options;

*(b) the relative magnitude of *optional lease payments* to lease payments;

(c) the prevalence of the exercise of options that were not included in the measurement of lease liabilities; and

*(d) other operational and financial effects of those options.

B51 Additional information relating to residual value guarantees that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:

*(a) the lessee's reasons for providing residual value guarantees and the prevalence of those guarantees;

*(b) the magnitude of a lessee's exposure to residual value risk;

(c) the nature of underlying assets for which those guarantees are provided; and

*(d) other operational and financial effects of those guarantees.

*B52 Additional information relating to sale and leaseback transactions that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:

(a) the lessee's reasons for sale and leaseback transactions and the prevalence of those transactions;

(b) key terms and conditions of individual sale and leaseback transactions;

(c) payments not included in the measurement of lease liabilities; and

(d) the cash flow effect of sale and leaseback transactions in the reporting period.

Appendix C
Effective date and transition

This appendix is an integral part of the Standard and has the same authority as the other parts of the Standard.

Effective date

C1 …

NZ C1.1 *RDR NZ IFRS 16 and NZ IAS 7*, issued in [date], amended paragraphs 53(h), 54, 58, 90(b), 91, B50(a), B50(b), B50(d), B51(a), B51(b), B510(d), B52, C12 and C13, and added paragraphs RDR 54.1, RDR 90.1, RDR C4.1 and RDR C12.1. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 January 2019. Early application is permitted.

Transition

C2 …

Definition of a lease

C3 …

C4 If an entity chooses the practical expedient in paragraph C3, it shall disclose that fact and apply the practical expedient to all of its contracts. As a result, the entity shall apply the requirements in paragraphs 9–11 only to contracts entered into (or changed) on or after the date of initial application.

RDR C4.1 A Tier 2 entity is not required to disclose the fact that it has applied the practical expedient in paragraph C3.

Disclosure

*C12 If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall disclose information about initial application required by paragraph 28 of NZ IAS 8, except for the information specified in paragraph 28(f) of NZ IAS 8. Instead of the information specified in paragraph 28(f) of NZ IAS 8, the lessee shall disclose:

(a) the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application; and

(b) an explanation of any difference between:

(i) operating lease commitments disclosed applying NZ IAS 17 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application as described in paragraph C8(a); and

(ii) lease liabilities recognised in the statement of financial position at the date of initial application.

RDRC12.1 If a Tier 2 lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall disclose information about initial application required by paragraph 28 of NZ IAS 8, except for the information specified in paragraph 28(f) of NZ IAS 8.

*C13 If a lessee uses one or more of the specified practical expedients in paragraph C10, it shall disclose that fact.

Amendments to NZ IAS 7 *Statement of Cash Flows*

Paragraphs 44A to 44E are amended and paragraph NZ 61.1 is added. New text is underlined.

Changes in liabilities arising from financing activities

***44A An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.**

*44B To the extent necessary to satisfy the requirement in paragraph 44A, an entity shall disclose the following changes in liabilities arising from financing activities:

(a) changes from financing cash flows;

(b) changes arising from obtaining or losing control of subsidiaries or other businesses;

(c) the effect of changes in foreign exchange rates;

(d) changes in fair values; and

(e) other changes.

*44C Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement in paragraph 44A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

*44D One way to fulfil the disclosure requirement in paragraph 44A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in paragraph 44B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.

*44E If an entity provides the disclosure required by paragraph 44A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

Effective date

53 …

NZ 61.1 *RDR NZ IFRS 16 and NZ IAS 7*, issued in [date], amended paragraphs 44A to 44E. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 January 2019. Early application is permitted.

Part C – Effective Date

This Standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

Proposals for RDR in AASB 16/NZ IFRS 16 *Leases*

Introduction

AASB staff and NZASB staff have applied the Tier 2 Disclosure Principles (see agenda item 6.4) to the disclosures in AASB 16/NZ IFRS 16 *Leases* to determine disclosure concessions for Tier 2 entities applying AASB 16/NZ IFRS 16.

Key

Blue font – rationale for proposals for RDR for AASB 16/NZ IFRS 16 under the Tier 2 Disclosure Principles

Red font – rationale for RDR in AASB ED 277/ED NZASB 2017-1 (the 2017 EDs) under proposed RDR decision-making framework

Green font – comments from respondents to the 2017 EDs

Purple font – corroboration with the *IFRS for SMEs* Standard and AASB 117/NZ IAS 17 *Leases* for proposals under current RDR framework

IFRS for SMEs Standard

There is currently no section in the *IFRS for SMEs* Standard based on AASB 16/NZ IFRS 16. Section 20 *Leases* is based on IAS 17 *Leases*.

The next comprehensive review of the *IFRS for SMEs* Standard is expected to start in early 2019.

Identifying proposed disclosure requirement reductions for AASB 16/NZ IFRS 16

The three-step approach to identify RDR proposals for AASB 16/NZ ASB 16 was applied.

1 Apply ‘user need’ and ‘cost benefit’ principles (see paragraph 1(a) of agenda item 6.4), because disclosures in IFRS 16 are new or revised disclosures that did not exist when the *IFRS for SMEs* was published or last updated.

2 Compare disclosure requirements with the *IFRS for SMEs* Standard and AASB 117/NZ IAS 17 and identify whether a similar disclosure was retained or reduced for Tier 2 entities under current RDR framework when applied in the past.

3 Compare RDR proposals under current RDR framework with RDR proposals under proposed RDR framework in the EDs.

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs	Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases*	Comments [① current approach; ② approach in the ED; ③ corroboration]
Lessee **Disclosure** **51 The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 52–60 specify requirements on how to meet this objective.**	**Lessee** **Disclosure** **51 The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 52–60 specify requirements on how to meet this objective.**		Paragraph 51 identifies the objective of the disclosures for lessees in the Standard. As such, it is not a disclosure requirement so would not be subject to analysis. It refers to paragraphs 52-60 that are, in part, retained for Tier 2 entities. ① Under current RDR framework, treated as guidance relating to a disclosure that is retained. Therefore, retain paragraph 51 for Tier 2 entities. ② Disclosure objective/principles paragraph without requiring any disclosures therefore kept. ③ Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include disclosure objective paragraphs.
52 A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.	52 A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.		Paragraph 52 specifies two ways of disclosing information – in a note or in a separate section. This prohibits disclosure from being spread out across financial statements. ① Under current RDR framework, treated as a presentation requirement. Therefore, retain paragraph 52 for Tier 2 entities. However, this is not consistent with the rationale taken in the 2017 EDs (see below in ②). ② Guidance for disclosures by lessees therefore kept in NZ but shaded in Aus because guidance is considered unnecessary. ③ Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such disclosure requirements.
53 A lessee shall disclose the following amounts for the reporting period: (a) depreciation charge for right-of-use assets by class of underlying asset;	53 A lessee shall disclose the following amounts for the reporting period: (a) depreciation charge for right-of-use assets by class of underlying asset;	20.14 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessees for assets under finance leases. 20.31 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to	Paragraph 53(a) requires disclosure of depreciation charges by class of underlying asset for the reporting period. ① Under current RDR framework, it meets user needs in relation to disaggregations of amounts

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs	Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases*	Comments [① current approach; ② approach in the ED; ③ corroboration]
		lessors for assets provided under operating leases. **Section 17 *Property, Plant and Equipment*** 17.31 An entity shall disclose the following for each class of property, plant and equipment that was deemed appropriate in accordance with paragraph 4.11(a): (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately: (vi) depreciation; and	presented in the financial statements. Therefore, retain paragraph 53(a) for Tier 2 entities. However, this is not consistent with the proposed approach taken in the 2017 EDs (see below in ②). ② KDA (nature of transaction or event that makes it significant or material to the entity) – disclosure of total depreciation is sufficient. **[2017 ED respondent AR5]** Reconsider as this disclosure provides only little incremental benefit. We also note in para 20 of AASB 7 all the P&L disclosures are considered not to relate to a KDA and have been completely reduced. If any of these items are significant, they would also be disclosed under the general principles in AASB 101. **[2017 ED respondent AR7]** This should be retained to be comparable with the requirements retained in AASB 116 paragraph 73(e)(vii). ③ The *IFRS for SMEs* Standard does not have right-of-use assets but this is a type of asset so have considered the disclosures for assets. Similar disclosures are required by the *IFRS for SMEs* Standard in paragraphs 20.14 and 20.31, including by class of underlying asset in paragraph 17.31(e)(vi). This is consistent with AASB 117/NZ IAS 17 paragraph 32 and accordingly with AASB 116/NZ IAS 16 paragraph 73(e)(vii), which requires disclosure of depreciation by class of asset and is retained for Tier 2 entities under current RDR framework. Therefore, should retain AASB 16/NZ IFRS 16 paragraph 53(a).
(b) interest expense on lease liabilities;	(b) interest expense on lease liabilities;	**Section 5 *Statement of Comprehensive Income and Income Statement*** 5.5 As a minimum, an entity shall include, in the statement of comprehensive income, line items that present the following amounts for the period: (b) finance costs.	Paragraph 53(b) requires disclosure of finance costs for the reporting period. ① Under current RDR framework, it meets user needs of liquidity and solvency, as well as short-term cash flows. Therefore, retain paragraph 53(b) for Tier 2 entities.

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	**Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs**	**Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases***	**Comments [① current approach; ② approach in the ED; ③ corroboration]**
			② KDA – nature of transaction or event that makes it significant or material to the entity. ③ The *IFRS for SMEs* Standard requires similar disclosures in paragraph 5.5(b). This is consistent with AASB 101/NZ IAS 1 paragraph 82(b), which requires disclosure of finance costs and is retained for Tier 2 entities under current RDR framework. Therefore, should retain AASB 16/NZ IFRS 16 paragraph 53(b).
(c) the expense relating to short-term leases accounted for applying paragraph 6. This expense need not include the expense relating to leases with a lease term of one month or less;	(c) the expense relating to short-term leases accounted for applying paragraph 6. This expense need not include the expense relating to leases with a lease term of one month or less;	20.16 A lessee shall make the following disclosures for operating leases: (b) lease payments recognised as an expense; and	Paragraph 53(c) requires disclosure of short-term lease expenses for the reporting period. ① Under current RDR framework, it meets user needs of short-term cash flows, obligations, commitments and contingencies. Therefore, retain paragraph 53(c) for Tier 2 entities. ② KDA – nature of transaction or event that makes it significant or material to the entity. **[2017 ED respondent AR5]** Reconsider as this disclosure provides only little incremental benefit. We also note in para 20 of AASB 7 all the P&L disclosures are considered not to relate to a KDA and have been completely reduced. If any of these items are significant, they would also be disclosed under the general principles in AASB 101. ③ The *IFRS for SMEs* Standard deals with operating leases and makes no reference to short-term leases. The disclosure is similar, in principle, to the disclosure of operating lease payments in paragraph 20.16(b) This is consistent with AASB 117/NZ IAS 17 paragraph 35(c), which is retained for Tier 2 entities under current RDR framework. Therefore, should retain AASB 16/NZ IFRS 16 paragraph 53(c).
(d) the expense relating to leases of low-value assets accounted for applying paragraph 6. This expense shall not include the expense relating to short-term	(d) the expense relating to leases of low-value assets accounted for applying paragraph 6. This expense shall not include the expense relating to short-term	20.16 A lessee shall make the following disclosures for operating leases:	Paragraph 53(d) requires disclosure of low-value lease expenses for the reporting period. ① Under current RDR framework, it meets user needs of liquidity and solvency, as well as short-

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	**Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs**	**Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases***	**Comments [① current approach; ② approach in the ED; ③ corroboration]**
leases of low-value assets included in paragraph 53(c);	leases of low-value assets included in paragraph 53(c);	(b) lease payments recognised as an expense; and	term cash flows, obligations, commitments and contingencies. Therefore, retain paragraph 53(d) for Tier 2 entities. ② KDA – nature of transaction or event that makes it significant or material to the entity **[2017 ED respondent AR5]** Reconsider as this disclosure provides only little incremental benefit. We also note in para 20 of AASB 7 all the P&L disclosures are considered not to relate to a KDA and have been completely reduced. If any of these items are significant, they would also be disclosed under the general principles in AASB 101. ③ The *IFRS for SMEs* Standard deals with operating leases and makes no reference to low-value assets. The disclosure is similar, in principle, to the disclosure of operating lease payments in paragraph 20.16(b). This is consistent with AASB 117/NZ IAS 17 paragraph 35(c), which is retained for Tier 2 entities under current RDR framework. Therefore, should retain AASB 16/NZ IFRS 16 paragraph 53(d).
(e) the expense relating to variable lease payments not included in the measurement of lease liabilities; **[Contingent rents reduced in AASB 117/NZ IAS 17 see comment ③]**	(e) the expense relating to variable lease payments not included in the measurement of lease liabilities;		Paragraph 53(e) requires disclosure of variable lease payments, not measured in lease liabilities, for the reporting period. ① Under current RDR framework, it meets user needs of obligations, commitments and contingencies, whether or not recognised as liabilities. Therefore, retain paragraph 53(e) for Tier 2 entities. However, this is not consistent with the current disclosure requirements in AASB 117/NZ IAS 17 (see below in ③). ② KDA – nature of transaction or event that makes it significant or material to the entity. **[2017 ED respondent AR5]** Reconsider as this disclosure provides only little incremental benefit. We also note in para 20 of AASB 7 all the P&L disclosures are considered not to relate to a KDA and have been completely reduced. If

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs	Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases*	Comments [① current approach; ② approach in the ED; ③ corroboration]
			any of these items are significant, they would also be disclosed under the general principles in AASB 101. ③ The *IFRS for SMEs* Standard does not require lessees to disclose contingent rents paid. Accordingly, AASB 117/NZ IAS 17 paragraph 31(c) and, in part, paragraph 35(c), which require disclosure of contingent rents, are reduced for Tier 2 entities under current RDR framework. Therefore, should reduce AASB 16/NZ IFRS 16 paragraph 53(e) for Tier 2 entities.
(f) income from subleasing right-of-use assets;	(f) income from subleasing right-of-use assets;		Paragraph 53(f) requires disclosure of sublease income for the reporting period. ① Under current RDR framework, it meets user needs of short-term cash flows, obligations, commitments and contingencies. Therefore, retain paragraph 53(f) for Tier 2 entities. ② KDA – nature of transaction or event that makes it significant or material to the entity. **[2017 ED respondent AR5]** Reconsider as this disclosure provides only little incremental benefit. We also note in para 20 of AASB 7 all the P&L disclosures are considered not to relate to a KDA and have been completely reduced. If any of these items are significant, they would also be disclosed under the general principles in AASB 101. ③ The *IFRS for SMEs* Standard does not require lessees to disclose income from subleasing assets. Accordingly, AASB 117/NZ IAS 17 paragraphs 31(d) and 35(f) reduce the requirements to disclose the total of future sublease payments for Tier 2 entities under current RDR framework. However, should retain AASB 16/NZ IFRS 16 paragraph 53(f) as the disclosure requirements are different.

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs	Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases*	Comments [① current approach; ② approach in the ED; ③ corroboration]
(g) total cash outflow for leases;	(g) total cash outflow for leases;		Paragraph 53(g) requires disclosure of lease cash outflow for the reporting period. ① Under current RDR framework, it meets user needs of liquidity and solvency, as well as short-term cash flows. Therefore, retain paragraph 53(g) for Tier 2 entities. ② KDA – current liquidity and solvency. ③ Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such disclosure requirements.
(h) additions to right-of-use assets; **[Retained in AASB 117/NZ IAS 17 – see comment ③]**	(h) additions to right-of-use assets;	20.14 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessees for assets under finance leases. 20.31 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessors for assets provided under operating leases. **Section 17 *Property, Plant and Equipment*** 17.31 An entity shall disclose the following for each class of property, plant and equipment that was deemed appropriate in accordance with paragraph 4.11(a): (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately: (i) additions;	Paragraph 53(h) requires disclosure of additions to right-of-use assets for the reporting period. ① Under current RDR framework, it does not meet any user needs. Therefore, reduce paragraph 53(h) for Tier 2 entities. However, this is not consistent with the current disclosure requirements in AASB 117/NZ IAS 17 (see below in ③). ② Regarded as a disclosure requirement but not a KDA, therefore reduced. ③ The *IFRS for SMEs* Standard requires similar disclosures in paragraphs 20.14 and 20.31 and accordingly in paragraph 17.31(e)(i). This is consistent with AASB 117/NZ IAS 17 paragraph 32 and accordingly with AASB 116/NZ IAS 16 paragraph 73(e)(i), which requires disclosure of additions and is retained for Tier 2 entities under current RDR framework. Therefore, should retain AASB 16/NZ IFRS 16 paragraph 53(h) for Tier 2 entities.
(i) gains or losses arising from sale and leaseback transactions; and	(i) gains or losses arising from sale and leaseback transactions; and		Paragraph 53(i) requires disclosure of gains/losses from sale/leaseback transactions for the reporting period. ① Under current RDR framework, it meets user needs of transactions and other events and

197028.1

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs	Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases*	Comments [① current approach; ② approach in the ED; ③ corroboration]
			conditions. Therefore, retain paragraph 53(i) for Tier 2 entities. ② KDA – nature of transaction or event that makes it significant or material to the entity. **[2017 ED respondent AR5]** Reconsider as this disclosure provides only little incremental benefit. We also note in para 20 of AASB 7 all the P&L disclosures are considered not to relate to a KDA and have been completely reduced. If any of these items are significant, they would also be disclosed under the general principles in AASB 101. ③ Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such disclosure requirements.
(j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.	(j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.	20.13 A lessee shall make the following disclosures for finance leases: (a) for each **class of asset**, the net **carrying amount** at the end of the **reporting period**;	Paragraph 53(j) requires disclosure of asset's carrying amount by class of underlying asset. ① Under current RDR framework, it meets user needs of liquidity and solvency. Therefore, retain paragraph 53(j) for Tier 2 entities. ② KDA – current liquidity and solvency. ③ The *IFRS for SMEs* Standard requires similar disclosures in paragraph 20.13(a). This is consistent with AASB 117/NZ IAS 17 paragraph 31(a), which requires disclosure of the net carrying amount for each class of asset and is retained for Tier 2 entities under current RDR framework. Therefore, should retain AASB 16/NZ IFRS 16 paragraph 53(j) for Tier 2 entities.
54 A lessee shall provide the disclosures specified in paragraph 53 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period. <u>RDR 54.1 The amounts disclosed in accordance with paragraph 53 shall include costs that a Tier 2</u>	54 A lessee shall provide the disclosures specified in paragraph 53 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.		Paragraph 54 specifies the disclosure format for paragraph 53 and a measurement requirement. ① Under current RDR framework, the *first sentence* is treated as a disclosure requirement that does not meet any user needs. The *second sentence* is treated as a measurement rather than a disclosure requirement. Therefore, reduce the *first sentence* and retain the *second sentence* of

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	**Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs**	**Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases***	**Comments [① current approach; ② approach in the ED; ③ corroboration]**
lessee has included in the carrying amount of another asset during the reporting period.			paragraph 54 for Tier 2 entities by means of an RDR paragraph. However, this is not consistent with the approach taken in the 2017 EDs (see below in ②). ② The *first sentence* is guidance about how to provide the disclosures specified in paragraph 53. However, references to 'in a tabular format' are reduced for Tier 2 entities. The *second sentence* of paragraph 54 is regarded as a disclosure requirement but not a KDA, therefore reduced. ③ Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such disclosure requirements.
55 A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 6 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 53(c) relates.	55 A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 6 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 53(c) relates.	20.16 A lessee shall make the following disclosures for operating leases: (a) the total of future minimum lease payments at the end of the reporting period, for each of the following periods: (i) not later than one year;	Paragraph 55 requires disclosure of commitments for short-term leases. ① Under current RDR framework, it meets user needs of liquidity and solvency, as well as obligations, commitments and contingencies. Therefore, retain paragraph 55 for Tier 2 entities. ② KDA – current liquidity and solvency, and commitments and contingencies. ③ The *IFRS for SMEs* Standard requires similar, but more general, disclosures in paragraph 20.16(a). This is consistent with AASB 117/NZ IAS 17 paragraph 35(a), which requires disclosure of future minimum lease payments and is retained for Tier 2 entities under current RDR framework. Therefore, should retain AASB 16/NZ IFRS 16 paragraph 55 for Tier 2 entities.
56 If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in AASB 140/NZ IAS 40. In that case, a lessee is not required to provide the disclosures in	56 If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in AASB 140/NZ IAS 40. In that case, a lessee is not required to provide the disclosures in	**Section 16 *Investment Property*** 16.11 In accordance with Section 20, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under a finance	Paragraph 56 provides guidance relating to disclosure requirements in AASB 140/NZ IAS 40 that are, in part, retained for Tier 2 entities. ① Under current RDR framework, treated as guidance relating to disclosures that are retained.

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	**Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs**	**Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases***	**Comments [① current approach; ② approach in the ED; ③ corroboration]**
paragraph 53(a), (f), (h) or (j) for those right-of-use assets.	paragraph 53(a), (f), (h) or (j) for those right-of-use assets.	lease or an operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.	Therefore, retain AASB 16/NZ IFRS 16 paragraph 56 for Tier 2 entities. ② Guidance about disclosures that are not required if the right-of-use asset meets the definition of investment property, therefore kept. ③ The *IFRS for SMEs* Standard requires similar disclosures in paragraph 16.11. This is consistent with AASB 140/NZ IAS 40 paragraph 74, which is retained for Tier 2 entities under current RDR framework. Therefore, retain AASB 16/NZ IFRS 16 paragraph 56 for Tier 2 entities.
57 If a lessee measures right-of-use assets at revalued amounts applying AASB 116/NZ IAS 16, the lessee shall disclose the information required by paragraph 77 of AASB 116/NZ IAS 16 for those right-of-use assets.	57 If a lessee measures right-of-use assets at revalued amounts applying AASB 116/NZ IAS 16, the lessee shall disclose the information required by paragraph 77 of AASB 116/NZ IAS 16 for those right-of-use assets.	20.14 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessees for assets under finance leases. 20.31 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessors for assets provided under operating leases. **Section 17 Property, Plant and Equipment** 17.33 If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following: (a) the effective date of the revaluation; (b) whether an independent valuer was involved; (c) the methods and significant assumptions applied in estimating the items' fair values; (d) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and (e) the revaluation surplus, indicating the change for the period and any	Paragraph 57 requires disclosures in AASB 116/NZ IAS 16 paragraph 77, which is, in part, retained for Tier 2 entities. ① Under current RDR framework, treated as a disclosure requirement. Cross-referenced disclosures in paragraph 77 of AASB 116/NZ IAS 16 are, in part, retained for Tier 2 entities. Therefore, retain AASB 16/NZ IFRS 16 paragraph 57 for Tier 2 entities. ② The equivalent disclosures to paragraph 17.33(a), (b) and (d) were proposed to be reduced in the EDs in paragraph 77 of AASB 116/NZ IAS 16, except for paragraph 77(f), which would be retained for Tier 2 entities. Therefore, paragraph 57 is kept for Tier 2 entities to make the disclosures required by paragraph 77. [2017 **ED respondent AR7]** This is important information to understand the risk stemming from the valuation process (ie how reliable it is) and should be retained. A user cannot determine what is regular if no date is provided. Property, plant and equipment for most government agencies is the largest item on the balance sheet and subject to the most judgement. Further, there is little to no cost in including this information in the financial statements.

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs	Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases*	Comments [① current approach; ② approach in the ED; ③ corroboration]
		restrictions on the distribution of the balance to shareholders.	**[2017 ED respondent AR13/NZR3]** We consider that there is significant benefit to users in understanding whether an independent valuer has been involved in determining a valuation, and that the cost of providing such disclosure would be minimal. **[2017 ED respondent NZR4]** We disagree with removing the requirement in paragraph 77(a) and (b) for Tier 2 entities to disclose the effective date of the valuation and whether an independent valuer was involved. We consider this important information for public sector entities (both for profit and public benefit entities). We disagree that the costs of providing this disclosure exceeds the benefits. These disclosures should be simple for Tier 2 entities to prepare with negligible cost. ③ The *IFRS for SMEs* Standard requires similar disclosures in paragraph 17.33. This is consistent, except for paragraph 17.33(c), with AASB 116/NZ IAS 16 paragraph 77, which is, in part, retained for Tier 2 entities under current RDR framework. Therefore, retain AASB 16/NZ IFRS 16 paragraph 57 for Tier 2 entities.
58 A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of AASB 7/NZ IFRS 7 *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities.	58 A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of AASB 7/NZ IFRS 7 Financial Instruments: Disclosures separately from the maturity analyses of other financial liabilities.	20.13 A lessee shall make the following disclosures for finance leases: (b) the total of future minimum lease payments at the end of the reporting period, for each of the following periods: (i) not later than one year; (ii) later than one year and not later than five years; and (iii) later than five years. 20.16 A lessee shall make the following disclosures for operating leases: (a) the total of future minimum lease payments at the end of the	Paragraph 58 requires disclosure of a maturity analysis of lease liabilities. ① Under current RDR framework, it meets user needs of liquidity and solvency, as well as obligations, commitments and contingencies. However, the cross-referenced paragraphs 39 and B11 of AASB 7/NZ IFRS 7 are both currently reduced for Tier 2 entities. It would be inconsistent to require a maturity analysis for lease liabilities but not other liabilities. Therefore, reduce AASB 16/NZ IFRS 16 paragraph 58 for Tier 2 entities. ② Paragraphs 39 and B11 of AASB 7/NZ IFRS 7, both reduced for Tier 2 entities so reduce.

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs	Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases*	Comments [① current approach; ② approach in the ED; ③ corroboration]
		reporting period, for each of the following periods: (i) not later than one year; (ii) later than one year and not later than five years; and (iii) later than five years.	③ The *IFRS for SMEs* Standard requires similar disclosures in paragraphs 20.13(b) and 20.16(a). This is consistent with AASB 117/NZ IAS 17 paragraphs 31(b) and 35(a), which is retained under current RDR framework. However, there is a stronger precedent in AASB 7/NZ IFRS 7. Therefore, reduce AASB 16/NZ IFRS 16 paragraph 58 for Tier 2 entities.
59 In addition to the disclosures required in paragraphs 53–58, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 51 (as described in paragraph B48). This additional information may include, but is not limited to, information that helps users of financial statements to assess: (a) the nature of the lessee's leasing activities; (b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from: (i) variable lease payments (as described in paragraph B49); (ii) extension options and termination options (as described in paragraph B50); (iii) residual value guarantees (as described in paragraph B51); and (iv) leases not yet commenced to which the lessee is committed. (c) restrictions or covenants imposed by leases; and (d) sale and leaseback transactions (as described in paragraph B52).	59 In addition to the disclosures required in paragraphs 53–58, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 51 (as described in paragraph B48). This additional information may include, but is not limited to, information that helps users of financial statements to assess: (a) the nature of the lessee's leasing activities; (b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from: (i) variable lease payments (as described in paragraph B49); (ii) extension options and termination options (as described in paragraph B50); (iii) residual value guarantees (as described in paragraph B51); and (iv) leases not yet commenced to which the lessee is committed. (c) restrictions or covenants imposed by leases; and (d) sale and leaseback transactions (as described in paragraph B52).	20.13 A lessee shall make the following disclosures for finance leases: (c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rents, renewal or purchase options and escalation clauses, subleases and restrictions imposed by lease arrangements. 20.16 A lessee shall make the following disclosures for operating leases: (c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rents, renewal or purchase options and escalation clauses, subleases and restrictions imposed by lease arrangements. 20.35 Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of significant leasing arrangements includes description of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.	Paragraph 59 requires additional disclosure to meet the disclosure objective. *First sentence* is a disclosure requirement. *Second sentence* is guidance to meet this disclosure requirement. ① Under current RDR framework, *first sentence* meets user needs of liquidity and solvency. *Second sentence* is guidance that relates to disclosure that is retained. Therefore, retain the whole paragraph 59 Tier 2 entities. ② KDA current liquidity and solvency and commitments and contingencies. ③ The *IFRS for SMEs* Standard requires similar disclosures in paragraphs 20.13(c), 20.16(c) and 20.35. This is consistent with AASB 117/NZ IAS 17 paragraphs 31(e), 35(d) and 65, which are retained for Tier 2 entities under current RDR framework. Therefore, retain AASB 16/NZ IFRS 16 paragraph 59 for Tier 2 entities.
60 A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 6 shall disclose that fact.	60 A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 6 shall disclose that fact.		Paragraph 60 requires disclosure of a policy choice.

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs	Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases*	Comments [① current approach; ② approach in the ED; ③ corroboration]
			① Under current RDR framework, it meets user need of the entity's accounting policy choices. Therefore, retain paragraph 60 for Tier 2 entities. ② KDA accounting policy on recognition or measurement – kept in NZ but reduced in Aus. ③ Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such disclosure requirements.
Lessor **Disclosure** **89 The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. Paragraphs 90–97 specify requirements on how to meet this objective.**	**Lessor** **Disclosure** **89 The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. Paragraphs 90–97 specify requirements on how to meet this objective.**		Paragraph 89 identifies the objective of the disclosures for lessors in the Standard. As such, it is not a disclosure requirement so would not be subject to analysis. It refers to paragraphs 90-97 that are, in part, retained for Tier 2 entities. ① Under current RDR framework, treated as guidance relating to a disclosure that is retained. Therefore, retain paragraph 89 for Tier 2 entities. ② Disclosure objective/principles paragraph without requiring any disclosures therefore kept. ③ Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include disclosure objective paragraphs.

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	**Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs**	**Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases***	**Comments [① current approach; ② approach in the ED; ③ corroboration]**
90 A lessor shall disclose the following amounts for the reporting period: (a) for finance leases: (i) selling profit or loss; (ii) finance income on the net investment in the lease; and (iii) income relating to variable lease payments not included in the measurement of the net investment in the lease.	90 A lessor shall disclose the following amounts for the reporting period: (a) for finance leases: (i) selling profit or loss; (ii) finance income on the net investment in the lease; and (iii) income relating to variable lease payments not included in the measurement of the net investment in the lease.	20.23 A lessor shall disclose the following for finance leases: (e) contingent rents recognised as income in the period. (f) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.	Paragraph 90(a) requires disclosures for finance leases. ① Under current RDR framework, it meets user needs of disaggregations of amounts presented in the financial statements. Therefore, retain paragraph 90(a) for Tier 2 entities. ② KDA – nature of transaction or event that makes it significant or material to the entity. ③ The *IFRS for SMEs* Standard requires similar disclosures in paragraph 20.23(e) and the other disclosures may be relevant to a general description in paragraph 20.23(f). This is consistent with AASB 117/NZ IAS 17 paragraph 47, which is retained for Tier 2 entities under current RDR framework. Therefore, retain AASB 16/IFRS 16 paragraph 90(a) for Tier 2 entities.
(b) for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.	(b) for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.	20.30 A lessor shall disclose the following for operating leases: (b) total contingent rents recognised as income. (c) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses, and restrictions imposed by lease arrangements.	Paragraph 90(b) requires disclosures for operating leases. ① Under current RDR framework, it meets user needs of disaggregations of amounts presented in the financial statements. However, as per the 'cost-benefit' principle applied in the EDs, the cost of providing separate disclosures exceeds the benefits. Therefore, retain paragraph 90(b) for Tier 2 entities only in part. ② KDA – nature of transaction or event that makes it significant or material to the entity but costs likely to > benefits for separate disclosures. ③ The *IFRS for SMEs* Standard requires similar disclosures in paragraph 20.30. This is consistent with AASB 117/NZ IAS 17 paragraph 56, which is, in part, retained for Tier 2 entities under current RDR framework. Therefore, retain AASB 16/IFRS 16 paragraph 90(b) for Tier 2 entities.

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	**Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs**	**Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases***	**Comments [① current approach; ② approach in the ED; ③ corroboration]**
91 A lessor shall provide the disclosures specified in paragraph 90 in a tabular format, unless another format is more appropriate.	91 A lessor shall provide the disclosures specified in paragraph 90 in a tabular format, unless another format is more appropriate.		Paragraph 91 specifies the disclosure format for paragraph 90. ① Under current RDR framework, it does not meet any user needs. Therefore, reduce paragraph 91 for Tier 2 entities. ② Disclosures in tabular format not required for Tier 2 entities, therefore reduced. ③ Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such requirements.
92 A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 89. This additional information includes, but is not limited to, information that helps users of financial statements to assess: (a) the nature of the lessor's leasing activities; and (b) how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.	92 A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 89. This additional information includes, but is not limited to, information that helps users of financial statements to assess: (a) the nature of the lessor's leasing activities; and (b) how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.	20.23 A lessor shall make the following disclosures for finance leases: (f) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements. 20.30 A lessor shall disclose the following for operating leases: (c) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses and restrictions imposed by lease arrangements.	Paragraph 92 requires additional disclosure to meet the disclosure objective. *First sentence* is a disclosure requirement. *Second sentence* is guidance to meet this disclosure requirement. ① Under current RDR framework, *first sentence* meets user needs of the nature of transactions and other events. *Second sentence* is guidance that relates to disclosure that is retained. Therefore, retain the whole paragraph 92 Tier 2 entities. ② KDA nature of the transaction or event that makes it significant or material to the entity and associated risks specific to a transaction or event. ③ The *IFRS for SMEs* Standard requires general disclosures in paragraphs 20.23(f), and 20.30(c). This is consistent with AASB 117/NZ IAS 17 paragraphs 47(f) and 56(c), which are retained under current RDR framework. Therefore, retain AASB 16/NZ IFRS 16 paragraph 92 for Tier 2 entities.
Finance leases 93 A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.	**Finance leases** 93 A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.		Paragraph 93 requires disclosure explaining changes in net investment in finance leases. ① Under current RDR framework, it meets user needs of liquidity and solvency. Therefore, retain paragraph 93 for Tier 2 entities. ② KDA current liquidity and solvency.

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	**Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs**	**Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases***	**Comments [① current approach; ② approach in the ED; ③ corroboration]**
			③ Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such requirements.
94 A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance income relating to the lease payments receivable and any discounted unguaranteed residual value.	94 A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance income relating to the lease payments receivable and any discounted unguaranteed residual value.	20.23 A lessor shall make the following disclosures for finance leases: (a) a reconciliation between the gross investment in the lease at the end of the reporting period and the present value of minimum lease payments receivable at the end of the reporting period. In addition, a lessor shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period for each of the following periods: (i) not later than one year; (ii) later than one year and not later than five years; and (iii) later than five years. (b) unearned finance income. (c) the unguaranteed residual values accruing to the benefit of the lessor.	Paragraph 94 requires disclosure of a maturity analysis of lease payments receivable and reconciliation to the net investment in leases. ① Under current RDR framework, it meets user needs of liquidity and solvency. Therefore, retain AASB 16/NZ IFRS 16 paragraph 94 for Tier 2 entities. ② First sentence – KDA current liquidity and solvency. Remaining sentences – a reconciliation which is not required by Tier 2 entities. ③ The *IFRS for SMEs* Standard requires similar disclosures in paragraph 20.23. This is consistent with AASB 117/NZ IAS 17 paragraphs 47, which is retained under current RDR framework. Therefore, retain AASB 16/NZ IFRS 16 paragraph 94 for Tier 2 entities.
Operating leases 95 For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of AASB 116/NZ IAS 16. In applying the disclosure requirements in AASB 116/NZ IAS 16, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by AASB 116/NZ IAS 16 for assets subject to an operating lease (by class	**Operating leases** 95 For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of AASB 116/NZ IAS 16. In applying the disclosure requirements in AASB 116/NZ IAS 16, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by AASB 116/NZ IAS 16 for assets subject to an operating lease (by class	20.31 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessors for assets provided under operating leases.	Paragraph 95 requires disclosures in AASB 116/NZ IAS 16, which are, in part, retained for Tier 2 entities. ① Under current RDR framework, treated as a disclosure requirement. Cross-referenced disclosures in AASB 116/NZ IAS 16 are, in part, retained for Tier 2 entities. Therefore, retain AASB 16/NZ IFRS 16 paragraph 95 for Tier 2 entities. ② General cross-reference to another paragraph so kept in NZ but reduced in Aus. **[2017 ED respondent AR7]** This paragraph includes disaggregation requirements additional

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs	Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases*	Comments [① current approach; ② approach in the ED; ③ corroboration]
of underlying asset) separately from owned assets held and used by the lessor.	of underlying asset) separately from owned assets held and used by the lessor.		to those contained in AASB 116 and as such should be kept. ③ The *IFRS for SMEs* Standard requires similar disclosures in paragraph 20.31 and accordingly in 17.31, 17.32 and 17.33. This is consistent with paragraphs 73, 74 and 77 of AASB 116/NZ IAS 16, which are, in part, retained for Tier 2 entities under current RDR framework. Therefore, retain AASB 16/NZ IFRS 16 paragraph 95 for Tier 2 entities.
96 A lessor shall apply the disclosure requirements in AASB 136/NZ IAS 36, AASB 138/NZ IAS 38, AAASB 140/NZ IAS 40 and AASB 141/NZ IAS 41 for assets subject to operating leases.	96 A lessor shall apply the disclosure requirements in AASB 136/NZ IAS 36, AASB 138/NZ IAS 38, AAASB 140/NZ IAS 40 and AASB 141/NZ IAS 41 for assets subject to operating leases.	20.31 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessors for assets provided under operating leases.	Paragraph 96 requires disclosures in other Standards, which are, in part, retained for Tier 2 entities. ① Under current RDR framework, treated as a disclosure requirement. Cross-referenced disclosures are, in part, retained for Tier 2 entities. Therefore, retain AASB 16/NZ IFRS 16 paragraph 96 for Tier 2 entities. ② General cross-reference to another paragraph so kept in NZ but reduced in Aus. ③ The *IFRS for SMEs* Standard requires similar disclosures in 20.31 and other respective Sections. This is consistent with AASB 117/NZ IAS 17 paragraph 57 and other respective Standards, which is retained for Tier 2 entities under current RDR framework. Therefore, retain AASB 16/NZ IFRS 16 paragraph 96 for Tier 2 entities.
97 A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.	97 A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.	20.30 A lessor shall disclose the following for operating leases: (a) the future minimum lease payments under non-cancellable operating leases for each of the following periods: (i) not later than one year; (ii) later than one year and not later than five years; and (iii) later than five years.	Paragraph 97 requires disclosure of a maturity analysis of lease payments to be received. ① Under current RDR framework, it meets user needs of liquidity and solvency. Therefore, retain paragraph 97 for Tier 2 entities. ② KDA current liquidity and solvency. ③ The *IFRS for SMEs* Standard requires similar disclosures in paragraph 20.30(a). This is consistent with AASB 117/NZ IAS 17 paragraphs 56(a), which is, in part, retained

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs	Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases*	Comments [① current approach; ② approach in the ED; ③ corroboration]
			under current RDR framework. Therefore, retain AASB 16/NZ IFRS 16 paragraph 97 for Tier 2 entities.
Appendix B **Lessee disclosures (paragraph 59)** B48 In determining whether additional information about leasing activities is necessary to meet the disclosure objective in paragraph 51, a lessee shall consider: (a) whether that information is relevant to users of financial statements. A lessee shall provide additional information specified in paragraph 59 only if that information is expected to be relevant to users of financial statements. In this context, this is likely to be the case if it helps those users to understand: (i) the flexibility provided by leases. Leases may provide flexibility if, for example, a lessee can reduce its exposure by exercising termination options or renewing leases with favourable terms and conditions. (ii) restrictions imposed by leases. Leases may impose restrictions, for example, by requiring the lessee to maintain particular financial ratios. (iii) sensitivity of reported information to key variables. Reported information may be sensitive to, for example, future variable lease payments. (iv) exposure to other risks arising from leases. (v) deviations from industry practice. Such deviations may include, for example, unusual or unique lease terms and conditions that affect a lessee's lease portfolio.	**Appendix B** **Lessee disclosures (paragraph 59)** B48 In determining whether additional information about leasing activities is necessary to meet the disclosure objective in paragraph 51, a lessee shall consider: (a) whether that information is relevant to users of financial statements. A lessee shall provide additional information specified in paragraph 59 only if that information is expected to be relevant to users of financial statements. In this context, this is likely to be the case if it helps those users to understand: (i) the flexibility provided by leases. Leases may provide flexibility if, for example, a lessee can reduce its exposure by exercising termination options or renewing leases with favourable terms and conditions. (ii) restrictions imposed by leases. Leases may impose restrictions, for example, by requiring the lessee to maintain particular financial ratios. (iii) sensitivity of reported information to key variables. Reported information may be sensitive to, for example, future variable lease payments. (iv) exposure to other risks arising from leases. (v) deviations from industry practice. Such deviations may include, for example, unusual or unique lease terms and conditions that affect a lessee's lease portfolio.		Paragraph B48 provides guidance to meeting the disclosure objective specified in paragraph 51. ① Under current RDR framework, treated as guidance relating to disclosures in paragraph 59 that are retained. Therefore, retain paragraph B48 for Tier 2 entities. ② Guidance for paragraph 51, which is kept in NZ but reduced in Aus. **[2017 ED respondent AR7]** This is necessary guidance for preparers which should be kept. ③ Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such requirements.

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs	Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases*	Comments [① current approach; ② approach in the ED; ③ corroboration]
(b) whether that information is apparent from information either presented in the primary financial statements or disclosed in the notes. A lessee need not duplicate information that is already presented elsewhere in the financial statements.	(b) whether that information is apparent from information either presented in the primary financial statements or disclosed in the notes. A lessee need not duplicate information that is already presented elsewhere in the financial statements.		
B49 Additional information relating to variable lease payments that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example: (a) the lessee's reasons for using variable lease payments and the prevalence of those payments; (b) the relative magnitude of variable lease payments to fixed payments; (c) key variables upon which variable lease payments depend and how payments are expected to vary in response to changes in those key variables; and (d) other operational and financial effects of variable lease payments.	B49 Additional information relating to variable lease payments that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example: (a) the lessee's reasons for using variable lease payments and the prevalence of those payments; (b) the relative magnitude of variable lease payments to fixed payments; (c) key variables upon which variable lease payments depend and how payments are expected to vary in response to changes in those key variables; and (d) other operational and financial effects of variable lease payments.		Paragraph B49 provides guidance to meeting the disclosure objective specified in paragraph 51. ① Under current RDR framework, treated as guidance relating to disclosures in paragraph 59 that are retained. Therefore, retain paragraph B49 for Tier 2 entities. ② Guidance about variable lease payments in paragraph 53(e), which is kept. The additional information outlined provides information about the possible impact of variable lease payments on cash flows so all kept. ③ Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such requirements.
B50 Additional information relating to extension options or termination options that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example: (a) the lessee's reasons for using extension options or termination options and the prevalence of those options; (b) the relative magnitude of *optional lease payments* to lease payments; (c) the prevalence of the exercise of options that were not included in the measurement of lease liabilities; and (d) other operational and financial effects of those options.	B50 Additional information relating to extension options or termination options that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example: (a) the lessee's reasons for using extension options or termination options and the prevalence of those options; (b) the relative magnitude of *optional lease payments* to lease payments; (c) the prevalence of the exercise of options that were not included in the measurement of lease liabilities; and (d) other operational and financial effects of those options.		Paragraph B50 provides guidance to meeting the disclosure objective specified in paragraph 51. ① Under current RDR framework, treated as guidance relating to disclosures in paragraph 59 that are retained. However, as per the 'cost-benefit' principle applied in the EDs, the cost of providing separate disclosures would likely exceed the benefits. Therefore, retain paragraph B50 for Tier 2 entities only in part. ② Guidance for paragraph 51, which is kept. However, the costs likely to > benefits for paragraphs B50(a), (b) and (d) so only paragraph B50(c) kept. ③ Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such requirements.

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	**Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs**	**Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases***	**Comments [① current approach; ② approach in the ED; ③ corroboration]**
B51 Additional information relating to residual value guarantees that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example: (a) the lessee's reasons for providing residual value guarantees and the prevalence of those guarantees; (b) the magnitude of a lessee's exposure to residual value risk; (c) the nature of underlying assets for which those guarantees are provided; and (d) other operational and financial effects of those guarantees.	B51 Additional information relating to residual value guarantees that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example: (a) the lessee's reasons for providing residual value guarantees and the prevalence of those guarantees; (b) the magnitude of a lessee's exposure to residual value risk; (c) the nature of underlying assets for which those guarantees are provided; and (d) other operational and financial effects of those guarantees.		Paragraph B51 provides guidance to meeting the disclosure objective specified in paragraph 51. ① Under current RDR framework, treated as guidance relating to disclosures in paragraph 59 that are retained. However, as per the 'cost-benefit' principle applied in the EDs, the cost of providing separate disclosures would likely exceed the benefits. Therefore, retain paragraph B51 for Tier 2 entities only in part. ② Guidance for paragraph 51, which is kept. However, the costs likely to > benefits for paragraphs B50(a), (b) and (d) so only paragraph B50(c) kept. **[2017 ED respondent AR13/NZR3]** We question whether this information would be costly to provide as an entity would have views on why they are providing residual value guarantees. Further, as this represents guidance on the application of paragraph 51 we believe it is beneficial for such guidance to be kept for Tier 2 entities. ③ Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such requirements.
B52 Additional information relating to sale and leaseback transactions that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example: (a) the lessee's reasons for sale and leaseback transactions and the prevalence of those transactions; (b) key terms and conditions of individual sale and leaseback transactions; (c) payments not included in the measurement of lease liabilities; and (d) the cash flow effect of sale and leaseback transactions in the reporting period.	B52 Additional information relating to sale and leaseback transactions that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example: (a) the lessee's reasons for sale and leaseback transactions and the prevalence of those transactions; (b) key terms and conditions of individual sale and leaseback transactions; (c) payments not included in the measurement of lease liabilities; and (d) the cash flow effect of sale and leaseback transactions in the reporting period.	20.35 Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of significant leasing arrangements includes description of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.	Paragraph B52 provides guidance to meeting the disclosure objective specified in paragraph 51. ① Under current RDR framework, treated as guidance relating to disclosures in paragraph 59 that are retained. However, as per the 'cost-benefit' principle applied in the EDs, the cost of providing separate disclosures would likely exceed the benefits. Therefore, reduce paragraph B52 for Tier 2 entities. ② Guidance for paragraph 51 which is kept. However, the costs likely to > benefits so reduced. **[2017 ED respondent AR13/NZR3]** For a sale and leaseback there can be a fine line between a financing and a derecognition. As such, the business reasons for achieving sale provides

Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under current RDR framework	**Proposed RDR in AASB 16/NZ IFRS 16 (shaded) under proposed framework per the 2017 EDs**	**Disclosure requirements in *IFRS for SMEs* Standard Section 20 *Leases***	**Comments [① current approach; ② approach in the ED; ③ corroboration]**
			useful information for users. Such information would be readily available as it relates to the company's decisions. As such we question whether the cost of providing the disclosure would exceed the benefits. ③ The *IFRS for SMEs* Standard requires disclosures for lessees and lessors to be made for sale and leaseback transactions. These disclosures could be required under paragraphs 20.13(c) and 20.16(c) as part of the general description of significant leasing arrangements. This is consistent with AASB 117/NZ IAS 17 paragraph 65, which is retained for Tier 2 entities under current RDR framework.

Appendix C of AASB 16/NZ IFRS 16 was inadvertently omitted from the RDR EDs

Proposed RDR (shaded) under current RDR framework	Comments
Transition **Definition of a lease** C4 If an entity chooses the practical expedient in paragraph C3 [reassessment of whether a contract is, or contains, a lease], it shall disclose that fact and apply the practical expedient to all of its contracts. As a result, the entity shall apply the requirements in paragraphs 9–11 only to contracts entered into (or changed) on or after the date of initial application.	Paragraph 28(d) of AASB 108/NZ IAS 8 requires, when applicable, the disclosure of a description of the transitional provisions upon initial application of an Australian Accounting Standard/NZ IFRS. However, paragraph 28(d) is identified as an RDR in AASB 108/NZ IAS 8 so reduce for Tier 2 entities the requirement to disclose that the entity has applied the practical expedient in paragraph C3.
C12 If a lessee elects to apply this Standard in accordance with paragraph C5(b) [retrospective application of the cumulative effect of initially applying the Standard recognised at the date of initial application], the lessee shall disclose information about initial application required by paragraph 28 of AASB 108/NZ IAS 8, except for the information specified in paragraph 28(f) of AASB 108/NZ IAS 8. Instead of the information specified in paragraph 28(f) of AASB 108/NZ IAS 8, the lessee shall disclose: (a) the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application; and (b) an explanation of any difference between: (i) operating lease commitments disclosed applying AASB 117/NZ IAS 17 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application as described in paragraph C8(a); and (ii) lease liabilities recognised in the statement of financial position at the date of initial application.	Paragraph 28 of AASB 108/NZ IAS 8 contains reductions for some of the disclosures required. Retain the first sentence so that Tier 2 entities are required to make the relevant disclosures required by AASB 108/NZ IAS 8. The disclosures that replace paragraph 28(f) do not meet user needs highlighted in the RDR framework, so reduce for Tier 2 entities. **Current RDR (shaded)** ***AASB 108/NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*** 28 When initial application of an Australian Accounting Standard/NZ IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose: (a) the title of the Australian Accounting Standard/NZ IFRS; (b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions; (c) the nature of the change in accounting policy; (d) when applicable, a description of the transitional provisions; (e) when applicable, the transitional provisions that might have an effect on future periods; (f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment: (i) for each financial statement line item affected; and (ii) if AASB 133/NZ IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share; (g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and (h) if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied. Financial statements of subsequent periods need not repeat these disclosures. RDR 28.1 A Tier 2 entity shall disclose an explanation if it is impracticable to determine the amounts required to be disclosed by paragraph 28(f)(i) or 28(g).
C13 If a lessee uses one or more of the specified practical expedients in paragraph C10 [for example, application of single discount rate to portfolio of leases with similar characteristics, reliance on assessment of whether a lease is onerous relying on AASB 137/NZ IAS 37], it shall disclose that fact.	Paragraph 28(d) of AASB 108/NZ IAS 8 requires, when applicable, the disclosure of a description of the transitional provisions upon initial application of an Australian Accounting Standard/NZ IFRS. However, paragraph 28(d) is identified as an RDR in AASB 108/NZ IAS 8, so reduce for Tier 2 entities.

TIER 2 DISCLOSURE PRINCIPLES

The 'user need' and 'cost-benefit' principles that underlie the determination of disclosure requirements in the IASB's *IFRS for SMEs* are applied in determining disclosures under Tier 2 (Reduced Disclosure Requirements). The following operational guidance is intended to facilitate the application of those principles:

General guidance

1 The disclosures proposed under Tier 2 are determined by:

(a) benchmarking to the *IFRS for SMEs* disclosures when Tier 2 recognition and measurement accounting policies are the same (or substantively the same) as those under the *IFRS for SMEs* unless the relevant full IFRS disclosure is a new or revised disclosure that did not exist when the *IFRS for SMEs* was published or last updated. In such cases the 'user need' and 'cost-benefit' principles (used by the IASB in developing its *IFRS for SMEs)* are applied to new or revised disclosures; and

(b) applying the 'user need' and 'cost-benefit' principles when Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.

IFRS for SMEs excludes some full IFRS disclosures; that is when they are only pertinent to the information needs of users of financial statements of publicly accountable entities. Instead it focuses on information that is of particular interest to users of financial statements of non-publicly accountable private sector entities. Consistent with this approach, paragraph 6 below provides guidance on the specific information needs of these users. Moreover, as Tier 2 Disclosure Principles are also applied in determining the disclosure requirements of not-for-profit and public sector entities, paragraph 10 clarifies the information needs of users of the financial statements of such entities.

Specific guidance

Approach when Recognition and Measurement Requirements are the Same or Substantively the Same

Identical or similar disclosures

2 Where the disclosure requirements under a full IFRS as adopted in Australia and the *IFRS for SMEs* are the same or similar (that is, result in the same disclosures), those disclosure requirements are retained as part of Tier 2 requirements, using the wording of the relevant full IFRS as adopted in Australia.

Dissimilar disclosures

3 Where the disclosure requirements under a full IFRS and the *IFRS for SMEs* are dissimilar, the following procedure is followed:

(a) Where the *IFRS for SMEs* does not require a disclosure that is required in the relevant full IFRS, Tier 2 does not retain that disclosure unless the relevant full IFRS disclosure requirement is a new or revised disclosure requirement and the application of user need and cost-benefit principles warrants otherwise.

(b) Where the *IFRS for SMEs* disclosure requirement is less onerous than the relevant full IFRS disclosure requirement, the less onerous disclosure requirement is adopted unless the relevant full IFRS disclosure requirement is a new or revised disclosure requirement and the application of user need and cost benefit principles warrants otherwise.

Benchmarking to the *IFRS for SMEs* in cases where a new or revised disclosure requirement is not involved is on the basis that, in developing the *IFRS for SMEs*, the IASB has already applied the user needs and cost benefit principles and concluded that an exemption or reduced disclosure is appropriate.

In most cases, the structure of the words in the relevant full IFRS enables the use of shading to show that a relevant disclosure requirement is excluded or reduced so as to match the *IFRS for SMEs* disclosure outcome. In the few cases where this is not feasible, the wording in the *IFRS for SMEs* is used as the basis for an RDR paragraph as a substitute for the relevant full IFRS wording.

4 In the few cases where the *IFRS for SMEs* has an additional disclosure requirement that is not included in the full IFRS, that disclosure requirement is not included in Tier 2 requirements.

Approach when Recognition and Measurement Requirements are not the Same or Substantively the Same

5 The disclosure requirements under Tier 2 are determined by drawing on the ‘user need’ and ‘cost-benefit’ principles applied by the IASB in developing its *IFRS for SMEs* when Tier 2 recognition and measurement accounting policies are not the same (or substantively the same) as those under the *IFRS for SMEs*.

6 The principles applied by the IASB in developing its *IFRS for SMEs* are grounded in the view that users of financial information of non-publicly accountable for-profit private sector entities are particularly interested in information about:

(a) short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities;

(b) liquidity and solvency;

(c) measurement uncertainties;

(d) the entity’s accounting policy choices;

(e) disaggregations of amounts presented in the financial statements; and

(f) transactions and other events and conditions encountered by such entities.

Guidance

7 Guidance relating to a disclosure that is retained in Tier 2 requirements is also retained in Tier 2 requirements on the grounds that it assists entities in making that disclosure and would not add to the disclosure burden. Guidance that relates to a disclosure that is not retained in Tier 2 requirements is also not retained in Tier 2 requirements. Text in the nature of contextual material is not treated as guidance. Such text is retained in Tier 2 on the basis that its retention does not add to the disclosure burden.

Disclosure Encouraged

8 Where a disclosure is encouraged, whether under the full IFRSs as adopted in Australia or the *IFRS for SMEs*, it is not included.

Presentation vs Disclosure

9 Tier 2 does not involve amending the presentation (sometimes used interchangeably with classification) requirements of Tier 1 and is concerned only with reducing the disclosure burden. Sometimes judgement is required as to whether a particular requirement relates to presentation or disclosure. The following guidance is used to distinguish between presentation and disclosure:

Presentation requirements are limited to requirements that specify the broad structure of financial statements including the basis of classification of items. Specifications relating to subclassifications or line items to be shown on the face of financial statements, or in the notes, are treated as matters of disclosure.

Clarification in relation to Not-For-Profit and Public Sector Entities

10 Although the *IFRS for SMEs* has been developed to apply to for-profit private sector entities, broadly it is considered reasonable to rely on the judgements made in developing the *IFRS for SMEs* in respect of both for-profit and not-for-profit (including public sector) entities in Australia given that IFRSs are generally applied to all types of Australian entities. Accordingly, paragraphs 3 and 6 are relevant to all types of entities. The AASB uses its *Process for Modifying IFRSs for PBE/NFP* in assessing the need for specific requirements relating to not-for-profit entities.

For the limited number of disclosure requirements in full IFRSs as adopted in Australia that are specific to the circumstances of not-for-profit and public sector entities the Tier 2 disclosures are determined by applying the user need and cost-benefit principles in the context of the specific needs of users of not-for-profit and public sector entity financial statements.

Consistency of application

11 Tier 2 Disclosure Principles and related operational guidance are applied consistently so that disclosures relating to similar or analogous circumstances are not significantly different. 'Analogising', with a view to achieving consistency of application, is not a substitute for making independent decisions in the circumstances of each case, rather it provides corroborative evidence based on similar previous decisions.

'Analogising' also encompasses reliance on the IASB decisions in relation to similar disclosures under the *IFRS for SMEs*, albeit those disclosures are included in a section of the *IFRS for SMEs* that does not correspond to the topic covered by the full IFRS.

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	1 December 2017
To:	NZASB Members
From:	Joanne Scott
Subject:	**ED 62 Financial Instruments**

Action required[1]

1. The Board is asked to APPROVE the draft comment letter on IPSASB ED 62 *Financial Instruments*, subject to any changes agreed at the meeting, and AGREE the process for finalising the letter.

Background

2. The Board considered a draft comment letter on ED 62 at its November meeting. The Board's feedback on that draft was as follows.

   (a) SMC 1 Hedging option: The Board agreed that the response should acknowledge that removing the hedging option would lead to more consistency across the public sector. The Board also agreed that the comment letter should say that we would not anticipate problems from continuing to allow the option. The response has been revised to reflect this feedback.

   (b) Sale of future flows arising from a sovereign right: The Board noted that transactions involving revenue from sovereign rights might be more common than suggested by staff and noted that the AASB is currently developing proposals for accounting for revenue from licences issued by not-for-profit public sector entities. We have referred to the issues being addressed in the AASB's project in the draft comment letter on revenue and non-exchange transactions rather than this comment letter.

   (c) Equity instruments arising from non-exchange transactions: The Board agreed not to comment on this section of the ED, so these comments have been removed from the draft comment letter.

   (d) Concessionary loans: The Board agreed not to request more application guidance or illustrative examples. The Board requested that staff re-examine the location of the concessionary loan guidance in the draft standard and that staff have a closer look at paragraph AG123 (to check that it is clear which components of a transaction it is referring to). We report back on these matters later in the memo.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

3. The November agenda papers said that ED 62 included the IASB's proposals for prepayment features with negative compensation. We have since realised that ED 62 did <u>not</u> deal with this issue and have changed the comment letter accordingly. We are now requesting that the IPSASB incorporate requirements equivalent to those set out in *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) in its proposed standard.

4. Comments to the NZASB closed on 13 November. Respondents' comments are summarised in this memo.

5. Comments on ED 62 are due to the IPSASB by 31 December 2017.

Structure of this memo

6. The sections in this memo are:
   (a) Comments from New Zealand constituents;
   (b) Measurement guidance; and
   (c) Recommendations.

Comments from New Zealand constituents

7. The NZASB has received two comment letters on ED 62 (see agenda item 7.3). R2 intends to respond separately to the IPSASB and some other constituents might also comment directly to the IPSASB.

<u>R1's comments</u>

8. R1 supported the IPSASB's proposal to allow an option for entities to continue to apply the IPSAS 29 *Financial Instruments: Recognition and Measurement* hedging requirements (see SMC 1). R1 noted that not-for-profit entities are unlikely to apply hedge accounting.

9. R1 agreed with the proposed 3-year implementation period (see SMC 2). R1 suggested that the XRB might need to develop additional illustrative examples for not-for-profit entities. We think the illustrative examples in ED 62 cover the types of transactions likely to be encountered by not-for-profit entities and note that the NZASB did not make any NFP modifications in PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. This matter could be considered further when the NZASB develops a new PBE Standard to replace PBE IFRS 9 *Financial Instruments.*

10. R1 agreed with the proposed transition requirements (see SMC 3). 1 noted that the NZASB may need to develop New Zealand specific transition requirements for entities that have early adopted PBE IFRS 9. We agree that separate consideration of appropriate transition requirements for such entities should be considered when the NZASB develops a new PBE Standard to replace PBE IFRS 9.

11. R1's points are matters for noting (and possible future action). They have not led to any changes to the NZASB's comment letter.

R2's comments

12. R2 has expressed general support for SMC's 1 to 3. R2's other comments on ED 62 are summarised below.

    (a) Concessionary loans: R2 proposes two changes to the concessionary loan guidance in ED 62 paragraph G.2. The first change is to clarify that a concessionary loan at a nil interest rate is not precluded from satisfying the SPPI criteria due to that feature. The second change is to repeat guidance in paragraph AG63 or add a cross-reference to paragraph AG63. In addition, R2 thinks that one of the illustrative examples (IE21, scenario 2) dealing with an on-demand student loan is unrealistic and has suggested that the IPSASB replace the example or add another example.

    (b) Valuation of unquoted equity instruments: R2 welcomes the additional guidance on the valuation of unquoted equity instruments but would like guidance which covers a wider range of circumstances. R2 suggests that the IPSASB needs to develop guidance on measuring the fair value of non-cash-generating equity investments.

    (c) Equity instruments arising from non-exchange transactions: R2 has requested clarification of the proposed new application guidance paragraphs AG125 to AG127.

    (d) Capital subscriptions with development banks: R2 suggests that the IPSASB consider whether it wants to provide guidance on capital subscriptions to a development bank when it is addressing similar issues in the Public Sector Specific Financial Instruments project.

Q1	Does the NZASB want to incorporate any of R2's comments in the NZASB comment letter?

Measurement guidance

13. At the Board's November 2017 meeting, Board members queried a couple of aspects of ED 62. Staff were asked to think about the order of the measurement requirements and guidance. Staff were also asked to take a closer look at paragraph AG123 to make sure that it is clear which "difference" between fair value and the transaction price the paragraph refers to.

14. Following the November meeting we have compared the initial measurement requirements in ED 62 and IFRS 9/PBE IFRS 9 (see Appendix 1 of this memo). This comparison helped us to form a view about whether the measurement requirements in ED 62 are appropriate, clear and located in a sensible manner. After having completed this comparison we have not identified any concerns about the order of the requirements and guidance and are therefore not proposing to comment on this.

15. As a result of completing the comparison, we have identified some duplicated requirements relating to initial measurement requirements and identified a new issue about financial guarantee contracts. We have updated the comment letter to reflect these points.

Initial measurement (Paragraphs AG115, AG117 and AG147)

16. The comparison (together with checking the history of some paragraphs in IPSAS 29) confirmed that we should propose the deletion of paragraph AG117. The comparison

highlights that two versions of the same requirements have been included in ED 62. See Appendix 2 of this memo for relevant extracts from IPSAS 29 and ED 62 and the comments on initial measurement in the draft comment letter.

Valuing financial guarantees through a non-exchange transaction (Paragraph AG133)

17. As a result of looking more closely at the measurement guidance in ED 62, we noticed a difference between ED 62 paragraph AG133 and PBE IFRS 9 paragraph B5.1.2M which deal with valuing financial guarantees through non-exchange transactions. The two paragraphs in question are shown below.

18. ED 62 paragraph AG133 is identical to IPSAS 29 paragraph AG97 – it refers to the principles in IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. By contrast, in developing PBE IFRS 9 (see paragraph B5.1.2M), we chose to align the measurement of financial guarantees issued as part of a non-exchange transaction with IFRS 9's requirements for the measurement of financial guarantees. It is not clear to us whether the IPSASB deliberately kept the reference to IPSAS 19 rather than referring to the impairment requirements in section 5.5 of IFRS 9.

19. In the draft comment letter we have queried why the IPSASB retained the reference to IPSAS 19 rather than referring to the new impairment model. We have also suggested that if the reference to IPSAS 19 was intentional, the IPSASB should outline its rationale in the Basis for Conclusions.

Extract from ED 62

AG133. If no reliable measure of fair value can be determined, either by direct observation of an active market or through another valuation technique, an entity is required to apply the principles of IPSAS 19 to the financial guarantee contract at initial recognition. The entity assesses whether a present obligation has arisen as a result of a past event related to a financial guarantee contract whether it is probable that such a present obligation will result in a cash outflow in accordance with the terms of the contract and whether a reliable estimate can be made of the outflow. It is possible that a present obligation related to a financial guarantee contract will arise at initial recognition where, for example, an entity enters into a financial guarantee contact to guarantee loans to a large number of small enterprises and, based on past experience, is aware that a proportion of these enterprises will default.

Extract from PBE IFRS 9

B5.1.2M If no reliable measure of fair value can be determined, either by direct observation of an active market or through another valuation technique, an entity is required to measure the financial guarantee contract at the amount of the loss allowance determined in accordance with Section 5.5.

Non-exchange components (Paragraph AG123)

20. We have considered whether paragraph AG 123 of ED 62 (shown below) is clear enough. We acknowledge that ED 62 (as well as IPSAS 29, PBE IPSAS 29 and PBE IFRS 9) is sometimes referring to the total amount of a transaction, including amounts that relate to something other than the financial instrument (such as the non-exchange component of a concessionary loan) and sometimes referring to the amount that relates to the financial instrument itself (being just the exchange component). ED 62 paragraph AG123 discusses the recognition of the

non-exchange component. Paragraph AG123 is identical to paragraph AG89 of IPSAS 29. Given that this guidance has been around for some time, it is located in the section on concessionary loans, and constituents have not raised any concerns with it, we do not propose any changes.

Extract from ED 62

AG123. Any difference between the fair value of the loan and the transaction price (the loan proceeds) is treated as follows:

(a) Where the loan is received by an entity, the difference is accounted for in accordance with IPSAS 23.

(b) Where the loan is granted by an entity, the difference is treated as an expense in surplus or deficit at initial recognition, except where the loan is a transaction with owners, in their capacity as owners. Where the loan is a transaction with owners in their capacity as owners, for example, where a controlling entity provides a concessionary loan to a controlled entity, the difference may represent a capital contribution, i.e., an investment in an entity, rather than an expense.

Illustrative Examples are provided in paragraph IG54 of IPSAS 23 as well as paragraphs IE153 to IE161 accompanying this Standard.

AG124. After initial recognition at fair value, an entity subsequently assesses the classification of concessionary loans in accordance with paragraphs 39–44 and measures concessionary loans in accordance with paragraphs 59–63.

Recommendations

21. We recommend that the Board APPROVES the draft comment letter on ED 62, subject to any changes agreed at this meeting, and AGREES the process for finalising the comment letter.

Attachments

Agenda item 7.2:	Draft comment letter on ED 62	
Agenda item 7.3:	Submissions received	
	7.3.1	R1 BDO
	7.3.2	R2 Audit New Zealand
Agenda item 7.4:	ED 62 (in supporting documents)	

Appendix 1

Table 1 compares the initial measurement requirements and guidance in IPSAS 29 with ED 62. In the case of differences between the IPSAS 29 and ED 62, it comments on whether that difference is consistent with the guidance in IFRS 9 and PBE IFRS 9. A tick ✓ signifies that the guidance in IPSAS 29 and ED 62 is almost identical.

Table 1 Comparison of Measurement Guidance[2]

IPSAS 29	ED 62	Comment (including some history)
Initial measurement of financial assets and financial liabilities	**Initial measurement**	
45–46	57–58✓	
Subsequent measurement of financial assets	**Subsequent measurement of financial assets**	
47–48	59–61	Revised to reflect IFRS 9 requirements.
Subsequent measurement of financial liabilities	**Subsequent measurement of financial liabilities**	
49	62–63	Revised to reflect IFRS 9 requirements.
Fair value measurement considerations	**Fair value measurement considerations**	
50–52	64–66✓	These paragraphs came from IAS 39. The IASB deleted them from IAS 39 when it issued IFRS 13. In PBE IFRS 9 we located these paragraphs immediately under the section on initial measurement.
….	…	…
Measurement (paragraphs 45–86)	**Measurement**	
Non-Exchange Revenue Transactions	Non-Exchange Revenue Transactions	
AG81	AG114✓	Public sector specific guidance. Equivalent PBE specific guidance is in PBE IFRS 9 – paragraph B2.6A.
	Initial measurement	
Initial Measurement of Financial Assets and Financial Liabilities (paragraph 45)	Initial Measurement of Financial Assets and Financial Liabilities (paragraph 57–58)	
AG82	AG115✓	Based on IFRS 9 paragraph B5.1.1. The text in IPSAS 29 AG82 originally came from IAS 39 paragraph AG64. As in PBE IFRS 9, this paragraph has been modified to refer to estimating fair value using a valuation technique).

[2] The level and style of heading differs between IPSAS 29 and ED 62. We haven't replicated the heading styles exactly as it made the comparison harder to follow.

IPSAS 29	**ED 62**	**Comment (including some history)**
		But, it differs from PBE IFRS 9 in that it refers to the fair value guidance in AG117 (which is based on IFRS 9 paragraph B5.1.2A). PBE IFRS 9 refers to the fair value guidance in paragraph B5.1A.8 (which is based on IPSAS 29 paragraph AG108 and reproduced in ED 62 as AG 147).
AG83	AG116	The last sentence of AG83 reads "The entity accretes the discount to surplus or deficit using the effective interest rate method." The last sentence of AG83 has been omitted in paragraph AG116. This is consistent with IFRS 9 paragraph B5.1.2. PBE IFRS 9 still includes the last sentence of paragraph AG83. We should look to align with the final IPSAS.
	AG117	We have commented on paragraphs AG117 and AG147 in the draft comment letter. AG 117 is based on IFRS 9 paragraph B5.1.2A which we did not reproduce in PBE IFRS 9 (because we inserted paragraph B5.1A.8 – which is equivalent to ED 62 paragraph AG147). If the IPSASB decides to keep paragraph AG117, AG117 should not refer to AG115.
Concessionary Loans	Concessionary Loans	
AG84–AG90	AG118–AG124✓	Public sector specific guidance carried forward from IPSAS 29 to ED 62. PBE IFRS 9 includes equivalent guidance in paragraphs B5.1.2A–2G. Paragraph AG122 deals with identifying the substance of the transaction and the components of the transaction. This paragraph makes it clear that the requirement to determine the fair value of a loan relates to the loan component.
	Equity Instruments Arising from Non-Exchange Transactions	
–	AG125–AG127	New public sector specific guidance – see paragraph BC12.
AG91 [Deleted]		
Valuing Financial Guarantees Issued Through a Non-Exchange Transaction		Public sector specific guidance carried forward from IPSAS 29 to ED 62. PBE IFRS 9 includes equivalent guidance in paragraphs B5.1.2H–2M.
AG92	AG128✓	
AG93	AG129	

IPSAS 29	**ED 62**	**Comment (including some history)**
AG94	AG130	
AG95–AG96	AG131–AG132✓	
AG97	AG133✓	This differs from the approach taken in PBE IFRS 9. We did not refer to the provisions standard in PBE IFRS 9.
Subsequent Measurement of Financial Assets (paragraphs 47–48)	Subsequent Measurement	
AG98	AG134	AG134 has an additional sentence about hybrid contracts. This is consistent with IFRS 9 (and PBE IFRS 9) paragraph B5.2.1.
AG99	AG135	Reflects new classifications and treatment of transaction costs. This is consistent with IFRS 9 (and PBE IFRS 9) paragraph B5.2.2.
	Investments in Equity Instruments and Contracts on Those Investments	
–	AG136–AG139	Consistent with IFRS 9 (and PBE IFRS 9) paragraphs B5.2.3–B5.2.6.
Fair Value Measurement Considerations (paragraphs 50–52)	Fair Value Measurement Considerations	
AG101–AG102	AG140–AG141✓	Guidance carried forward from IPSAS 29. Equivalent guidance is in PBE IFRS 9 paragraphs B5.1A.1–B5.1A.2. This guidance was in IAS 39, paragraphs AG69–AG70, but was deleted by IFRS 13.
Active Market: Quoted Price	Active Market: Quoted Price	
AG103–AG105	AG142–AG144✓	Guidance carried forward from IPSAS 29. Equivalent guidance is in PBE IFRS 9 paragraphs B5.1A.3–B5.1A.5. This guidance was in IAS 39, paragraphs AG71–AG73, but was deleted by IFRS 13.
No Active Market: Valuation Technique	No Active Market: Valuation Technique	
AG106–AG112 AG108 – see next row of this table	AG145–AG151✓ AG147 – see next row of this table.	Guidance carried forward from IPSAS 29. Equivalent guidance is in PBE IFRS 9 paragraphs B5.1A.6–B5.1A.12. This guidance was in IAS 39, paragraphs AG74–AG79, which were amended or deleted by IFRS 13. See also the more detailed comments in the next row of this table.

IPSAS 29	**ED 62**	**Comment (including some history)**
AG108	AG147	IPSAS 29 paragraph AG108 was based on IAS 39 paragraph AG76. IAS 39 paragraph AG76 was amended by IFRS 13 and subsequently became IFRS 9 paragraph B5.1.2A. ED 62 has both the pre- and post-IFRS 13 versions of guidance about the best evidence of the fair value of a financial instrument at initial recognition. • AG117 post-IFRS 13 version • AG147 pre-IFRS 13 version
No Active Market: Equity Instruments		
AG113–AG114		Omission of these paragraphs is consistent with PBE IFRS 9. Based on IAS 39 paragraphs AG80 and AG81 which were subsequently amended by IFRS 13 and deleted by IFRS 9.
Inputs to Valuation Techniques	Inputs to Valuation Techniques	
AG115	AG152✓	Guidance carried forward from IPSAS 29. Equivalent guidance is in PBE IFRS 9 paragraph B5.1A.13. This guidance was in IAS 39 paragraph AG82 which was deleted by IFRS 13.

Appendix 2

This appendix compares some paragraphs from IPSAS 29 and ED 62 to illustrate the issues concerning ED 62 paragraphs AG115, AG117 and AG147.

Table 2

IPSAS 29	**Extracts from ED 62**
Initial Measurement of Financial Assets and Financial Liabilities (paragraph 45) AG82. The fair value of a financial instrument on initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received, see also paragraph AG108). However, if part of the consideration given or received is for something other than the financial instrument, the fair value of the financial instrument is estimated, using a valuation technique (see paragraphs AG106–AG112). For example, the fair value of a long-term loan or receivable that carries no interest can be estimated as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of revenue unless it qualifies for recognition as some other type of asset. AG83. If an entity originates a loan that bears an off-market interest rate (e.g., 5 percent when the market rate for similar loans is 8 percent), and receives an up-front fee as compensation, the entity recognizes the loan at its fair value, i.e., net of the fee it receives. The entity accretes the discount to surplus or deficit using the effective interest rate method.	Initial Measurement of Financial Assets and Financial Liabilities (Paragraph 57–58) AG115. The fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received, see also paragraph AG117). However, if part of the consideration given or received is for something other than the financial instrument, the fair value of the financial instrument is estimated, using a valuation technique (see paragraphs AG145–AG151). For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of revenue unless it qualifies for recognition as some other type of asset. AG116. If an entity originates a loan that bears an off-market interest rate (e.g., 5 percent when the market rate for similar loans is 8 percent), and receives an upfront fee as compensation, the entity recognizes the loan at its fair value, i.e., net of the fee it receives.
	AG117. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph AG115, the entity shall account for that instrument at that date as follows: (a) At the measurement required by paragraph AG115 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognize the difference

IPSAS 29	**Extracts from ED 62**
	between the fair value at initial recognition and the transaction price as a gain or loss. (b) In all other cases, at the measurement required by paragraph AG115, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognize that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability. …
AG108. Therefore, a valuation technique (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data. An entity obtains market data consistently in the same market where the instrument was originated or purchased. The best evidence of the fair value of a financial instrument at initial recognition, in an exchange transaction, is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.	AG147 Therefore, a valuation technique (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data. An entity obtains market data consistently in the same market where the instrument was originated or purchased. The best evidence of the fair value of a financial instrument at initial recognition, in an exchange transaction, is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

NZ ACCOUNTING STANDARDS BOARD

[Date] December 2017

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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Submitted to: www.ifac.org

Dear John

ED 62 *Financial Instruments*

Thank you for the opportunity to comment on ED 62 *Financial Instruments.* The ED was exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.

We support the IPSASB's work to develop an IPSAS based on IFRS 9 *Financial Instruments* and are generally supportive of the proposals in the ED.

In New Zealand we have already issued an interim PBE Standard based on IFRS 9, pending the completion of the IPSASB's project. Our main reason for issuing PBE IFRS 9 *Financial Instruments* was to allow groups that comprise both for-profit entities, which apply NZ IFRS, and public benefit entities (PBEs), which apply PBE Standards, to align the classification and measurement of financial instruments and thereby avoid consolidation issues. The other reason was to allow PBEs to adopt the new hedging requirements in IFRS 9 now, rather than waiting another year or two. PBE IFRS 9 is available for early adoption by all PBEs, but it is not mandatory until 1 January 2021, by which time we hope to have issued a PBE Standard based on a new IPSAS.

We consider that this project is important for international public sector reporting. Some public sector entities have complex financial instruments and are active in international capital markets. Depending upon the regulatory framework in a jurisdiction, some public sector entities might be reporting in accordance with IFRS® Standards and others in accordance with IPSASs. Capital markets work more efficiently when information is readily accessible and comparable. The proposed new standard will assist comparisons between entities and will allow governments to more easily benchmark their financial instrument portfolios internationally.

We also consider that there are other, broader, reasons for convergence in this area. The body of knowledge that has developed as entities work through the implementation of IFRS 9 may assist public sector entities applying the proposed new IPSAS. The transfer of knowledge and skills between sectors underscores the benefits of convergence for this topic.

Our responses to the Specific Matters for Comment on ED 62 are set out in Appendix 1 to this letter.

Our comments on other matters are set out in Appendix 2 to this letter.

We would like to acknowledge the usefulness of the comparison between IFRS 9 and ED 62 in considering the proposals in the ED.

If you have any queries or require clarification of any matters in this letter, please contact Joanne Scott (Joanne.Scott@xrb.govt.nz) or me.

Yours sincerely

Kimberley Crook
Chair – New Zealand Accounting Standards Board

Appendix 1 Specific Matters for Comment

Specific Matter for Comment 1:

Consistent with the relief provided in IFRS 9, the IPSASB has agreed in [draft] IPSAS [X] (ED 62) to allow an option for entities to continue to apply the IPSAS 29 hedging requirements. Do you agree with the IPSASB's proposal?

We agree with the IPSASB's proposal to allow entities to continue to apply the IPSAS 29 *Financial Instruments: Recognition and Measurement* hedging requirements as we consider that alignment with IFRS 9 on this matter is important. Although we support the proposed changes to hedge accounting and understand that the IASB's reasons for permitting this option may not be relevant for a number of public sector entities, we do not think there are any pressing reasons to withdraw the option.

We note the following arguments for keeping the option.

- In some jurisdictions, such as New Zealand, there may be 'mixed groups' that include entities applying IFRS® Standards and entities applying IPSASs, or standards based on IPSASs. Within these groups some entities may have elected to continue using the hedging requirements in IAS 39 *Financial Instruments: Recognition and Measurement*. Limiting the option in the IPSAS equivalent to IFRS 9 would impose additional costs on such groups.
- Some public sector entities may be using the macro hedging requirements in IPSAS 29. The option is needed so that such entities can continue to apply those requirements.
- If regulators or central agencies within a jurisdiction have concerns about the option (in terms of comparability or consolidation costs), they have the choice of limiting the use of the option in that jurisdiction.
- The option might reduce the costs of transitioning to the new standard. Any review of strategies, processes and systems for compliance with new requirements takes time and money, even if few changes are required as a result of that review.

We acknowledge that allowing options in accounting standards can be undesirable but, in this case, we do not think that continuing to allow entities to apply the hedging requirements in IPSAS 29 would create a problem. There is a general consensus that the new hedging requirements are more appropriate and flexible than the previous requirements. One would therefore expect most entities engaged in hedging to elect to apply the new hedging requirements. The exception would be those entities that are currently applying the macro hedging requirements in IPSAS 29, and who will need the option until new macro hedging requirements have been developed.

In order to have a record of significant issues considered during the development of this standard, we think that the Basis for Conclusions should explain why the IPSASB sought feedback on this issue.

Specific Matter for Comment 2:

The IPSASB recognizes that transition to the new standard [draft] IPSAS [X] (ED 62) may present implementation challenges as a result of the number of significant changes proposed. Therefore, the IPSASB intends to provide a 3-year implementation period until [draft] IPSAS [X] (ED 62) is effective (early adoption will be permitted). Do you agree with the proposed 3-year implementation period before [draft] IPSAS [X] (ED 62) becomes mandatory? Please explain.

We support the proposal to allow a 3-year implementation period.

Entities will need to undertake impact assessments and develop a plan to implement the proposed new standard. In particular, the following aspects of implementing the proposed new requirements could be complex and time consuming:

(a) the reassessment of the classification of financial instruments;

(b) the development of models and systems to capture the information required by the expected credit loss model;

(c) the reassessment of hedging relationships; and

(d) identifying differences in disclosure requirements and developing models and systems to obtain the information required by the disclosures. An entity will need to think about the impact of new disclosure requirements from the beginning of its implementation period.

We note that the IASB issued the complete version of IFRS 9 *Financial Instruments* in July 2014 with an effective date of 1 January 2018. Although this timeframe appeared to be relatively generous, our impression is that many entities have needed this much time. In addition, some of the public sector specific issues will take time to work through.

Although implementation of IFRS 9 may have been a more complex exercise for financial institutions, other types of entities have also faced implementation challenges.

Specific Matter for Comment 3:

Do you agree with the proposed transition requirements in paragraphs 153–180, consistent with those provided in IFRS 9? If not, what specific changes do you recommend and why?

We agree with the proposed transition requirements in paragraphs 153–180.

Appendix 2: Comments on Other Matters

In this appendix we comment on the following matters:

- sale of future flows arising from a sovereign right;
- prepayment features with negative compensation;
- initial measurement;
- valuing financial guarantees through a non-exchange transaction; and
- concessionary loans – disclosures.

Sale of future flows arising from a sovereign right

We understand that the IPSASB wanted to explicitly address the possibility that transactions involving the sale of future flows arising from a sovereign right could give rise to financial liabilities.

We suggest that the IPSASB limit any such guidance to the financial liabilities arising from such transactions. An entity should assess the treatment of the revenue from such transactions by applying the relevant revenue standard. We are not sure why the IPSASB considers that the relevant revenue standard would always be IPSAS 9 and would welcome further explanation of the matters considered in the Basis for Conclusions. If the IPSASB wants to specify requirements for the recognition of revenue from such transactions we consider this would more appropriately be located in the relevant revenue standard(s).

We have suggested some changes to paragraphs AG33 and BC13 for consideration by the IPSASB. We think these changes would clarify that paragraph AG33 is dealing with the sale of future flows that have not been previously recognised as assets, rather than the securitisation of existing financial assets (which would be subject to the usual derecognition requirements in the proposed standard).

AG33. In the public sector, securitization schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation, that have not previously been recognized. An entity recognizes the revenue arising from ~~Consideration received for~~ such ~~sale~~ transactions ~~shall be accounted for~~ in accordance with the relevant revenue standard~~IPSAS 9~~. Such transactions may give rise to ~~Public Sector entities shall also consider if the securitization arrangement gives rise to~~ financial liabilities as defined in IPSAS 28. Examples of such financial liabilities may include but are not limited to borrowings, financial guarantees, liabilities arising from a servicing or administrative contract, or payables relating to cash collected on behalf of the purchasing entity. Financial liabilities shall be recognized when the entity becomes party to the contractual provisions of the instrument in accordance with paragraph 10 and classified in accordance with paragraph 45 and 46. The financial liabilities shall be initially recognized in accordance with paragraph 57, and subsequently measured in accordance with paragraphs 62 and 63.

Sale of Future Flows Arising from a Sovereign Right

BC13. In the public sector, securitization schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation. The IPSASB agreed that it would be helpful to acknowledge that such transactions may give rise to financial liabilities and agreed to include paragraph AG33. The IPSASB noted ~~agreed~~ that revenue from the sale of future flows arising from a sovereign right would be ~~is a transaction that should be~~ accounted for in accordance with the relevant revenue standard~~guidance~~.~~ The IPSASB agreed that financial liabilities may arise from a securitization arrangement. Examples may include but are not limited to borrowings, financial guarantees, liabilities arising from servicing or administrative or payables relating to when the public sector entity (originating entity) collects cash flows and passes these along to a third party. ~~The IPSASB considered whether additional application guidance to address such scenarios was required, but~~and~~ concluded that sufficient guidance exists in the Standard to address all other aspects of any financial instruments arising from those transactions.

Prepayment features with negative compensation

The IASB has recently issued *Prepayment Features with Negative Compensation* (Amendments to IFRS 9).

Respondents to the IASB's exposure draft indicated that legislation in some countries gives borrowers protective rights that can give rise to negative compensation. We would expect that in jurisdictions where such rights exist, they could also be relevant to public sector entities. Although we are not aware of any public sector or not-for-profit entities in New Zealand for which these proposals would be relevant, we think that the IPSASB should also address this issue. We think it would be better to align these requirements now, rather than making amendments in the future.

Initial measurement

We generally agree with how the IPSASB has combined the public sector specific measurement guidance in IPSAS 29 with the requirements of IFRS 9. However, we disagree with the inclusion of paragraph AG117 (which is based on IFRS 9 paragraph B5.1.2A). We recommend that paragraph AG117 is omitted (because the matters addressed in it are already addressed in paragraph AG147) and we recommend that paragraph AG115 refer to paragraph AG147. This matter needs to be addressed as ED 62 paragraph AG 117 is inappropriately linking the guidance in paragraph AG115 (dealing with situations in which there is another component to the transaction) and the guidance in paragraph AG117 (on the prohibition of day one gains/losses).

A more detailed explanation of our reasons for disagreeing with the inclusion of paragraph AG117 (and the history of the related guidance paragraphs) is set out below.

Paragraph AG115 deals with accounting for a separate component of a transaction. The equivalent guidance in IPSAS 29 (paragraph AG82) originally came from IAS 39 (paragraph AG64) and was included in IPSAS 29 with only a few terminology changes. This guidance explains that when part of the consideration given or received is for *something other than the financial instrument* (as is the case with concessionary loans), the fair value of the financial instrument may need to be estimated.

IAS 39 (paragraphs AG74–AG76) and IPSAS 29 (paragraphs AG106–AG102) dealt with the application of valuation techniques and other situations in which there may be a difference between the fair value of a financial instrument and the transaction price. These paragraphs were intended to prohibit or limit day 1 gains/losses in other circumstances (ie if there was not another component to the transaction). These paragraphs were almost identical in the two standards. In particular, IPSAS 29 (paragraph AG108), which has been carried forward into ED 62 as paragraph AG147, includes the following sentence about the best estimate of the fair value of a financial instrument on initial recognition.

> … The best evidence of the fair value of a financial instrument at initial recognition, in an exchange transaction, is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

We support the inclusion of paragraph AG147 in ED 62. However, we note that IPSAS 28 paragraph AG108 was based on IAS 39 paragraph AG76. That paragraph was subsequently amended by IFRS 13 *Fair Value Measurement* and then carried forward into IFRS 9 as paragraph B5.1.2A (which is the paragraph on which ED 62 paragraph AG117 is based). This means that ED 62 is dealing with the same issue twice (once using post-IFRS 13 wording based on what is currently in IFRS 9, and once using pre-IFRS 13 wording from IAS 39/IPSAS 29).

Given that the IPSASB has not developed a standard based on IFRS 13, we think ED 62 paragraph AG117 should be deleted and paragraph AG147 should be kept. We also think paragraph AG115 of the ED should refer to paragraph AG147.

If the IPSASB agrees with our suggestions, the following comment about paragraph AG117 is not relevant. However, if the IPSASB wants to keep paragraph AG117 (which would involve rewriting parts of the measurement guidance) we note that paragraph AG117 should not refer to paragraph AG115. The equivalent paragraph in IFRS 9, paragraph B5.1.2A, refers to paragraph 5.1.1A (which is not reproduced in ED 62).

Valuing Financial Guarantees Through a Non-Exchange Transaction

ED 62 paragraph AG133 is identical to IPSAS 29 paragraph AG97 – it refers to the principles in IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. By contrast, in developing PBE IFRS 9, we chose to align the measurement of financial guarantees issued as part of a non-exchange transaction with IFRS 9's requirements for the measurement of financial guarantees. It is not clear to us if the IPSASB has deliberately kept the reference to IPSAS 19 rather than referring to the amount of the loss allowance determined in accordance with section 5.5 of IFRS 9, and if so, why.

If the reference to IPSAS 19 in paragraph AG133 is intentional, we suggest that the IPSASB outlines its rationale for retaining this requirement in the Basis for Conclusions.

We have shown ED 62 paragraph AG133 and PBE IFRS 9 paragraph B5.1.2M below.

Extract from ED 62

AG133. If no reliable measure of fair value can be determined, either by direct observation of an active market or through another valuation technique, an entity is required to apply the principles of IPSAS 19 to the financial guarantee contract at initial recognition. The entity assesses whether a present obligation has arisen as a result of a past event related to a financial guarantee contract whether it is probable that such a present obligation will result in a cash outflow in accordance with the terms of the contract and whether a reliable estimate can be made of the outflow. It is possible that a present obligation related to a financial guarantee contract will arise at initial recognition where, for example, an entity enters into a financial guarantee contact to guarantee loans to a large number of small enterprises and, based on past experience, is aware that a proportion of these enterprises will default.

Extract from PBE IFRS 9

B5.1.2M If no reliable measure of fair value can be determined, either by direct observation of an active market or through another valuation technique, an entity is required to measure the financial guarantee contract at the amount of the loss allowance determined in accordance with Section 5.5.

Concessionary loans – disclosure

We support the proposal to split the disclosures about concessionary loans required by IPSAS 30 into two paragraphs (being paragraphs 37 and 37A). We have a couple of suggestions in relation to these paragraphs (our suggestions are shown as shaded text in paragraphs 37 and 37A below).

Not all loans to developing countries, small farms etc are concessionary. They are concessionary when there is an interest or principal discount. We suggest a change to the second sentence of paragraph 37. If you agree with this suggestion, an equivalent change would be required in ED 62 paragraph AG118.

Although paragraph 37(c) and 37A(c) require disclosure of the purpose and terms of the loans, we consider that it would be helpful to explicitly require disclosure of the concessionary terms. We suggest adding the words "including the nature of the concession" to these paragraphs.

Concessionary Loans

37. Concessionary loans are granted by entities on below market terms. Examples of concessionary loans that commonly have below market terms ~~granted by entities~~ include loans to developing countries, small farms, student loans granted to qualifying students for university or college education, and housing loans granted to low income families. For concessionary loans granted and measured at amortized cost in accordance with paragraph 40 of [draft] IPSAS [X] (ED 62), *Financial Instruments* an entity shall disclose:

(a) A reconciliation between the opening and closing carrying amounts of the loans, including:

(i) Nominal value of new loans granted during the period;

(ii) The fair value adjustment on initial recognition;

(iii) Loans repaid during the period;

(iv) Impairment losses recognized;

(v) Any increase during the period in the discounted amount arising from the passage of time; and

(vi) Other changes.

(b) Nominal value of the loans at the end of the period;

(c) The purpose and terms of the various types of loans, including the nature of the concession; and

(d) Valuation assumptions.

37A. For concessionary loans measured at fair value in accordance with paragraph 41 or 43 of [draft] IPSAS [X] (ED 62), *Financial Instruments* an entity shall disclose:

(a) A reconciliation between the opening and closing carrying amounts of the loans, including:

(i) Nominal value of new loans granted during the period;

(ii) The fair value adjustment on initial recognition;

(iii) Loans repaid during the period;

(iv) The fair value adjustment during the period (separate from initial recognition); and

(vi) Other changes.

(b) Nominal value of the loans at the end of the period;

(c) The purpose and terms of the various types of loans, including the nature of the concession; and

(d) Valuation assumptions.

Editorial comments

We have identified some minor editorial matters for consideration in finalising the standard.

Paragraph	Comment
3	First reference to IPSAS 9 – add title.
84	… ~~favourable~~ favourable…
Appendix A: Application Guidance	
AG115	In heading immediately above paragraphs AG115 … (paragraphs 57–58)
AG133	[This editorial comment is relevant only if we agree that this sentence should be in ED 62. See the discussion of paragraph AG133 in the draft comment letter.] …The entity assesses whether a present obligation has arisen as a result of a past event related to a financial guarantee contract, whether it is probable that such a present obligation will result in a cash outflow in accordance with the terms of the contract and whether a reliable estimate can be made of the outflow. …
Appendix B – Hedges of a Net Investment in a Foreign Operation	
B2	…in which investments such as associates or joint ~~venters~~ ventures are accounted…
Appendix D: Amendments to other IPSASs	
IPSAS 30	Page 195 **Amendments to IPSAS 30,** ***Financial Instruments: ~~Presentation~~ Disclosures***
IPSAS 30	Page 212 **Nature and ~~Extend~~ Extent of Risks Arising from Financial Instruments**
Illustrative Examples	
IE7	Footnote 8: The security on the loan affects the loss that would be realized…
IE82	This example refers to Entity V's business model rather than Entity V's management model.
IE142	Example 18 ~~Amortisation~~ Amortization of CFHR (and a few subsequent uses)
IE153	Inconsistent use of % or percent in italicised explanations (see journal 2) Inconsistent reference to capital repaid (journal 4 refers to capital repaid but the other journals do not) Example 20 uses brackets around the calculations but example 21 doesn't.
IE161	The journal entries to account for the concessionary loan when classified at ~~amortized cost~~ fair value through surplus/deficit are as follows: Inconsistent use of % or percent in italicised explanations
Implementation Guidance	
D.2.3	In final journal ~~Realisation~~ Realization gain
G.2	*G.2 Concessionary Loans and "Solely Payments of Principal and Interest" Evaluation* **Can a concessionary loan satisfy the SPPI condition~~criteria~~**

BDO NEW ZEALAND LIMITED
P O Box 2219
Auckland 1140

2 November 2017

Mr Warren Allen
The Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington
6142

Dear Sir

Requests to comment on IPSASB Exposure Draft ED 62 – *Financial Instruments*

Thank you for the opportunity to comment on the above exposure draft.

We are making this submission to you to assist the New Zealand Accounting Standards Board (NZASB) with the above Consultation Paper. We are happy for you to publish our comments publically.

In responding we have addressed the specific questions for respondents in Appendix 1.

More information on BDO is provided in Appendix 2 to this letter.

We hope that our responses and comments are helpful. Should you wish to discuss any of the points we have raised please contact me (michael.rondel@bdo.co.nz) should you have any queries or require further information.

Yours faithfully,

BDO New Zealand
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Appendix 1 - Response to questions

Specific Matter for Comment 1

Consistent with the relief provided in IFRS 9, the IPSASB has agreed in [draft] IPSAS [X] (ED 62) to allow an option for entities to continue to apply the IPSAS 29 hedging requirements. Do you agree with the IPSASB's proposal?

Yes, we agree that there should be consistency between the options provided in IFRS 9 with regards to applying IPSAS 29 hedging requirements.

We do, however, note that the vast majority of our clients in the not-for-profit sector are unlikely to ever be exposed to hedge accounting or have a requirement to apply hedge accounting, due to the nature of their operations.

Specific Matter for Comment 2

The IPSASB recognizes that transition to the new standard [draft] IPSAS [X] (ED 62) may present implementation challenges as a result of the number of significant changes proposed. Therefore, the IPSASB intends to provide a 3 year implementation period until [draft] IPSAS [X] (ED 62) is effective (early adoption will be permitted). Do you agree with the proposed 3-year implementation period before [draft] IPSAS [X] (ED 62) becomes mandatory? Please explain.

Yes, we agree that a three year implementation period is appropriate to ensure that all users have sufficient time to determine the impact of the standard on their entity, and to get policies and procedures in place to ensure to comply with the new standard.

In the New Zealand context, the XRB may also need to develop illustrative examples applicable to the not-for-profit sector for a number of areas contained in the new standard, as the extant IPSASB examples may not be easily understood by not-for-profit entities, due to these being public sector specific. A 3-year implementation period seems appropriate to ensure that sufficient education can be undertaken for the likely impact of these changes, especially for smaller Tier 2 not-for-profit entities that may not have extensive accounting resources.

Specific Matter for Comment 3

Do you agree with the proposed transition requirements in paragraphs 153-180, consistent with those provided in IFRS 9? If not, what specific changes do you recommend and why?

Yes, we agree that the transition requirements are appropriate and that they should be consistent with IFRS 9.

However, we do note that there may be instances in practice whereby an entity early adopted PBE IFRS 9 *Financial Instruments* and will in future have to adopt the ED 62

***Financial Instruments* Standard. Although we do not anticipate there being any material differences between PBE IFRS 9 and ED 62 or issues that would arise on transitioning to the ED 62 standard, we do recommend that the XRB include some transition guidance for entities in this scenario.**

Appendix 2 - Information on BDO

1. BDO New Zealand is a network of eleven independently owned accounting practices, with fifteen offices located throughout New Zealand.

2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency.

3. BDO in New Zealand has 89 partners and over 800 staff.

4. BDO firms throughout New Zealand have a significant number of clients in the not-for-profit sector.

5. Five BDO firms in New Zealand (BDO Auckland, BDO Christchurch, BDO Northland, BDO Waikato and BDO Wellington) are registered audit firms and thirteen audit partners are licensed auditors.

6. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 67,700 people in 1,401 offices across over 158 countries and territories.

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22 November 2017

Warren Allen
Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142

Dear Warren

IPSASB Exposure Draft 62 *Financial Instruments*

We appreciate the opportunity to comment to the NZASB on the IPSASB's Exposure Draft 62 *Financial Instruments* (ED 62).

We support the IPSASB developing a new financial instruments standard based on IFRS 9. We consider it important that the financial instrument standards applied by both public benefit and for-profit entities are consistent. However, it is important that sufficient guidance is provided for financial instruments that are unique in the public sector, such as concessionary loans and equity investments in public sector entities that are non-cash-generating.

Our responses to the IPSASB's Specific Matters for Comment are attached. We also comment on other matters.

We will also provide a separate submission to the IPSASB on ED 62.

In preparing this submission, we have consulted with our colleagues at the Office of the Auditor-General.

If you would like to discuss any of our comments, please phone me on 021 222 6107 or email me at robert.cox@auditnz.govt.nz ,or contact Brett Story on 021 222 6247 or email at brett.story@auditnz.govt.nz.

Yours sincerely

Robert Cox

Robert Cox
Head of Accounting

Our comments on ED 62 Financial Instruments

1 **Specific matter for Comment 1: Consistent with the relief provided in IFRS 9, the IPSASB has agreed in [draft] IPSAS [X] (ED 62) to allow an option for entities to continue to apply the IPSAS 29 hedging requirements. Do you agree with the IPSASB's proposal?**

Yes, we agree with this proposal. Given the complexities of hedge accounting, we consider it important that the hedge accounting transition requirements of ED 62 are the same as those provided in IFRS 9.

2 **Specific Matter for Comment 2: The IPSASB recognizes that transition to the new standard [draft] IPSAS [X] (ED 62) may present implementation challenges as a result of the number of significant changes proposed. Therefore, the IPSASB intends to provide a 3 year implementation period until [draft] IPSAS [X] (ED 62) is effective (early adoption will be permitted). Do you agree with the proposed 3-year implementation period before [draft] IPSAS [X] (ED 62) becomes mandatory? Please explain.**

Yes, we agree with this proposal, provided early adoption is permitted. We expect a 3-year implementation period should provide sufficient time for entities to prepare and adopt a new financial instruments standard. A shorter-time period maybe too challenging for some entities that need to implement new or amended systems and processes in transitioning to a new financial instruments standard.

3 **Specific Matter for Comment 3:**
Do you agree with the proposed transition requirements in paragraphs 153-180, consistent with those provided in IFRS 9? If not, what specific changes do you recommend and why?

Yes, we agree with this proposal. Given the complex transitional provisions, we consider it important that the transitional provisions of ED 62 are consistent with those provided in IFRS 9.

4 **Other comments on ED 62**

<u>Concessionary loan guidance: Loans at nil interest</u>

Paragraph G2 provides guidance that a concessionary loan can satisfy the SPPI criteria when the payments of the loan, based on its fair value determined at initial recognition, reflect solely payments of principal **and** interest.

a) A common feature of concessionary loans is that no interest is charged on the loan.

We consider the guidance in paragraph G2 should be explicit that a concessionary loan with a nil interest rate is not precluded from satisfying the SSPI criteria due to that feature. Without such additional guidance, the first paragraph of G2 could be interpreted different ways in respect of a concessionary loan at a nil interest rate due to the reference to "**and** interest".

We suggest the following guidance be added to G2 directly after the first paragraph:

"A concessionary loan at a nil interest rate is not precluded from satisfying the SPPI criteria due to that feature".

b) We do not find the paragraph G2 guidance sufficiently clear whether the SPPI test is met for loans where the timing of repayment of principal and interest is contingent on future income levels or financial circumstances of the borrower. We note useful guidance on this has been inserted into paragraph AG63 and we recommend that this be repeated in paragraph G2 or at least a cross-reference from G2 to AG 63 be provided.

Concessionary loan guidance: Fair value through surplus/deficit illustrative example

Scenario 2 of illustrative example 21 illustrates the accounting for a student loan at fair value through profit and loss. In this example, the loan does not satisfy the SPPI criteria because the lender has the ability to call the loan at any time for an amount that does not substantially reflect payment of outstanding principal and interest.

Prima facie, it appears unrealistic that a government entity would provide an on demand loan to a student. If the IPSASB is not aware of such a student loan scheme in practice, we strongly recommend this example be removed and it be replaced with an example more closely aligned with an actual student loan scheme, such as New Zealand's where loan repayments are contingent on the borrower's income generation.

If the IPSASB is aware there is a student loan scheme similar to that in scenario 2 where repayments are on demand by the lender, we recommend that an additional scenario 3 be added. This additional example should illustrate the accounting for a student loan where payments are contingent on the borrower's income generation.

Valuation of unquoted equity instruments

The IPSASB has inserted new fair value measurement guidance for unquoted equity instruments via illustrative examples 23 to 26.

We note this new guidance illustrates how an entity may apply different valuation techniques in measuring the fair value of investments in private companies that appear to be cash-generating in nature.

While this additional guidance is welcomed, we consider the guidance is deficient as it does not address how public sector entities estimate the fair value of equity investments in unlisted non-cash-generating public sector entities that are not subsidiaries, associates or joint ventures.

We consider the illustrative examples 27 to 28 also do not deal with this issue as those paragraphs provide no guidance in estimating the fair value of shares received.

Public sector entities (the investor) may transfer cash or physical assets to another public sector entity (investee) in return for shares where the investee's objective is to provide services back to the investor or to the general public, rather than to earn a commercial return on the investment. Examples include entities established to provide shared services to investors or entities established to hold and maintain non-cash-generating infrastructural assets (such as water supply assets or a regional airport). The investment is made by the investor to the investee to further the investor's economic or social objectives, rather than to generate a commercial return on the investment.

Paragraph AG125 also provides examples of investments by public sector entities in entities not intended to provide cash returns:

"such investments could include membership shares in a development bank, or equity investment in another public sector entity that provides certain social programs or services (e.g. shelters, subsidized housing, small business assistance...etc.)"

We are concerned that the Application Guidance in AG125 to AG127, together with the fair value measurement guidance in paragraphs AG145 to AG152 and the illustrative examples 23 to 26 suggest that the valuation of an unquoted investment in a non-cash-generating public sector entity must be determined in a commercial manner with the objective of estimating how much the investment could be sold for in an arm's length transaction i.e. an exit value. Applying a commercial valuation approach to such non-cash-generating investments could result in the investment value being substantially written-down close to nil.

We consider the commercially focussed emphasis to the measurement of fair value to be inappropriate to apply to many investments in public sector entities within the scope of ED 62 as such an approach does not reflect the substance and purpose of the investment. The guidance in the ED suggests that all public sector non-commercial equity investments should be written down substantially to reflect only the value of future cash returns. We consider such an outcome inappropriate and incorrect.

The accounting resulting from a commercially focussed approach to valuation would be comparable to expensing a direct investment in infrastructural assets on the basis the carrying value is not supported by cash flows.

We therefore consider relevant guidance should be provided in measuring the fair value of non-cash-generating equity investments that reflects the substance and rationale for such investments.

If the IPSASB decides at this stage to add no further guidance in measuring the fair value of non-cash-generating equity investments in public sector entities, we recommend this issue be specifically addressed by the IPSASB's *Public Sector Measurement* project.

Equity instruments arising from non-exchange transactions

It appears the intent of the new application guidance paragraphs AG125 to AG127 is that the non-exchange component is the difference between the consideration provided to the investee and the fair value of the shares received. If this is the intent of these new requirements, this should be made clearer.

As discussed above, we consider there is not sufficient guidance in ED 62 on estimating the fair value of non-cash-generating equity investments. These concerns equally apply in respect of the application of paragraph AG125 to AG 127. Given the non-exchange component is the difference between the fair value of the shares and the consideration provided, it is essential that sufficient fair value measurement guidance is provided to ensure an expense is not inappropriately recognised at initial recognition.

Capital subscriptions with Development Banks

Example 31 in paragraphs IE207 to IE210 provides guidance on capital subscriptions to a Development Bank. The example concludes that these are to be classified at fair value through surplus or deficit.

We note that the Public Sector Specific Financial Instruments project is dealing with similar issues, specifically the IMF quota subscriptions. We encourage the IPSASB to consider whether specific guidance on investments in development banks, such as the Asian Development Bank (ADB), is best provided as part of that project, rather than as limited non-specific guidance in ED 62. In New Zealand, the funding commitments to development banks are significant with about NZ$5bn (excluding IMF commitments of $2.6bn) in uncalled capital disclosed in the 30 June 2017 Financial Statements of Government.

Editorial comments

During our review of ED 62, we have noticed a small number of editorial errors. When finalising ED 62, the IPSASB staff need to carefully review the final document to ensure such errors are avoided.

For example, we identified in IE 163 100,000 CUs should be 1,000,000 CUs.

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	1 December 2017
To:	NZASB Members
From:	Lisa Kelsey and Vanessa Sealy-Fisher
Subject:	**Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements and Explanatory Guides**

Introduction

1. At the May 2017 meeting the Board considered implementation issues with Tier 3 and Tier 4 PBE Accounting Requirements that had come to our attention.[1] The Board agreed to consider the possibility of some limited amendments to the Tier 3 and Tier 4 PBE Accounting Requirements, prior to a formal post-implementation review (PiR) of these standards which is planned for the 2019–2020 period.

> **The Tier 3 PBE Accounting Requirements comprise two standards.[2] The standards are:**
> PBE SFR–A (NFP) *Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit)*; and
> PBE SFR–A (PS) *Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)*.
> **The Tier 4 PBE Accounting Requirements comprise two standards. The standards are:**
> PBE SFR–C (NFP) *Public Benefit Entity Simple Format Reporting – Cash (Not-for-Profit);* and
> PBE SFR–C (PS) *Public Benefit Entity Simple Format Reporting – Cash (Public Sector)*.

2. Following on from the May 2017 meeting, staff have developed an exposure draft (ED) setting out recommended limited amendments to the Tier 3 and Tier 4 PBE Accounting Requirements.

3. The purpose of the proposed amendments is to clarify existing requirements, resolve issues of an editorial nature, and to address consequential amendments.[3] Other potential amendments, arising from implementation issues raised that are considered more substantive in nature, will be addressed through the more detailed review of the standards as part of the PiR.

4. The PiR will involve a formal consultation process to ensure all significant implementation issues arising in practice are identified and considered by the NZASB.

[1] Implementation issues have been raised with us in several ways and from several sources. They did not result from a formal consultation process.
[2] The Tier 3 PBE Accounting Requirements also include the Authoritative Notice the *Public Benefit Entities' Conceptual Framework* (PBE Conceptual Framework).
[3] Consequential amendments have been included in the ED as a result of the issuance of the *Public Benefit Entities' Conceptual Framework* and 2017 Amendments to XRB A1 *Application of the Accounting Standards Framework*.

5. If Board members decide that a different approach is needed for any of the issues, the exposure draft could be brought back to a future meeting, or further consideration of that issue could be deferred until the PiR.

TRG feedback

6. Many of the Tier 3 and Tier 4 PBE Accounting Requirements implementation issues considered as part of the proposed amendments in the ED were originally raised by the TRG. We therefore took a draft of this memo to the TRG meeting on the 22 November 2017. We asked TRG members to:

    (a) focus on the following three issues (i) opting up to the Tier 2 PBE Accounting Requirements; (ii) reversal of impairment charges; and (iii) accounting for multi-year grants/donation expense; and

    (b) provide feedback on the proposed amendments in respect of those issues.

7. We also received feedback from TRG members on some of the other proposals contained in the memo.

8. We have updated this memo to reflect the feedback received from TRG members.

Action required

9. We are asking the Board to AGREE to include four types of amendments in the ED. They are:

    (a) amendments to the Tier 3 PBE Accounting Requirements arising from the PBE Conceptual Framework;

    (b) limited amendments to the Tier 3 and Tier 4 PBE Accounting Requirements to address some implementation issues raised;

    (c) amendments to the Tier 4 PBE Accounting Requirements to reflect recent changes to the Tier 4 size criteria, as given effect by the *2017 Amendments to XRB A1* Application of the Accounting Standards Framework (2017 Amendments to XRB A1); and

    (d) minor editorial corrections.

10. We are also asking the Board to

    (a) APPROVE the ITC and ED (see agenda item 8.2);

    (b) AGREE to issue the ED and accompanying ITC for a three-month comment period; and

    (c) APPROVE the amendments to the Tier 3 and Tier 4 Explanatory Guides (see agenda item 8.3).

List of abbreviations

11. The following table lists the documents referred to in this memo, their formal abbreviations and the simplified abbreviations that are used in this memo.

Tier 3 documents		**Abbreviation used**
PBE SFR-A (NFP)	*Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*	Tier 3 NFP Standard
EG A5	Explanatory Guide A5 *Optional template and associated guidance notes for applying Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*	Tier 3 NFP Guidance
Template for PBE SFR-A (NFP)	*Optional template for applying Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*	Tier 3 NFP Template
PBE SFR-A (PS)	*Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)*	Tier 3 PS Standard
EG A3	Explanatory Guide A3 *Optional template and associated guidance notes for applying Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)*	Tier 3 PS Guidance
Template for PBE SFR-A (PS)	*Optional template for applying Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)*	Tier 3 PS Template
Tier 4 documents		
PBE SFR-C (NFP)	*Public Benefit Entity Simple Format Reporting – Cash (Not-for-profit)*	Tier 4 NFP Standard
EG A6	Explanatory Guide A6 *Optional template and associated guidance notes for applying Public Benefit Entity Simple Format Reporting – Cash (Not-for profit)*	Tier 4 NFP Guidance
Template for PBE SFR-C (NFP)	*Optional template for applying Public Benefit Entity Simple Format Reporting – Cash (Not-for-profit)*	Tier 4 NFP Template
PBE SFR-C (PS)	*Public Benefit Entity Simple Format Reporting – Cash (Public Sector)*	Tier 4 PS Standard
EG A4	Explanatory Guide A4 *Optional template and associated guidance notes for applying Public Benefit Entity Simple Format Reporting – Cash (Public Sector)*	Tier 4 PS Guidance
Template for PBE SFR-C (PS)	*Optional template for applying Public Benefit Entity Simple Format Reporting – Cash (Public Sector)*	Tier 4 PS Template

Background

12. The Board issued the Tier 3 and Tier 4 PBE Accounting Requirements in November 2013. These requirements were required to be applied by public sector public benefit entities (PBEs) for periods beginning on or after 1 July 2014 and not-for-profit PBEs for periods beginning on or after 1 April 2015. The Board wanted to establish a stable platform for Tier 3 and Tier 4 PBEs and has made very few changes to the standards since they were first issued.

13. At its May 2017 meeting the Board considered some implementation issues with the Tier 3 PBE Accounting Requirements and the accompanying Explanatory Guides (EGs). As the issues were raised by not-for-profit entities the discussion focused on not-for-profit PBEs, but most

of the issues could also be encountered by public sector PBEs. The implementation issues were divided into four groups as follows.

(a) *Group 1: Explanatory Guide changes*

Implementation issues that we considered could be resolved by making amendments to the Tier 3 NFP Guidance or Tier 3 NFP Template (for example, an inconsistency between the requirements in the standard and the guidance).

(b) *Group 2: Minor changes to the standard*

Implementation issues that we considered were of a minor nature and could be addressed by making amendments to the Tier 3 NFP Standard (for example, correction of an editorial error).

(c) *Group 3: Post-implementation review (PiR) issues*

Implementation issues that we considered would require a change to an underlying principle of the Tier 3 NFP Standard and should not be addressed before the formal PiR.

(d) *Group 4: Issues on which Board feedback was sought*

Implementation issues where we were not sure of the best course of action and we sought feedback from the Board as to whether we should undertake further work, and if so, what the Board would like us to do.

14. Appendix 1 of this memo sets out the four groups of issues considered by the Board at its May 2017 meeting. We have added a column to each of the tables in Appendix 1 to reflect the Board's views at the May 2017 meeting in relation to each issue. We have used the feedback from the May meeting to develop an ITC and ED which propose changes to the Tier 3 and Tier 4 PBE Accounting Requirements (both not-for-profit and public sector). If the Board agrees with the proposals in the ITC and ED we are seeking approval to issue the ITC and ED.

15. Proposed amendments to the standards would most likely also have to be reflected in the Tier 3 and Tier 4 guidance and templates – we consider that it would be sensible to wait for the amendments to the standards to be finalised before drafting the consequential changes to the templates and guidance.

16. The Board agreed that some of the issues considered at the May 2017 meeting should be addressed as part of the formal PiR. The Board also noted the importance of including a separate strategic action on the PiR in its Strategic Plan. At its June 2017 meeting the Board agreed to add the following actions to its Strategic Action Plan for the period 1 July 2017 to 30 June 2022.

Action 1C.2: *Post-implementation Review of Tier 3 and Tier 4 PBE Accounting Requirements* The Action will comprise: a. undertaking a post-implementation review of the Tier 3 and Tier 4 PBE Accounting Requirements; and b. determining if any amendments to the Tier 3 and Tier 4 PBE Accounting Requirements are required, based on the outcomes of the post-implementation review.

17. The PiR will be undertaken by the NZASB in conjunction with the XRB's planned PiR of the New Zealand Financial Reporting Framework, which is planned for 2019–2020.

Structure of this memo

18. The remainder of this memo is structured as follows:

    (a) Amendments arising from the PBE Conceptual Framework (paragraphs 21–25);

    (b) Group 2: Minor changes to the standards (paragraphs 26–42);

    (c) Group 4: Issues for further work (paragraphs 43–99);

    (d) Group 5: Amendments arising from the 2017 Amendments to XRB A1 (paragraphs 100–109);

    (e) Group 1: Explanatory Guide changes (paragraphs 110–113); and

    (f) Drafting of ITC (paragraphs 114–115).

19. The groups of issues referred to in this memo are the same groups considered by the Board in May 2017, except for Group 5 which considers proposed amendments as a result of changes to XRB A1 approved by the XRB Board in October 2017. Group 3 has not been included in this memo because the Board previously agreed this group of issues would not be addressed before the formal PiR.

20. We are happy to receive any editorial comments as we work through the ED at agenda item 8.2.

Amendments arising from the PBE Conceptual Framework

21. The PBE Conceptual Framework was issued in May 2016. In August 2016 staff sought approval to amend the Tier 3 PBE Accounting Requirements to align their discussion of concepts, particularly the qualitative characteristics, with those in the PBE Conceptual Framework. The Board declined to make those changes at that time.

22. The Board noted that it does not have an explicit policy on how often amendments to the Tier 3 and Tier 4 simple format reporting standards should be made. The Board agreed that there should be a rebuttable presumption that amendments are not made to these standards on an ad hoc basis. The Board decided to deal with the amendments arising from the PBE Conceptual Framework at a later stage.

197049.1

23. Given that the Board is now considering other amendments to the Tier 3 and Tier 4 PBE Accounting Requirements, we think that now is an appropriate time to align the Tier 3 PBE Accounting Requirements with the PBE Conceptual Framework.

24. The amendments will align the qualitative characteristics in the Tier 3 standards with those referred to in the Tier 1 and Tier 2 PBE Standards. Having one set of qualitative characteristics across Tiers 1 to 3 will simplify some of the drafting in the proposed NZAuASB standard on the audit of service performance information.[4] The proposed auditing standard applies across all three tiers and therefore it would be very helpful if the qualitative characteristics in the accounting standards for the three tiers were aligned.

25. The proposed amendments arising from the PBE Conceptual Framework are set out in the ED at agenda item 8.2.

Question for the Board	
Q1	Does the Board agree to include the amendments arising from the PBE Conceptual Framework in the ED?

Group 2: Minor changes to the standards

26. In May 2017, the Board agreed to propose some minor changes to the Tier 3 NFP Standard. We discuss those minor changes in this section.

<u>Issue 1.6: Date of authorisation</u>

Description of issue

27. Both preparers and auditors have requested that we add a signature and date line to the Tier 3 NFP Template. There is currently no requirement in the Tier 3 NFP Standard to sign and date the performance report.

Proposed amendments

28. In May 2017, the Board decided to amend the Tier 3 NFP Standard to require an entity to disclose the date of finalisation and the individual or body who authorised the performance report for issue.

29. We are proposing to amend both the Tier 3 standards and the Tier 4 standards.

30. We are proposing that information about the date of authorisation be presented at the bottom of the statement of financial position for Tier 3 entities and the bottom of the statement of receipts and payments for Tier 4 entities.[5]

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4 ED NZAuASB 2017-2 New Zealand Auditing Standard XX *The Audit of Service Performance Information* is currently out for comment.

5 For Tier 4 entities we considered whether the date of authorisation should be presented on the statement of resources and commitments but the Tier 4 PS Standard does not require the presentation of a statement of resources and commitments; it requires information about resources and commitments to be provided in the notes to the performance report.

31. In considering how to word the new disclosure requirement we looked at some existing requirements in the Tier 3 NFP Standard and PBE IPSAS 14 *Events after the Reporting Date*. Extracts from these standards are shown below.

Extract from the Tier 3 NFP Standard

Events After the Balance Date

A33. Events after the balance date are those events, both favourable and unfavourable, that occur between the balance date and the date when the performance report is finalised. The balance date is the last day of the financial year to which the statements relate. The date of finalisation is the date on which the statements have received approval from the individual or body with the authority to authorise those statements for issue.

Extract from PBE IPSAS 14 *Events after the Reporting Date*

Disclosure of Date of Authorisation for Issue

26. An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If another body has the power to amend the financial statements after issuance, the entity shall disclose that fact.

27. It is important for users to know when the financial statements were authorised for issue, as the financial statements do not reflect events after this date. It is also important for users to know of the rare circumstances in which any persons or organisations have the authority to amend the financial statements after issuance. If changes are made, the amended financial statements are a new set of financial statements.

32. The new disclosure we are proposing to add to the Tier 3 and Tier 4 standards is as follows:

Date of Finalisation

It is important for users to know when the performance report was authorised for issue, as the performance report does not reflect events after this date.

Required Information

An entity shall disclose at the bottom of the [statement of financial position/statement of receipts and payments] the date the performance report was approved and authorised for issue and who gave that authorisation.

33. Consequential amendments are needed to the templates and guidance for this proposed amendment.

Question for the Board

Q2. Does the Board agreed with the proposed amendments arising from Issue 1.6?

Issue 2.1: Related party requirements

Description of issue

34. There is an inconsistency in the wording in the Tier 3 NFP Standard.

35. Paragraph A202 provides an explanation of related party transactions and includes reference to significant transactions below market price (emphasis added). Paragraph A206 requires the disclosure of all transactions (either significant or insignificant) (emphasis added) on terms or conditions likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

Proposed amendments

36. We propose to amend paragraph A202 to make it consistent with paragraph A206. The proposed amendment is as follows (paragraph A206 is provided for information purposes).

> ***Related Party Transactions***
>
> *Explanation*
>
> A202 A related party transaction is a transfer of money or other resource between the reporting entity and a person or other entity that is closely associated with the reporting entity that has the ability to influence the reporting entity. This includes significant normal business transactions as well as ~~significant~~ transactions below market price (including the provision of free goods or services).
>
> …
>
> *Requirements*
>
> A206. An entity shall disclose in the notes to the performance report, transactions with a related party that have occurred during the financial year if:
>
> (a) The transaction is significant to the entity (individually or in aggregate with similar transactions); or
>
> (b) The transaction (either significant or insignificant) is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

37. The amendment is not needed to the Tier 3 PS Standard (see extract below) as the related party requirements for public sector entities are different to those for NFPs.

> …
>
> *Requirements*
>
> A208. An entity shall disclose in the notes to the performance report, transactions with a related party that have occurred during the financial year if the transaction is significant to the entity (individually or in aggregate with similar transactions) and is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

38. No consequential amendments are needed to the templates and guidance for this proposed amendment.

Question for the Board

Q3. Does the Board agree with the proposed amendments arising from Issue 2.1?

Issue 2.2: Minimum revenue categories

Description of issue

39. The specific type of revenue transaction – “Grants that are service contracts which have a ‘use or return’ condition attached” has been incorrectly categorised in Table 1 of the Tier 3 NFP Standard.

40. This type of revenue transaction is currently categorised as “donations, fundraising and other similar revenue” in Table 1. To be consistent with the description of the revenue categories in the standard such revenue transactions should be categorised as “revenue from providing services”.

Extract from the Tier 3 NFP Standard

Revenue

…

Required Information

A54. In order to make information understandable to users, revenue shall be aggregated and separately presented in categories. As a **minimum**, the following aggregated categories shall be reported separately:

(a) Donations, fundraising and other similar revenue;

(b) Fees, subscriptions and other revenue from members;

(c) Revenue from providing goods or services; and

(d) Interest, dividends and other investment revenue.

A55. Category (a) above includes grants and donations/koha received from the public and other organisations, for example, central or local government, charitable trusts, foundations and other philanthropic agencies. It also includes any revenue from fundraising activities. Grants received from the government or other agencies that are in substance a contract for delivery of goods or services would be included in category (c) above. Any revenue from members, including donations, would be included in category (b).

Proposed amendments

41. Amend Table 1 to move "Grants that are service contracts which have a 'use or return' condition attached" to the category — Revenue from providing goods or services.

...

Accounting for Revenue

A62. Revenue shall be recorded on the occurrence of a recognition event. This is when there is a legal right to receive cash either now or sometime in the future. The timing of the recording of specific revenue types is provided in Table 1.

Table 1: Recording of Specific Types of Revenues

Source	**When to Record**	**Comments**
Donations, fundraising and other similar revenue		
…		
~~Grants that are service contracts which have a "use or return" condition attached~~	~~On receipt of grant record asset received (generally cash) and a liability. As the conditions are met (i.e. services provided) the liability is reduced and revenue is recorded.~~	~~The liability as at balance date reflects the extent to which obligations under the service contract have not been satisfied.~~
…		
Revenue from providing goods or services		
…		
Grants that are service contracts which have a "use or return" condition attached	On receipt of grant record asset received (generally cash) and a liability. As the conditions are met (i.e. services provided) the liability is reduced and revenue is recorded.	The liability as at balance date reflects the extent to which obligations under the service contract have not been satisfied.
…		
Other revenue		

42. The amendment is required only in the Tier 3 NFP Standard. It does not need to be made to the Tier 3 PS Standard or to the EGs.

Question for the Board
Q4. Does the Board agree with the proposed amendments arising from Issue 2.2?

Group 4: Issues for further work

43. In May 2017, the Board asked us to do further work on certain issues (such as the opting up requirements) and come back with specific proposals. We have done this work and set out our proposals in this memo and the ED. The challenge has been to clarify current requirements without adding a great deal of extra content into the Tier 3 and Tier 4 PBE Requirements.

44. There are five issues in this group:

    (a) Opting up to the Tier 2 PBE Accounting Requirements;

    (b) Investment properties;

    (c) Reversal of impairment charges;

    (d) Accounting for multi-year grants/donation expense; and

    (e) Summary financial statements.

Issue 4.1: Opting up to the Tier 2 PBE Accounting Requirements

Description of issue

45. In certain circumstances, the Tier 3 NFP Standard allows entities to opt up and apply the requirements in a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of the requirements in the Tier 3 NFP Standard. We have heard that the wording of these options in the Tier 3 NFP Standard is causing interpretation issues in practice.

46. At its May 2017 meeting the Board requested that we investigate the possibility of clarifying the opting up requirements in the Tier 3 NFP Standard.

47. The current requirements in the Tier 3 NFP Standard are set out below, in particular, see paragraph 7. We have also included an extract from the ITC that accompanied the 2012 ED of the Tier 3 NFP Standard. Julia Fletcher from Charities Services published a blog on this topic on 18 October 2016.[6]

Extract from the Tier 3 NFP Standard

Application of PBE Standards

7. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements to a specific type of transaction, as long as it applies that option to all transactions of that type. For

6 https://www.charities.govt.nz/news-and-events/blog/when-can-tier-3-entities-apply-tier-2-standards-for-certain-transactions/

example, an entity may decide to opt up to PBE IPSAS 17 *Property, Plant and Equipment* so that it can revalue a class of assets (in which case it must apply the whole standard).

8. If, for a particular type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity shall disclose this in the statement of accounting policies.

9. If, for a particular type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity cannot then choose to return to applying this Standard unless the entity complies with the requirements of this Standard for changes in accounting policies (see paragraph A180).

...

Revaluation of Property, Plant and Equipment

A113. As specified in Table 3, purchased property, plant and equipment is to be measured on the cost basis. However, an entity may elect to revalue a class of property, plant and equipment. Entities are more likely to make such an election when the value of an asset had increased significantly over that asset's life (such as land or a building).

A114. If an entity wishes to revalue an asset, it shall apply the relevant requirements of PBE IPSAS 17 *Property, Plant and Equipment*, except that the entity may use the current rateable or government valuation (rather than fair value as required by PBE IPSAS 17) when revaluing. Where this is the case, the entity shall disclose the source and date of the valuation in the notes to the performance report.

A115. It is important to note that once property, plant and equipment is revalued, the requirements of Tier 2 PBE Accounting Standards mean that it is likely that the entity will need to continue measuring those assets at revalued amount thereafter (rather than reverting back to asset cost).

A116. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may choose to disclose that current value, and the basis (such as the, rateable or government valuation) and date of that valuation in the notes to the performance report.

Specific Accounting Policies

...

A180. Where an entity has elected to apply a provision of the Tier 2 PBE Accounting Standards in place of a requirement of this Standard (see paragraphs 7–9), the Tier 2 PBE Accounting Standard applied shall be disclosed.

...

Option to Apply the Requirements in Tier 2 PBE Accounting Standards

BC13. The NZASB is aware that some entities may prefer not to apply certain of these simplifications or may wish to use an option that is available in Tier 1 and Tier 2 PBE Accounting Standards. Accordingly, the NZASB included an option in this Standard that permits entities to elect to use the recognition and measurement requirements of a Tier 2 PBE Accounting Standard for a specific type of transaction as long as the entity applies that same requirement to all transactions of that type. Entities are required to disclose the use of this option, where applied.

Extract from the ITC that accompanied the ED of the Tier 3 NFP Standard (December 2012)

25. Some entities may not wish to apply these recognition and measurement simplifications. As a result, ED PBE SFR–A (NFP) proposes that an entity may elect to apply the requirements of a Tier 2 PBE Standard **to a type of transaction as long as it applies that option to all transactions of that type**. For example, the entity may wish to revalue its land and buildings by applying proposed PBE IPSAS 17 *Property, Plant and Equipment* to land and buildings. In this case, all the provisions of PBE IPSAS 17, **including the disclosure requirements**, would

need to be applied to all land and buildings and they would need to be measured (and remeasured) to a current value (such as insurance value, rateable value or government valuation) in accordance with that Standard. Entities are advised to consider the requirements of any PBE Standard before using this option – a PBE Standard may be more onerous and contain more specific requirements than might be expected. [emphasis added]

48. Constituents have sought clarification of the following.

(a) What is meant by the references to a specific or particular type of transaction (paragraphs 7 to 9 of the Tier 3 NFP Standard)?

(b) What is meant by 'it must apply the whole standard' (paragraph 7 of the Tier 3 NFP Standard)?

Specific or particular type of transaction

49. Based on feedback received, Tier 3 NFP entities tend to opt up to the Tier 2 PBE Standards to (i) revalue property or (ii) measure investments in bonds and shares at fair value.

50. We think the Tier 3 NFP Standard is clear in respect of what an entity should do if it elects to revalue property in accordance with the revaluation option in PBE IPSAS 17 *Property, Plant and Equipment*. Paragraph 7 of the Tier 3 NFP Standard states that an entity can opt up to revalue a class of assets. A Tier 3 entity wanting to revalue its land would apply the revaluation option to all of its land; it would not be able to 'cherry pick' certain assets within that class of assets.

51. The Tier 3 NFP Standard is less clear about what an entity has to do if it wants to measure its investments in shares at fair value. One interpretation is that an entity would have to apply the relevant standard to *all* its financial assets, including assets such as receivables. The relevant financial instrument standards are PBE IPSAS 28 *Financial Instruments: Presentation*, PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* (or PBE IFRS 9 *Financial Instruments*), and PBE IPSAS 30 *Financial Instruments: Disclosures*.

52. In thinking about how we could clarify the references to a "specific" or "particular" type of transaction, we have considered the following options.

	Pros	Cons
Option 1		
Wait for PiR to address this issue. Do not amend the Tier 3 NFP Standard.	• The PiR is the appropriate time to focus on this issue and undertake research and outreach into how many Tier 3 entities are electing to opt up and for what reasons. This would allow the Board to make a more informed decision on any amendments that should be made.	• Until the PiR is conducted entities will have to apply judgement when opting up and this may lead to diversity in practice. • We note that the current opting up requirements in the Tier 3 NFP standard switch between using the words 'specific' and 'particular' when referring to a type of transaction.

Option 2		
Amend paragraph 7 by adding an example of opting up by class of financial instrument as defined in PBE IPSAS 30 (see proposed amendments section after paragraph 58 below).	• These amendments would clarify the two most likely scenarios for opting up. This could be a short-term solution pending a more detailed look at the issue as part of the PiR.	• Even with these amendments an entity could still be left with some questions if it elects to opt up to apply other PBE Standards. We see this as a small risk.
Option 3		
Draft a generic amendment to the Tier 3 NFP Standard to explain how opting up works for PBE Standards in general. This amendment would need to explain that an entity applies the unit of measure used in the Tier 2 PBE Standard.		• This may not be easy to draft in terms that are easily understandable by a Tier 3 entity.

53. When considering these three options, we have had to stand back and think about what is feasible in the short term and whether the improvements in clarity would justify making short-term changes. On balance, we recommend Option 2.

Apply the whole standard

54. Some constituents have queried the meaning of the words "in which case it must apply the whole standard" in paragraph 7. Constituents have queried whether, when opting up, they must also apply presentation and disclosure requirements in the Tier 2 PBE Standards. We would interpret the "whole standard" to mean just that (i.e. all the recognition, measurement, presentation and disclosure requirements in the Tier 2 standards associated with that type of transaction).

55. If a Tier 3 entity opts up to apply PBE IPSAS 17 so as to revalue a class of land, and the carrying amount of that class increases as a result of the revaluation, there is some confusion about how and where it must present the increase. PBE IPSAS 17 requires that the increase be recognised in other comprehensive revenue and expense (OCRE) and accumulated in net assets/equity under the heading of revaluation surplus. To comply with this requirement the Tier 3 entity would need to present OCRE and make the disclosures required by PBE IPSAS 17 in relation to the revaluation of assets. A Tier 3 entity presenting OCRE would have to modify the Tier 3 NFP Template to show OCRE or create their own financial statements from scratch. The Tier 3 templates were designed for entities that are reporting in accordance with the Tier 3 standards – not for those that were opting up.

56. However, we note that there are a couple of contradictory statements in the Tier 3 NFP Standard and its Basis of Conclusions. Paragraph A180 refers to electing to apply a provision of a Tier 2 standard and paragraph BC13 states "Accordingly, the NZASB included an option in this Standard that permits entities to elect to use the **recognition and measurement requirements** of a Tier 2 PBE Accounting Standard" (emphasis added).

57. In thinking about what is meant by 'it must apply the whole standard' issue, we have considered the following options:

	Pros	Cons
Option 1		
Wait for the PiR to address this issue. Do not amend the standard now.	• The PiR is the appropriate time to focus on this issue and undertake research and outreach on how many Tier 3 entities are electing up and for what reason. This would allow the Board to make a more informed decision on any amendments that should be made.	• Until the PiR is conducted entities will have to apply judgement when opting up. This may lead to diversity in practice. • We acknowledge the Tier 3 NFP Standard includes contradictory statements and clarity is required.
The Board agreed at the May 2017 meeting that permitting fair value measurement in the Tier 3 NFP Standard is something that could be considered as part of the PiR.		
Option 2		
Amend the Tier 3 NFP Standard to state that applying the whole standard means applying all of the recognition. measurement, presentation and disclosure requirements in the relevant PBE Standard.	• This will be the simplest approach to take in the interim. • Will remove any ambiguity.	• Tier 3 entities will have to amend the template or create their own performance report to meet the Tier 2 presentation requirements of OCRE and any disclosures required by the Tier 2 PBE Standards.
Option 3		
Amend the Tier 3 NFP Standard to state that an entity can elect to use the recognition and measurement requirements contained in the PBE Standard without also complying with disclosure and presentation requirements in that standard. Under this option, the Tier 3 NFP Standard would be amended to include the disclosure and presentation requirements when an entity opts up to apply a Tier 2 PBE Standard.	• Will remove ambiguity.	• This would require quite a lot of work as we would have to include requirements in the Tier 3 NFP Standard for the presentation and disclosure requirements when an entity opts up to apply a Tier 2 PBE Standard. • We would have to consider all PBE Standards that a Tier 3 entity may elect to opt up to. • Would not be a very straightforward option. • Could complicate the Tier 3 Standard for the majority of Tier 3 entities (assuming the majority do not opt up to Tier 2).

58. In order to improve the clarity of the standard in the short-term, pending the PiR, we recommend option 2.

Proposed amendments

59. To give effect to our recommendations, we propose the following amendments to the Tier 3 NFP Standard. New text is underlined and deleted text is struck through.

7. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements to a specific type of transaction, as long as it applies that option to all transactions of that type. For example, an entity may decide to opt up to PBE IPSAS 17 *Property, Plant and Equipment* so that it can revalue a class of assets, or an entity may decide to opt up to the financial instruments standards (PBE IPSAS 28 *Financial Instruments: Presentation*, PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* (or PBE IFRS 9 *Financial Instruments*), and PBE IPSAS 30 *Financial Instruments: Disclosures*) for a class[1] of financial instruments, such as, investments in shares, so that it can measure that class of financial instruments at fair value. ~~(in which case it must apply the whole standard~~).

[1] PBE IPSAS 30 paragraphs 9, AG1 and AG2 provide guidance on determining classes of financial instruments.

7.1 Where an entity elects to apply the requirements of a PBE Standard to a specific type of transaction, it shall apply the whole standard. Applying the whole standard means applying the recognition, measurement, presentation and disclosure requirements in the PBE Standard associated with that specific type of transaction. In some cases, this will mean that an entity needs to present items of other comprehensive revenue and expense in accordance with the presentation requirements in PBE Standards.

8. If, for a ~~particular~~ specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity shall disclose this in the statement of accounting policies.

9. If, for a ~~particular~~ specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity cannot then choose to return to applying this Standard for that type of transaction unless the entity complies with the requirements of this Standard for changes in accounting policies (see paragraph A180).

Revaluation of Property, Plant and Equipment

A113. As specified in Table 3, purchased property, plant and equipment is to be measured on the cost basis. However, an entity may elect to revalue a class of property, plant and equipment. Entities are more likely to make such an election when the value of an asset ha~~d~~s increased significantly over that asset's life (such as land or a building).

A114. If an entity wishes to revalue a~~n~~ class of assets, it shall apply the relevant requirements of PBE IPSAS 17 *Property, Plant and Equipment*, except that the entity may use the current rateable or government valuation (rather than fair value as required by PBE IPSAS 17) when revaluing. Where this is the case, the entity shall disclose the source and date of the valuation in the notes to the performance report.

A115. It is important to note that once property, plant and equipment is revalued, the requirements of ~~Tier 2~~ PBE ~~Accounting~~ Standards mean that it is likely that the entity will need to continue measuring ~~those assets~~ that class of assets at revalued amounts thereafter (rather than reverting back to asset cost).

A116. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may choose to disclose that current value, and the basis (such as the, rateable or government valuation) and date of that valuation in the notes to the performance report.

A180. Where an entity has elected to apply the requirements of a PBE Standard that is part ~~a provision~~ of the Tier 2 PBE Accounting ~~Standards~~ Requirements in place of a requirement of this Standard (see paragraphs 7–9), the ~~Tier 2~~ PBE ~~Accounting~~ Standard applied shall be disclosed.

60. We are proposing to add the following footnote to paragraph BC13.

> BC13. The NZASB is aware that some entities may prefer not to apply certain of these simplifications or may wish to use an option that is available in Tier 1 and Tier 2 PBE Accounting Standards. Accordingly, the NZASB included an option in this Standard that permits entities to elect to use the recognition and measurement requirements of a Tier 2 PBE Accounting Standard for a specific type of transaction as long as the entity applies that same requirement to all transactions of that type. Entities are required to disclose the use of this option, where applied.[1]
>
> [1] *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* clarified that when an entity elects to opt up to apply a PBE Standard that is part of the Tier 2 PBE Accounting Requirements it shall apply all of the Tier 2 requirements in that standard including the recognition, measurement, presentation and disclosure requirements.

61. We propose to make these amendments to the Tier 3 NFP Standard and the Tier 3 PS Standard (see agenda item 8.3). Amendments will also be needed to the Tier 3 NFP Guidance and the Tier 3 PS Guidance.

> TRG Feedback
>
> - TRG members agreed that the amendments to paragraph 7 (and subsequent paragraphs) to clarify what is meant by a "specific type of transaction" should be considered by the NZASB.
> - TRG members had concerns that the addition of paragraph 7.1 may actually be modifying current practice, which might be reverted back to after the PiR. TRG members thought this would be better considered in more detail as part of the PiR.

62. We agree with the recommendation of the TRG and have removed paragraph 7.1 and the amendments to paragraph BC13 from the ED.

> **Question for the Board**
>
> Q5 Does the Board agree with the proposed amendments (as revised following TRG feedback)?

Issue 3.4: Investment properties

Description of issue

63. Property, plant and equipment is recorded at cost under the Tier 3 NFP Standard. The Tier 3 NFP Standard does not include the option to measure property, plant and equipment using the revaluation model. As discussed in Issue 4.1 above, if an entity wishes to revalue a class of property, plant and equipment it can apply the opting up provisions contained in the Tier 3 NFP Standard. Paragraph A114 of the Tier 3 NFP Standard (see extract under Issue 4.1 above) allows an entity to use the current rateable or government value as a proxy for fair value when it opts up to apply PBE IPSAS 17. The Board allowed this as it gives entities an option to provide more up-to-date information without incurring any extra cost.

64. At its May 2017 meeting the Board asked us to consider (as part of looking at the opting up requirements (see Issue 4.1)) whether we should permit a Tier 3 entity with an investment property to use the current rateable or government value as a proxy for fair value.

65. The Tier 3 NFP Standard was designed to address transactions that are commonly undertaken by Tier 3 entities. The holding of investment properties was not identified as a common Tier 3

entity transaction (possibly because they were not separately classified as such) so the standard does not specifically deal with investment properties.

66. The question is whether the Tier 3 measurement simplification for property, plant and equipment would be appropriate for investment properties. PBE IPSAS 16 *Investment Property* defines investment property as "property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation, or both, rather than for: (a) use in the production or supply of goods or services, or for administrative purposes; or (b) sale in the ordinary course of operations". The purpose for which investment property is held means that an entity should be regularly making assessments about whether to hold or sell investment property and users will want to assess the entity's management of its investment property. On the one hand, the fair value simplification would provide more up to date information than cost. On the other hand, it could be misleading as the fair value of investment property is used for different purposes to the fair value of owner-owned land and buildings.

67. We are not sure that the current rateable or government value would provide useful information to users of the performance report in the case of investment properties.

Proposed amendments

68. We recommend that no amendments be made to the Tier 3 NFP Standard at this stage. Instead we recommend that the Board waits until the PiR so we can undertake outreach to see how many Tier 3 entities have investment properties and how they are currently accounting for these.

TRG Feedback

- A TRG member explained that some Tier 3 and Tier 4 NFPs hold investment property. Although these entities want to measure investment property at fair value, and have no concerns with recognising fair value movements through surplus or deficit, they do not want to obtain an independent valuation of the investment property annually. The entities argue that this is costly and they question (i) why investment property has to be revalued on an annual basis, and (ii) why current rateable or government value can be used for property, plant and equipment but not for investment property.
- TRG members noted that:
  - the Tier 3 standards do not deal with investment property or the concepts dealing with accounting for investment property;
  - entities hold investment properties for a different purpose from holding property, plant and equipment;
  - rateable values are updated every three years but PBE Standards require an annual valuation; and
  - this is not an issue for public sector entities as they don't usually hold investment property.
- TRG members agreed that this issue should be considered as part of the PiR of the simple format reporting standards.

69. TRG feedback is consistent with the staff recommendation.

Question for the Board

Q6. Does the Board agree that no amendments be made in respect of Issue 3.4?

Issue 4.2(a): Reversal of impairment charges

Description of issue

70. We received an enquiry from a constituent on the accounting for investments held in shares and bonds by a Tier 3 charity. One of the questions raised by the constituent was what happens to investments recorded at cost, and that have been impaired, if the market value subsequently rises again – is the impairment reversed?

71. The Tier 3 NFP Standard requires an entity to impair investments "if it appears that the carrying amount of the investment will not be recovered". It then goes on to say the investments "shall be written down to the current market price". The Tier 3 NFP Standard is silent on whether to reverse the impairment if the market value is higher than the carrying amount in a subsequent reporting period.

72. At its May 2017 meeting the Board requested that we clarify in the Tier 3 NFP Standard that an impairment loss should be reversed if the market value of an impaired investment subsequently becomes higher than its carrying amount (but not higher than cost) and that the reversal of an impairment should be recorded in surplus or deficit.

Proposed amendments

73. We are proposing to address the issue raised in relation to investments, but not to propose any changes in relation to other assets. One could argue that similar issues could arise with reversing impairments recorded in prior periods for other types of assets such as property, plant and equipment. We propose to focus on investments because the issue has been raised in relation to investments and we are not sure how prevalent the issue would be for other types of assets held by Tier 3 PBEs. If the Board wants to deal with the reversal of impairment for all types of assets we could look at drafting a general paragraph (to be located under Table 3 *Recording of Specific Types of Asset*).

74. The Tier 3 NFP Standard prohibits the offsetting of revenue and expenses (see paragraphs A24 and A25 shown below). In the case of a reversal of an impairment charge, we would argue it is a valuation adjustment and should be offset against the expense. Alternatively, we could record the reversal of the impairment charge in other revenue. The amendments proposed are based on the first view i.e. the reversal of impairment charge is a valuation adjustment.

Tier 3 NFP Standard:

No Offsetting of Amounts

A24. Users of the performance report should be given as much relevant information as possible about the entity. Therefore, the entity shall report gross amounts for transactions, and not offset (net-off) any associated transactions or balances. This means that:

(a) Assets and liabilities shall not be offset against each other; and

(b) Revenue and expenses shall not be offset against each other.

A25. Valuation adjustments such as write-downs of inventory or property, plant and equipment provide for the change in value of an entity's assets. Measuring assets net of valuation adjustments is not considered offsetting. Accounting for the net amount of GST owing to or from Inland Revenue is also not considered offsetting.

75. The proposed amendments to the Tier 3 NFP Standard are set out below.

Accounting for Assets

A107. Assets shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the asset type. Details for recording and measuring specific asset types are provided in Table 3.

Table 3: Recording of Specific Types of Asset

…	
Investments	
When to record	When purchased.
Initial measurement	At the amount paid.
When to record impairment	If it appears that the carrying amount of the investment will not be recovered, it shall be written down to the current market price. <u>If, in a subsequent period, the current market price is higher than the carrying amount, all or part of a previous impairment shall be reversed. However, the investment shall not be recorded at more than its original cost.</u>
Change measurement at balance date	If the current market price falls below cost.
When to no longer record	When sold, otherwise disposed of, or written off.
…	

Accounting for Expenses

A80. Expenses shall be recorded on the occurrence of a recognition event. This is where there is a legal obligation to pay cash either now or sometime in the future (this is normally referred to as the point at which an expense is "incurred"). The timing of the recording of specific expense types is provided in Table 2.

Table 2: Recording of Specific Types of Expenses

Source	**When to Record**	**Comments**
Impairment charges (changes in the value of assets) <u>Reversal of an impairment charge recorded in a prior period</u>	Record the expense when it is apparent that an asset is recorded at an amount that is greater than its net realisable value. <u>Reverse the expense when there is an indication that an impairment charge recorded in a prior period may no longer exist or may have decreased.</u>	The impairment expense is the amount by which the asset's recorded amount is reduced. Impairment charges relate mostly to property, plant and equipment, inventory, and receivables (which become bad debts). See also Table 3 for further discussion on impairment.

76. We are proposing to also make the amendments to the Tier 3 PS Standard, Tier 3 NFP Guidance and Tier 3 PS Guidance.

TRG Feedback

- TRG members agreed that a generic paragraph be drafted which deals with all reversals of impairment losses for all types of assets, for example:
  - investments shall not be recorded at more than original cost; and

> o property, plant and equipment shall not be recorded at more than it would have been had the impairment loss not been recognised.

77. We agree with the TRG members recommendation and have drafted proposed amendments below:

<u>*Reversal of Impairment Charges*</u>

<u>A107.1 If there is any indication that an impairment charge recognised in prior periods for an asset may no longer exist or may have decreased, an entity shall reverse all or part of that impairment charge.</u>

<u>A107.2 The reversal of the impairment charge shall:</u>

(a) <u>In the case of inventories, be limited to the amount of the original write-down;</u>

(b) <u>In the case of investments, not result in the carrying amount of the asset being recorded at more than its original cost; and</u>

(c) <u>In the case of property, plant and equipment, not result in the carrying amount of the asset (net of depreciation) being recorded at more than it would have been had the impairment not been recorded.</u>

78. We will also make the amendments to Table 2 as detailed above, adding a reference to the new paragraphs A107.1 and 107.2. We could also add a worked example into the explanatory guides for the reversal of an impairment for property, plant and equipment.

Question for the Board

Q7. Does the Board agreed with the proposed amendments as recommended by the TRG in respect of Issue 4.2(a)?

<u>*Issue 4.3: Accounting for multi-year grants/donation expense*</u>

Description of issue

79. In December 2016, we received a letter from an entity[7] which makes donations to individuals and organisations that operate in the areas of health, arts and research. The constituent raised two concerns about the requirements in the Tier 3 NFP Standard for donations made.

80. Historically the constituent has made a number of multi-year donations. If the constituent makes a multi-year donation a report is required showing satisfactory progress with the project before any additional funds are remitted. The concern that the constituent raised is that their auditor advised that the requirement in the Tier 3 NFP Standard means that all of a multi-year donation must be expensed in the year it has been approved and the recipient advised. This has resulted in the constituent no longer approving multi-year donations, despite being of the view that this is necessary to support major research projects.

81. The second concern raised by the constituent was the different accounting treatment under the Tier 3 NFP Standard for grants and donations with a "use or return" condition. Currently the accounting treatment in the Tier 3 NFP Standard is not symmetric. The donor would record an expense for the grant payment made in full (at the point the grant is approved), but, on receipt of the grant, the donee would record a liability. The donee would record revenue

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[7] Letter tabled as agenda item 2.3.3 at the February 2017 NZASB meeting.

only when it meets the conditions. The requirements for donations received by a Tier 3 entity in the Tier 3 NFP Standard are as follows:

A65. Where revenue has conditions attached, it is necessary to determine whether those conditions lead to a liability. Revenue that has a "use or return" condition, shall initially be recorded as a liability until the condition has been met, at which point the revenue shall then be recorded.

82. When the Tier 3 NFP Standard was exposed for comment it contained a proposed simplification to record grants, donations and fundraising revenue on a cash basis (regardless of any conditions attached to the revenue). Constituents expressed their concern with this proposal and the Board agreed to modify the accounting for donations, grants and fund-raising revenue so that transactions that have a "use or return" condition attached are initially recorded as a liability and then recognised as revenue as the condition is met. Transactions that do not have a "use or return" condition attached are recorded as revenue on receipt.

83. The current requirements from the Tier 3 NFP Standard in relation to grants and donations made are set out below.

Accounting for Expenses

A80. Expenses shall be recorded on the occurrence of a recognition event. This is where there is a legal obligation to pay cash either now or sometime in the future (this is normally referred to as the point at which an expense is "incurred"). The timing of the recording of specific expense types is provided in Table 2.

Table 2: Recording of Specific Types of Expenses

Source	**When to Record**	**Comments**
…		
Grants and donations made		
Grants and donations made	Record the expense when the grant or donation has been approved and the recipient advised.	

84. The current requirements in the Tier 3 NFP Standard in relation to liabilities, provisions and commitments are set out below.

Liabilities

A114. Liabilities are the amounts owed by the entity at balance date.[10]

[10] See the Glossary for a more detailed definition of liabilities.

Liabilities Present obligations arising from past events, the settlement of which is expected to result in an outflow of resources from the entity. An example is the purchase of supplies prior to balance date, with the payment due in the next financial year.

…

Provisions

A133. A provision is a liability of uncertain timing or amount. For example, an entity's lease of office premises may contain conditions that require the premises to be renovated at the end of the lease, so a provision for this is established.

A134. A provision shall be recorded as a liability when:

(a) The entity has a present obligation (legal or constructive) as a result of a past event;

(b) It is probable that the entity will have to settle the obligation; and

(c) The entity can make a reliable estimate of the amount of the obligation.

A135. The use of estimates is an essential part of the preparation of performance reports, and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other liabilities. Except in extremely rare cases, an entity should be able to make an estimate of the obligation that is sufficiently reliable to use in recording a provision.

Possible Future Liabilities

A136. The only liabilities recorded in an entity's statement of financial position are those where obligations exist at the balance date as a result of a past event. Therefore, no provision should be made for liabilities that might result from a future event as these liabilities don't yet exist. For example, costs likely to be incurred in the future in order to continue an entity's activities in the future are not liabilities. Neither are expected future operating losses.

…

Commitments

A197. Commitments are legal obligations to make payments in the future. Although commitments (operating or capital) are not yet recorded as liabilities, reporting them is essential for users of reports to gain a proper understanding of the entity's future viability.

A198. An entity shall report in the notes to the performance report the timing and estimated amount of any significant commitments (both operating and capital). Types of commitments which may need to be reported include:

(a) Commitments to lease or rent assets;

(b) Commitments to purchase property, plant and equipment; and

(c) Commitments to provide loans or grants.

Proposed amendments

85. When the Board considered this issue at its May 2017 meeting, the Board noted that its prior discussions had focused on grant revenue, rather than grants made. It had therefore not focused on multi-year grants from the funder perspective

86. In thinking about how to address the issue of multi-year grant expenses being recorded in full at the outset, we have considered the following options:

	Pros	Cons
Option 1		
Make no amendments to the Tier 3 NFP Standard at this stage. Consider this issue as part of the PiR.	• The accounting for non-exchange expenses is currently being discussed by the Board in the context of the IPSASB's consultation paper on *Accounting for Revenue and Non-Exchange Expenses.* If we wait for the PiR the IPSASB may have completed consultation and be closer to finalising requirements, which we could then simplify for Tier 3. • The PiR is the appropriate time to undertake research and outreach on how many Tier 3	• Until the PiR is conducted entities will have to apply current requirements which may not result in the most useful reporting of multi-year grants and donations. • The Board did not focus on multi-year grants and donations when the Tier 3 NFP Standard was developed and one could argue that this gap should be addressed.

197049.1

	grantors and donors make multi-year grants or donations with stipulations attached. This would allow the Board to make a more informed decision on any amendments that should be made.	
Option 2		
Make a narrow scope amendment to the Tier 3 NFP Standard to clarify how the grantor accounts for multi-year grants. This would involve the grantor having to apply judgement as to whether it has a liability for the full amount of the approved grant at the first balance date.	• This was the concern raised by constituent. • Opportunity for the Board to discuss the accounting treatment of multi-year grants and donations by Tier 3 entities. • Can signal to preparers to think about this issue and apply judgement to their individual circumstances.	• This will not address the issue where other stipulations are attached to grants and donations made, such as a use or return condition. • Could be tricky to draft a simple requirement for the Tier 3 standards.
Option 3		
Make amendments to the Tier 3 NFP Standard to add requirements for grants and donations made which contain stipulations, whether time-based or other.		• This would involve a substantial amount of work, and would be premature considering this is still being discussed by the Board at a Tier 1 and Tier 2 level. • May result in over complication of the Tier 3 NFP Standard.
Option 4		
Introduce cash accounting for multi-year grants into the Tier 3 Standard.	• Simplest option for the preparer. • Very clear requirement.	• The Tier 3 NFP Standard is intended to provide a simplified version of the Tier 1 and Tier 2 PBE Accounting Requirements, rather than a standard based on a different conceptual framework. • Constituents did not agree to this simplification when proposed for revenue from grants. • If propose cash accounting now, it could be difficult to then change requirements after the PiR.

87. We see option 2 and option 4 as feasible options at this point in time. Option 4 has some appeal as you cannot get any simpler than cash accounting. Under option 4 if a grantor pays all the multi-year grant in advance it would still have to expense the full amount in the year paid. However, we don’t believe many Tier 3 grantors would pay the full grant in advance.

88. Option 4 might not be welcomed by all constituents. As discussed in paragraph 82 above the Board received push back from constituents when it proposed cash accounting for grant

revenue, so similar feedback may be received in relation to this type of simplification for grants made. If we proposed cash accounting for multi-year grants and donations now, it would be difficult to then change requirements after the PiR.

89. We tossed up for a while between recommending option 4 or option 2. Because of the reservations noted above, we recommend option 2. We propose to add some guidance in the Tier 3 NFP Standard in relation to approval of multi-year grants and donations by a grantor/donor. Our main aim is to flag to Tier 3 entities that if they provide multi-year grants they will need to apply judgement to determine if they have a liability for the entire amount of a multi-year grant once it has been approved and the recipient advised. In drafting the amendments to give effect to option 2, we referred to the PBE Conceptual Framework and the definition of a present obligation. The challenge with option 2 is to draft simple guidance for a not particularly simple issue.

90. We also propose to add a reference in table 2 to the paragraph in the Tier 3 NFP Standard on the disclosure of commitments. Although paragraph A197 (refer extract above) refers to legal obligations, paragraph A198(c) does list "Commitments to provide loans or grants" as one of the types of commitments which may need to be reported.

91. We are not proposing to amend the Tier 3 PS Standard as that standard does not provide any guidance on donations and grants made. We will make amendments to the Tier 3 NFP Guidance.

Accounting for Expenses

A80. Expenses shall be recorded on the occurrence of a recognition event. This is where there is a legal obligation to pay cash either now or sometime in the future (this is normally referred to as the point at which an expense is "incurred"). The timing of the recording of specific expense types is provided in Table 2.

Table 2: Recording of Specific Types of Expenses

Source	**When to Record**	**Comments**
…		
Grants and donations made		
Grants and donations made	Record the expense when the grant or donation has been approved and the recipient advised.	
Multi-year grants and donations	Record only the current year amount as an expense (when the grant or donation has been approved and the recipient advised) unless the grantor or donor has little or no realistic alternative to avoid making the future payments, (see paragraphs A80.1 to A80.3)	Disclosure of commitments to provide grants may also be required (see paragraph A198).

Multi-year grants and donations

A80.1 Grantors or donors sometimes commit to provide funding over multiple years to individuals or organisations. Such commitments may be outlined in funding agreements which set out the circumstances in which the grantor/donor may review or terminate the agreement.

A80.2 If the grantor or donor has no such funding agreement in place, and has little or no realistic alternative to avoid making the future payments, a liability and an expense shall be recorded for the full amount when the multi-year grant or donation has been approved and the recipient advised.

A80.3 If the grantor or donor has a funding agreement in place which gives the grantor or donor the discretion to terminate or modify the funding arrangement, and thereby avoid future payments, an expense shall be recorded for the current year amount when the multi-year grant or donation has been approved and the recipient advised.

TRG Feedback

- A TRG member noted that accounting for multi-year grants by the funder is also an issue for Tier 1 and Tier 2 NFPs as PBE Standards are silent on accounting for these types of expenses. The member was concerned that the proposed amendments would be changing, rather than clarifying, requirements and should therefore be considered as part of the PiR. Another TRG member noted that option 2 made sense and that the funder needed to think about whether or not it had a liability for the full amount.
- There is sufficient general guidance in PBE Standards for an entity to decide whether it has a liability and therefore when to recognise the expense.
- One TRG member was concerned that the proposed amendments to the table and the proposed additional paragraphs did not have the same emphasis.
- TRG members agreed that that the key message to get across with the proposed amendments is to encourage entities to apply judgement in deciding how to account for multi-year grants and donations. Some TRG members commented that the proposals as drafted may be too specific and would prefer one paragraph that focuses on the entity applying judgement to decide whether or not it has a liability.

92. We have considered the TRG members' comments and have drafted an alternative to the proposed amendments above. In our original amendments, we were conscious that not all Tier 3 entities would be in the position to seek professional advice and therefore we were attempting to give quite a clear steer. The proposed amendments, revised for TRG feedback, are set out below.

Accounting for Expenses

A80. Expenses shall be recorded on the occurrence of a recognition event. This is where there is a legal obligation to pay cash either now or sometime in the future (this is normally referred to as the point at which an expense is "incurred"). The timing of the recording of specific expense types is provided in Table 2.

Table 2: Recording of Specific Types of Expenses

Source	**When to Record**	**Comments**
…		
Grants and donations made		
Grants and donations made	Record the expense when the grant or donation has been approved and the recipient advised.	
Multi-year grants and donations	see paragraph A80.1	Disclosure of commitments to provide grants may also be required (see paragraph A198).

Multi-year grants and donations

A80.1 Grantors or donors sometimes commit to provide funding over multiple years to individuals or organisations. A grantor or donor shall exercise judgement to determine whether it has a liability for the full amount when the multi-year grant or donation has been approved and the recipient advised, and record the expense accordingly.

93. We have included both the staff recommendation and the TRG recommendation in the ED. We are seeking Board views on which option they prefer to address this issue.

Question for the Board

Q8. Does the Board prefer the staff recommendation or the TRG recommendation to address this issue?

Issue 4.6: Summary financial statements

Description of issue

94. Earlier this year TRG members noted that the Tier 3 standards do not contain guidance on summary financial statements. At its May 2017 meeting the Board requested that we go back to TRG members to clarify the issue and how TRG members thought the issue could be addressed. An extract from the June TRG report (Agenda item 12.6, August 2017 NZASB meeting) follows.

Guidance on Summary Financial Statements for Tier 3

17. Staff sought to clarify an implementation issue raised at a previous TRG meeting regarding summary financial statement requirements for Tier 3 PBEs.

18. TRG members clarified that an issue arose in practice where a Tier 3 PBE sought to prepare summary financial statements and that the Tier 3 standards did not include any guidance on the preparation of summary financial statements.

19. The options discussed by TRG members to address this concern were:

(a) expanding the scope of PBE FRS 43 *Summary Financial Statements* to include Tier 3 entities (the easier option for standard setters); or

(b) including guidance in the Tier 3 standard.

Proposed amendment

95. We have considered the options put forward by TRG members. The Tier 3 NFP Standard is meant to be a standalone standard, therefore we don't think expanding the scope of PBE FRS 43 (option (a) above) would be helpful to a Tier 3 preparer. We are then left with option (b) which is to include guidance in the Tier 3 standard. We have identified two ways in which this could be done.

Option 1

In the same way as we have done for accounting for interests in other entities, include a paragraph in the Tier 3 NFP Standard which directs the entity to PBE FRS 43.

Scope

…

2.1 If an entity prepares a summary performance report it shall prepare the summary performance report in accordance with the requirements in PBE FRS 43 *Summary Financial Statements.*

96. The only concern with this option is the non-financial components of the performance report, i.e. the entity information and the statement of service performance. However, paragraph 9 of PBE FRS 43 (see extract below) states that the summary financial statements shall be accompanied by a summary of the non-financial statements required to be included in the full financial report (the performance report).

Extract from PBE FRS 43

Components of Summary Financial Statements

9. Summary financial statements shall include a summary of each financial statement included in a full financial report. If the full financial report is required to include non-financial statements such as a statement of service performance, the summary financial statements shall be accompanied by a summary of the non-financial statements required to be included in the full financial report.

10. Summary financial statements shall include a summary of the:

(a) Statement of financial position as at the end of the period;

(b) Statement of comprehensive revenue and expense for the period;

(c) Statement of changes in net assets/equity; and

(d) Cash flow statement for the period.

Option 2

We could include requirements directly in the Tier 3 standards. Possible text to give effect to option 2 is shown below.

If an entity prepares a summary performance report it shall be drawn from, and be consistent with, the full performance report. The summary performance report shall:

(a) Include a summary of each component of the performance report (see paragraph A8);

(b) Include sufficient information to enable a user to obtain an understanding of the performance of the entity in a manner that is neither misleading or biased;

(c) Include a statement that the summary performance report does not include all the disclosures provided in the full performance report and cannot be expected to provide as complete an understanding as provided by the full performance report; and

(d) Include details as to how a user may obtain a copy of the full performance report.

97. At this stage, we have heard of only one instance when a Tier 3 entity wished to voluntarily produce a summary performance report. However, we do acknowledge that an entity could be left wondering what to do and that clarity is desirable. We don't want to increase the size of the Tier 3 standards unnecessarily as we feel this will detract from the usefulness of the standards for most Tier 3 entities. We therefore recommend Option 1.

98. We also propose to amend the Tier 3 PS Standard. We are not proposing to amend the Tier 3 NFP Guidance or the Tier 3 PS Guidance.

TRG Feedback
• TRG members agreed that this issue should be considered as part of the PiR. The member who initially raised the issue expressed concerns with referring Tier 3 entities to PBE FRS 43 *Summary Financial Statements*.

99. We agree with the recommendation of the TRG and have removed the proposed amendments from the ED and ITC.

Question for the Board
Q9. Does the Board agree with the TRG recommendation in respect of Issue 4.6?

Group 5: Amendments arising from the 2017 Amendments to XRB A1

100. The XRB Board has recently approved amendments to the Tier 4 size criteria in XRB A1 *Application of the Accounting Standards Framework*. These amendments were set out in *2017 Amendments to XRB A1*. At its September meeting, the Board agreed that we should undertake further work on whether amendments are needed to the Tier 4 NFP Standard to:

(a) clarify that where an entity controls another entity and both entities qualify to report in accordance with the Tier 4 NFP Standard, the controlling entity is not required to prepare consolidated financial statements; and

(b) require disclosure of transactions (and the relationship) between controlled and controlling entities that qualify to report in accordance with the Tier 4 NFP Standard.

101. Although the issues were raised in the context of not-for-profit PBEs, we propose that any amendments are made to both of the Tier 4 standards.

Issue 5.1: The Tier 4 standards and consolidated financial statements

Description of issue

102. The amendments to XRB A1 include the addition of paragraph 42A to require a PBE to determine its eligibility to report in accordance with the Tier 4 standards based on the total combined operating payments of the entity and any entities that it controls (that is, on a group basis). Where the total operating payments of the group are less than $125,000 in each of the two preceding accounting periods, all the entities would be eligible to report under the Tier 4 standards and the controlling entity would not be required to prepare consolidated financial statements.

Proposed amendments

103. We propose to clarify in the Tier 4 standards that where an entity controls another entity (or entities) and the total combined operating payments of the group are within the statutory threshold to apply the Tier 4 standards, the controlling entity is not required to prepare

consolidated financial statements. This will be achieved by adding paragraph 2.1 to the Scope section as follows:

Scope

2. This Standard applies to not-for-profit public benefit entities that are eligible for, and elect to apply, the Tier 4 PBE Accounting Requirements. XRB A1 *Application of the Accounting Standards Framework* prescribes the criteria that those entities must meet to be eligible to apply this Standard.

2.1 Where an entity controls[1] one or more entities and the total combined operating payments[2] of the entity and all its controlled entities do not exceed the legislative size threshold to report in accordance with this Standard, the controlling entity is not required to prepare consolidated financial statements.

[1] An entity determines whether it controls another entity in accordance with generally accepted accounting practice (GAAP). Explanatory Guide AG9 *Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes* provides guidance for not-for-profit entities in determining whether an entity has a relationship with another entity for financial reporting purposes and, if so, the nature of that relationship.

[2] The combined operating payments of the entity and all its controlled entities excludes any payments between the entity and the controlled entities and/or between the controlled entities.

104. Footnote 2 and the first sentence of footnote 1 are identical to the footnotes to paragraph 42A of XRB A1.

Question for the Board

Q10. Does the Board agree with the proposed amendments in respect of Issue 5.1?

Issue 5.2: Disclosures about controlled/controlling entity relationships

Description of issue

105. A constituent has recommended that the Tier 4 NFP Standard be amended to require an entity to specifically disclose any other entities that it controls (see agenda item 2.12 from the September meeting).

106. When the Tier 4 standards were developed, it was not envisaged that entities reporting under those standards would have relationships with other entities for financial reporting purposes (that is, control, joint control or significant influence). The research sample collected for identifying the common types of transactions undertaken by these types of entities did not include any entities that had these sorts of relationships with other entities.

107. The Tier 4 NFP Standard acknowledges that another entity (or person) could have significant influence over the entity reporting, which is evidenced by the definition of related party in the standard:

Related party People or entities that have significant influence over the entity, such as officeholders, committee members, or others that are involved in the strategic management of the entity (whether employed or volunteer) and close members of their families.

108. Paragraphs A109–A114 of the Tier 4 NFP Standard discuss related party transactions and require disclosures about transactions with related parties during the financial year and the nature of the relationship (see Appendix 2 to this memo).

Proposed amendments

109. We do not propose to amend the Tier 4 NFP Standard to require the disclosure of controlled/controlling entity relationships for the following reasons.

   (a) The amendments to XRB A1 have addressed the more important issue, which is to require a PBE to determine its eligibility to report in accordance with the Tier 4 standards based on the total combined operating payments of the entity and any entities that it controls (that is, on a group basis). This means that where the total operating payments of the group are more than $125,000 in each of the two preceding accounting periods, the controlling entity would be required to prepare consolidated financial statements using the appropriate tier of financial reporting requirements (Tier 1, Tier 2 or Tier 3).

   (b) The amendments being proposed to the Tier 4 NFP Standard (and the Tier 3 NFP Standard) are to clarify the requirements where they are unclear and to make minor editorial corrections rather than to add more requirements.

   (c) Adding the disclosure of controlled/controlling entity relationships would result in changing the requirements in the standard. It is more appropriate to change the requirements as part of the PiR of the simple format reporting standards so that entities have a period of stability.

   (d) Controlled/controlling entity relationships could be included in the Entity Information section of the Performance Report.

Question for the Board
Q11 Does the Board agree not to amend the Tier 4 standards to require the disclosure of controlled/controlling entity relationships at this time?

Group 1: Explanatory Guide changes

110. EGs are not authoritative and changes to them do not have to be exposed for comment in the same way as standards.

111. Agenda item 8.3 contains the amendments to the EGs that the Board agreed should be made at its May 2017 meeting. These amendments are for issues 1.1, 1.2, 1.3, 1.4. Text boxes included in agenda item 8.3 describe the issue and the proposed amendments that need to be made.

112. The proposed amendments to the EGs are all minor in nature and we would like to process these shortly after the December Board meeting so that they can be reloaded together with the other revised EGs.

113. At this stage, we have not drafted all of the proposed amendments needed as a result of the amendments proposed to the Tier 3 and Tier 4 PBE Accounting Requirements. We consider that it would be more efficient to draft these once due process has been completed and the amendments to the standards are finalised. In the ITC, we have signalled which of the amendments would require changes to the templates and guidance.

Question for the Board
Q12. Does the Board agree with the proposed amendments to the explanatory guides and agree that these can be processed immediately (see agenda item 8.3)?

Drafting of ITC

114. The main message we have tried to portray in the ITC is that the Board wants to keep a relatively stable platform for Tier 3 and Tier 4 entities and that amendments are being proposed only where they are minor or would clarify an existing requirement. We will signal that the PiR is coming and this will involve the Board looking at a number of things, including whether the objective of the standards has been achieved, whether the requirements are appropriate, whether any new issues have emerged since the standards were issued, and whether the costs of compliance are consistent with expectations.

115. We have tried to draft the ITC using less technical language (although this is a challenge when referring to the PBE Conceptual Framework) and have kept it as short as possible.

Next steps

116. If the Board agrees with the amendments as proposed we will issue the ED and ITC in mid-January 2018. If the Board would like further work undertaken on any of the issues or decides on an alternative approach to an issue we will bring the ED and ITC back to a future meeting.

Recommendations

117. We recommend that the Board:

   (a) APPROVES the ITC and ED (see agenda item 8.2);

   (b) AGREES to issue the ED and accompanying ITC for a three-month comment period; and

   (c) APPROVES the amendments to the Tier 3 and Tier 4 Explanatory Guides (see agenda item 8.3).

Attachments

Agenda item 8.2:	ED NZASB 2018-1 *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* – ED and ITC
Agenda item 8.3	Amendments to the Tier 3 and Tier 4 Explanatory Guides

Appendix 1 Implementation Issues Considered at the May 2017 NZASB meeting

Group 1: Explanatory Guide changes

1. The following table sets out the Group 1 implementation issues, together with the staff recommendations, as tabled at the May 2017 meeting. We have added a column showing the Board's decisions from the May 2017 meeting.

2. The proposed changes to the explanatory guides are marked up at agenda item 8.3. The issue numbers used in agenda item 8.3 refer to the issue numbers shown in this table.

Issue no.	Description of issue	Staff recommendations	Board decision May 2017 meeting
1.1	EG A5 contains a "tip" which states: "Entities that are currently depreciating their assets using the tax depreciation rates provided by the IRD can continue to do so." The issue communicated to us is that the IRD has a zero rate for buildings.	Amend EG A5 as follows: "Tax depreciation rates provided by the IRD should be used only when they are considered to provide a reasonable estimate of the asset's useful life. For example, the IRD depreciation rate of zero for buildings is not considered appropriate."	Agreed.
1.2	One of the related party examples provided in EG A5 does not disclose the monetary amount of the transaction. This is inconsistent with the requirement in the standard.	Amend EG A5. Include an amount in the example. (also amend the Tier 4 Explanatory Guide EG A6)	Agreed.
1.3	The reference to the Charities Commission in EG A5 should be replaced with Charities Services.	Amend EG A5 (also amend the Tier 4 Explanatory Guide EG A6)	Agreed.
1.4	The example accounting policy in EG A5 for Bank Accounts and Cash refers to "short term deposits with original maturities of 90 days or less". This is not consistent with the Tier 3 not-for-profit standard which states that the balance sheet category of Bank Accounts and Cash comprises petty cash, cheque or savings accounts and deposits held at call with banks (paragraph A93). In addition, the Tier 3 not-for-profit standard states that all term deposits are classified as Investments (paragraph A98).	Amend EG A5 Align the accounting policy in EG A5 and the template with the description of the Bank Accounts and Cash classification in the Tier 3 not-for-profit standard.	Agreed.
1.5	Preparers have requested that we add a footnote to the primary financial statements in the Tier 3 template to say that the statement should be read in conjunction with the accompanying notes. This is not a requirement of the Tier 3 not-for-profit standard; however, we consider it appropriate to include the footnote in the template as this is considered best practice. The disclosure would not be mandatory (i.e. it would not have a red asterisk (*)).	Amend EG A5 and template (also amend the Tier 4 template)	Do not make this change.
1.6	Preparers have requested that we add a signature and date line to the template. This is not a requirement of the Tier 3 not-for-profit standard; however, we consider it appropriate to include a signature and date line in the template as this is considered good practice. The disclosure would not be mandatory (i.e. it would not have a red asterisk (*)).	Amend EG A5 and template (also amend the Tier 4 template) Some consideration will be required as to where to include the signature and date line in the performance report (and this will also lead to questions about providing guidance on who should sign and how many signatures).	Move to Group 2 – add requirement into the Tier 3 not-for-profit standard to disclose date of finalisation and individual or body who authorised.

Group 2: Minor changes to the standard

3. The following table sets out the Group 2 issues, together with staff recommendations, as tabled at the May 2017 meeting. We have added a column showing the Board's decisions from the May 2017 meeting.

4. The proposed changes to the standards are marked up at agenda item 8.2. The issue numbers used in agenda item 8.2 refer to the issue numbers shown in this table.

Issue no.	Description of issue	Staff recommendations	Board decision May 2017 meeting
2.1	*Related party requirements* There is an inconsistency in the wording in the Tier 3 not-for-profit standard. Paragraph A202 provides an explanation of related party transactions and includes reference to significant transactions below market price. (emphasis added). Paragraph A206 requires the disclosure of all transactions (either significant or insignificant) (emphasis added) on terms or conditions likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.	Amend the Tier 3 not-for-profit standard Amend paragraph A202 as follows to make it consistent with paragraph A206: …This includes significant normal business transactions as well as ~~significant~~ transactions below market price (including the provision of free goods or services).	Agreed.
2.2	*Minimum revenue categories* Table 1: *Recording of Specific Types of Revenues* (under paragraph A62) in the Tier 3 not-for-profit standard classifies "Grants that are service contracts which have a 'use or return' condition attached" as donations, fundraising and other similar revenue. Consistent with the description of the revenue categories in the standard, grants that are service contracts should be classified as revenue from providing goods or services.	Amend the Tier 3 not-for-profit standard Amend table 1 to move "Grants that are service contracts which have a 'use or return' condition attached" to the revenue category — Revenue from providing goods or services.	Agreed.

Group 3: PiR Issues

5. The following table sets out the Group 3 issues, together with staff recommendations, as tabled at the May 2017 meeting. We have added a column showing the Board's decisions from the May 2017 meeting.

Issue no.	Description of issue	Staff recommendations	Board decision May 2017 meeting
3.1	*Accounting for investments* The Tier 3 not-for-profit standard requires investments to be recorded at cost, and impairment to be recognised if the market value is less than the cost. The Tier 3 not-for-profit standard has no further explicit guidance for Tier 3 PBEs who may wish to carry investments at fair value, other than the option to apply Tier 2 PBE Accounting Requirements to a specific type of transaction (paragraphs 7–9). Charities with investment portfolios reported by their Fund Manager on a fair value basis have requested that the Tier 3 not-for-profit standard be amended to allow investments to be subsequently measured at fair value.	Consider as part of the PiR. Including an option to measure investments at fair value would require a change to an underlying principle of the Tier 3 simple format approach. The Tier 3 not-for-profit standard currently allows Tier 3 PBEs to measure investments at fair value by electing to apply the Tier 2 PBE Accounting Requirements to a specific type of transaction. Opting up issues are discussed below in the Group 4 table.	Agreed.

Issue no.	Description of issue	Staff recommendations	Board decision May 2017 meeting
3.2	*Accounting for multi-year grants/donation revenue* The Tier 3 not-for-profit standard requires grant/donation revenue to be recorded when received or receivable unless there is a "use or return" condition. Charities have requested more flexibility to record revenue over time when grants/donations are provided for use over multiple accounting periods.	Consider as part of the PiR. The Tier 3 not-for-profit standard contains simplified principles from PBE IPSAS 23 *Revenue from Non-Exchange Transactions.* The Board decided to simplify the principles to require a "use or return" condition before a liability is recorded.	Agreed.
3.3	*Minimum revenue categories* Charities are finding the requirement to classify revenue transactions into the minimum categories required by the standard challenging at times. The main difficulty arises when preparers are determining the classification of grant revenue as either: (a) Donations, fundraising and other similar revenue; or (b) Revenue from providing goods or services. Some challenges also arise when preparers are classifying revenue transactions as either member or non-member revenue. (Note: Charities Services has developed a resource on member/non-member revenue and we are currently assisting them with the development of a resource on grant revenue).	Consider as part of the PiR. To provide useful information and to facilitate comparability the Tier 3 not-for-profit standard established minimum categories for the classification of revenue. These categories were determined by the simple format working group at the outset of the project. These categories are pervasive in the standard, template and guidance.	Agreed.
3.4	*Investment Properties* Some Tier 3 not-for-profit entities want to measure investment properties at fair value. However, the Tier 3 not-for-profit standard includes no guidance on accounting for investment properties, and effectively classifies all land and buildings as property, plant and equipment. A question was raised whether, if an entity opts up to the Tier 2 PBE Requirements for the accounting for investment property, it can use government valuation as a proxy for fair value (as is allowed for property, plant and equipment in the Tier 3 not-for-profit standard).	Consider as part of the PiR. Investment properties are not dealt with in the Tier 3 not-for-profit standard. The standard addresses only those transactions that are commonly undertaken by Tier 3 entities. Including a new investment property classification and fair value option would require a change to an underlying principle of the Tier 3 PBE simple format approach. The Tier 3 not-for-profit standard currently allows Tier 3 PBEs to elect to apply the Tier 2 PBE Accounting Requirements to a specific type of transaction.	Agreed. However, could we consider whether to allow entities opting up to apply the investment property standard to use government valuation as a proxy for fair value as is allowed for PP&E under the Tier 3 NFP Standard. Consider this when considering issue 4.1.
3.5	*Residual value* There is no guidance in the Tier 3 not-for-profit standard regarding the determination of the residual value when calculating depreciation on property, plant and equipment.	Consider as part of the PiR. It was an intended simplification that the concept of residual value was not included in the Tier 3 not-for-profit standard or the Guidance. Under the simple format approach depreciation is calculated by spreading the cost of an asset (not the depreciable amount of the asset) over the useful life of the asset.	Agreed.

Group 4: Issues on which Board feedback is sought

6. The following table sets out the Group 4 issues, together with staff recommendations, as tabled at the May 2017 meeting. We have added a column showing the Board's decisions from the May 2017 meeting.

7. The proposed changes to the standards are marked up at agenda item 8.2. The issue numbers used in agenda item 8.2 refer to the issue numbers shown in this table.

Issue no.	Description of issue	Staff recommendations	Board decision May 2017 meeting
4.1	*Tier 2 PBE Accounting Requirements* Interpretation issues are arising when entities elect to opt up to the Tier 2 PBE Accounting Requirements. The opting up requirements state that: "An entity that is eligible to apply this standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements to a specific type of transaction, as long as it applies that option to all transactions of that type. For example, an entity may decide to opt up to PBE IPSAS 17 *Property, Plant and Equipment* so that it can revalue a class of assets (in which case it must apply the whole standard)". Questions often arise regarding marketable securities (listed shares and bonds, with readily accessible market values) and opting up to the Tier 2 financial instruments standards so that these investments can be measured at fair value.		Board decided more work should be undertaken on clarification of the opting up to the Tier 2 PBE Standards.
	Additional guidance is sought on: (a) What is meant by <u>type</u> of transaction? One possible interpretation is that a <u>type</u> of transaction could mean that the entity would have to apply the standard to all its financial assets.	*Possible options to clarify what is meant by "<u>type</u> of transaction" when opting up:* In the case of opting up to apply PBE IPSAS 17, the Tier 3 not-for-profit standard indicates that the 'type of transaction' should be assessed on a class of assets basis. For entities that opt up to apply the financial instruments standards we could develop guidance to clarify that the type of transaction is for each category of financial asset. This could be complicated as there are two possible financial instrument standards that they could apply.	
	(b) What is meant by applying the "whole standard" when opting up to Tier 2 for a specific type of transaction. Does this include all the recognition, measurement, presentation and disclosure requirements within the Tier 2 standards associated with that type of transaction?	*Possible options to clarify what is meant by the requirement to apply the "whole standard" when opting up:* • Clarify that whole standard means recognition, measurement, presentation and disclosure requirements; or • Clarify that only the recognition, measurement and disclosure requirements are applied (see below for discussion on possible options for presentation).	
	(c) How to account for fair value movements on either revalued property, plant and equipment or investments carried at fair value, when the Tier 3 not for profit standard has no concept of other	*Possible options to clarify how fair value movements should be presented when opting up:* • Introduce explicit requirements for the presentation of fair value movements on an OCRE basis; or	

Issue no.	Description of issue	Staff recommendations	Board decision May 2017 meeting
	comprehensive revenue and expense (OCRE).	• Introduce guidance specifying whether OCRE fair value movements should be reported within the surplus or deficit in the Statement of Financial Performance. The Tier 3 not-for-profit standard could require a separate line item for fair value movements in the Statement of Financial Performance.	
4.2	*Impairment of investments* When impairing investments, the Tier 3 not-for-profit standard is silent as to whether this is to be done on a line by line basis (each individual investment) or on a portfolio basis.	*Possible option:* Clarify in the standard that impairments can be done on a portfolio basis. May also need to clarify how impairments are done for the other assets (for example, property, plant and equipment) as the Tier 3 not-for-profit standard is not explicit.	Board decided to move this to Group 3 PiR issue.
	The Tier 3 not-for-profit standard requires an entity to impair the investment if its market value is less than cost at the balance date, but the standard is silent on whether to reverse the impairment if the market value is higher than cost at next balance date.	*Possible option:* Clarify that an impairment loss should be reversed if the market value of an impaired investment subsequently becomes higher than its carrying amount (but not higher than cost) and that the reversal of an impairment should be recorded through surplus or deficit.	Board decided to move this to Group 2 minor changes to the standard. Clarify requirement in the Tier 3 NFP Standard.
4.3	*Accounting for multi-year grants/donation expense* The requirement in the Tier 3 not-for-profit standard is to record the expense when the grant or donation has been approved and the recipient advised. Some funders consider that it is not appropriate that a multi-year grant commitment should be immediately expensed when approved, especially when the payment of the grant is conditional on a future event (such as demonstrating satisfactory progress on a project before further funds are remitted) at the reporting date.	*Possible options:* • Develop requirements if (i) the approved multi-year grant obligation is conditional on an annual review of progress that determines whether future funding is provided; and (ii) discretion is retained by the funder to terminate the grant — then only record the commitment for the first year of funding. • Wait for the IPSASB to complete its revenue and non-exchange expense project and consider its approach. • Consider an alternative presentation approach.	Board decided more work should be undertaken on this issue.
4.4	*Accounting for lifetime membership fees* Constituents have queried whether the intention of the Tier 3 not-for-profit standard was to spread the revenue for lifetime membership fees over the estimated period of membership.	*Possible option:* Include guidance in the Tier 3 not-for-profit standard to clarify that if a member receives something in return for the payment of the lifetime membership fees then spread the fees over the lifetime. If nothing is received in return for the fees then record the full amount when received as this is more like a donation.	Board decided this was a very specific issue and no action to be taken on this issue at this time, this issue may be considered in the future possibly when we undertake a review of the standards for incorporated societies.
4.5	*Transitional requirements* There is a perceived lack of guidance for entities transitioning to Tier 3 and Tier 4 PBE requirements.	Appendix B to the Tier 3 not-for-profit standard contains transitional arrangements. Those arrangements recognise that entities come from divergent reporting backgrounds and prescribes different transitional requirements to meet different circumstances. The general provisions in paragraphs B3 to B5 do cover the determination of opening balances for	Board decided no action to be taken at this time. Board commented that the majority of entities should have transitioned at this time. May need to reconsider when incorporated societies need to transition to the Tier 3 and Tier 4 PBE Accounting Requirements.

Issue no.	Description of issue	Staff recommendations	Board decision May 2017 meeting
		assets and liabilities, and allow any balancing figure to be recorded in accumulated funds. *Possible option:* Work with Charities Services to prepare a resource.	
4.6	*Summary financial statements* No guidance for the preparation of Tier 3 PBE summary financial statements.	One may argue there is no need for this. The financial statements within the performance report are already at a summarised level (i.e. there are minimum categories for revenue, expenses, assets and liabilities). *Possible option:* We could consider expanding the scope of PBE FRS 43 *Summary Financial Statements* to include Tier 3 PBEs.	Board requested that staff go back to the TRG member who raised this issue, to gather more information and then determine if future work is required.
4.7	*Commencement date/registration date* Entities have found it difficult to determine the appropriate commencement date for financial reporting by a new charity (i.e. incorporation, formation date versus charity registration date). Charities are required by law to apply the Tier 3 PBE requirements when they become a registered charity, so what is the date of commencement?	Charities Act 2005 Section 42A (2) (b) – accounting period has same meaning as in section 5 of Financial Reporting Act 2013. FRA 2013 Section 5(1) (a) accounting period: ..Means a year ending on a balance date of the entity, and if, as a result of the date of the formation or incorporation of the entity or a change of the balance date of the entity, the period ending on that date if longer or shorter than a year, that longer or shorter period is an accounting period… Once a charity is registered with Charities Services and is required by law to follow the Tier 3 not-for-profit standard, it will apply the transitional arrangements found in Appendix B of the standard. Depending on the reporting background of the charity it may only have to follow the standard from the start of the current period. *Possible option:* Work with Charities Services to produce a resource on this issue.	Board decided no further action is required by staff on this issue.

Appendix 2

Extract from Public Benefit Entity Simple Format Reporting – Cash (Not-for-profit)

Related Party Transactions

Explanation

A114. A related party transaction is a transfer of money or other resource between the reporting entity and a person or other entity that is closely associated with the reporting entity that has the ability to influence the reporting entity. This includes significant normal business transactions as well as transactions below the market price (including the provision of free goods or services).

A115. Related parties comprise:

(a) People that have significant influence over the entity (such as officeholders, committee members, or others that are involved in the strategic management of the entity – whether employed or volunteer), and close members of their families; and

(b) Other entities that have significant influence over the entity.

A116. Related party relationships exist throughout the not-for-profit sector. Disclosure of related party relationships and related party transactions is necessary for accountability purposes, and to enable users to better understand the entity's performance report. This is because:

(a) Related party relationships can influence the way in which an entity operates with other entities;

(b) Related party relationships might expose an entity to risks, or provide opportunities, that would not have existed in the absence of the relationship; and

(c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on terms and conditions that differ from those that would normally be available to unrelated parties.

A117. Examples of transactions with a related party that would meet those criteria and therefore would be disclosed are:

(a) The sale of a significant resource (such as a building) to the spouse of a member of the governing body of the entity;

(b) The provision of preferential access to services provided by the entity to the child of the president of the entity;

(c) The provision of finance (including loans, grants and guarantees), for example, a low interest loan to a related party; and

(d) A member of the governing body providing professional services (e.g. accounting or legal services) to the entity at no cost.

Requirements

A118. An entity shall disclose in the notes to the performance report, transactions with a related party that have occurred during the financial year if:

(a) The transaction is significant to the entity (individually or in aggregate with similar transactions);

or

(b) The transaction is either significant or insignificant and is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

A119. For each transaction disclosed the following shall be reported:

(a) A description of the related party relationship;

(b) A description and the amount of any receipt or payment (and the value of free goods or services provided) related to the transaction during the financial year; and

(c) Any amounts due from or to related parties at balance date.

EXPOSURE DRAFT NZASB 2018-1

2018 OMNIBUS AMENDMENTS TO TIER 3 AND TIER 4 PBE ACCOUNTING REQUIREMENTS

(ED NZASB 2018-1)

Invitation to Comment

[Date]

PO Box 11250
Manners St Central, Wellington 6142
New Zealand
http://www.xrb.govt.nz

Table of Contents

Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

Email: submissions@xrb.govt.nz
(please include the title of the Exposure Draft in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is [Date].

Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

[1] The NZASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting accounting standards.

List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

<table>
<tr><td>ED</td><td>Exposure Draft</td></tr>
<tr><td>NZASB</td><td>New Zealand Accounting Standards Board of the External Reporting Board</td></tr>
<tr><td>PBE</td><td>Public Benefit Entity</td></tr>
<tr><td>PBE IPSAS</td><td>Public Benefit Entity International Public Sector Accounting Standard</td></tr>
<tr><td>Tier 3 NFP Standard</td><td>PBE SFR−A (NFP) Public Benefit Entity Simple Format Reporting − Accrual (Not-for-Profit)</td><td rowspan="2">Tier 3 standards</td></tr>
<tr><td>Tier 3 PS Standard</td><td>PBE SFR−A (PS) Public Benefit Entity Simple Format Reporting − Accrual (Public Sector)</td></tr>
<tr><td>Tier 4 NFP Standard</td><td>PBE SFR−C (NFP) Public Benefit Entity Simple Format Reporting − Cash (Not-for-Profit)</td><td rowspan="2">Tier 4 standards</td></tr>
<tr><td>Tier 4 PS Standard</td><td>PBE SFR−C (PS) Public Benefit Entity Simple Format Reporting − Cash (Public Sector)</td></tr>
</table>

Questions for Respondents

		Paragraphs
1.	Do you agree with the proposed amendments to the Tier 3 standards arising from the issuance of the PBE Conceptual Framework? If you disagree, please provide reasons.	12–14
2.	Do you agree with the proposed amendments to the Tier 3 and Tier 4 standards to require disclosure of the date of approval and authorisation of the performance report? If you disagree, please provide reasons.	17–19
3.	Do you agree with the proposed amendments to the Tier 3 standards to clarify the accounting treatment for the reversal of impairment charges for assets? If you disagree, please provide reasons.	20–22
4.	Do you agree with the proposed amendments to the Tier 3 NFP Standard to clarify when a Tier 3 grantor should expense multi-year grants? If you disagree, please provide reasons.	23–26
5.	Do you agree with the proposed amendments to the Tier 3 standards to clarify the opting up requirements? If you disagree, please provide reasons.	27–29
6.	Do you agree with the proposed amendment to the Tier 4 standards arising from the 2017 amendments to XRB A1? If you disagree, please provide reasons.	30–32
7.	Do you have any other comments on ED NZASB 2018-1?	

1. Introduction

1.1 Background

1. In this Omnibus ED, we are proposing amendments to the Tier 3 and Tier 4 PBE Accounting Requirements.

2. The Tier 3 PBE Accounting Requirements comprise two standards and the *Public Benefit Entities' Conceptual Framework* (PBE Conceptual Framework). The standards are:

   (a) PBE SFR‑A (NFP) *Public Benefit Entity Simple Format Reporting‑Accrual (Not-For-Profit)*; and

   (b) PBE SFR‑A (PS) *Public Benefit Entity Simple Format Reporting‑Accrual (Public Sector)*.

3. The Tier 4 PBE Accounting Requirements comprise two standards. They are:

   (a) PBE SFR‑C (NFP) *Public Benefit Entity Simple Format Reporting‑Cash (Not-For-Profit)*; and

   (b) PBE SFR‑C (PS) *Public Benefit Entity Simple Format Reporting‑Cash (Public Sector)*.

4. Sitting alongside each of these four standards is an optional template and associated guidance notes. Once the proposed amendments to the standards have been finalised we will make any necessary changes to the templates and guidance notes.

5. The Tier 3 and Tier 4 standards are required to be applied by public sector PBEs for periods beginning on or after 1 July 2014 and not-for-profit PBEs for periods beginning on or after 1 April 2015. Registered charities should have now prepared and filed their first performance report (and some their second performance report) applying the Tier 3 and Tier 4 standards.

6. The Tier 3 and Tier 4 standards were developed by the NZASB. Although there was extensive consultation during the development of these standards, we have become aware of a few implementation issues which we are proposing to address.

7. The purpose of the proposals in this ED is to clarify existing requirements, pending a more detailed review of the standards as part of a post-implementation review. The NZASB is committed to undertaking a post-implementation review once the Tier 3 and Tier 4 standards have been in use for some time. This will involve the NZASB looking at a number of things, including whether the objective of the standards has been achieved, whether the requirements are appropriate, whether any issues have emerged since the standards were issued, and whether the costs of compliance are consistent with expectations.

1.2 Purpose of this Invitation to Comment

8. The purpose of this Invitation to Comment and associated Omnibus ED is to seek comments on the proposals to amend the Tier 3 and Tier 4 standards.

1.3 Timeline and Next Steps

9. Submissions on ED NZASB 2018-1 are due by [Date]. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

10. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise these amendments soon afterwards.

2. Overview of ED NZASB 2018-1

2.1 Summary of the content

11. The proposed amendments in this ITC have been grouped as follows:

    (a) amendments to align terminology and concepts with the *Public Benefit Entities' Conceptual Framework* (PBE Conceptual Framework). These amendments are to the Tier 3 standards;

    (b) amendments to address implementation issues;

    (c) amendments arising from the *2017 Amendments to XRB A1 Application of the Accounting Standards Framework* (2017 Amendments to XRB A1). These amendments are to the Tier 4 standards; and

    (d) minor editorial corrections.

2.2 Amendments arising from the issuance of the PBE Conceptual Framework

12. The NZASB issued the *Public Benefit Entities' Conceptual Framework* (PBE Conceptual Framework) in May 2016. It forms part of the Tier 3 PBE Accounting Requirements and supersedes the *Public Benefit Entities' Framework* issued in September 2014.

13. As a result of issuing this new conceptual framework a number of references to the previous PBE *Framework* and the qualitative characteristics need to be updated in the Tier 3 standards. For example, the qualitative characteristic of "reliability" is replaced by "faithful representation". The terms "reliability" and "faithful representation" describe what is substantially the same concept.

14. These amendments are made to the following paragraphs in the Tier 3 standards.

Tier 3 NFP Standard	Tier 3 PS Standard
Paragraphs 6, A10, A12, Table 3 after paragraph A107, A182	Paragraphs 6, A11, A13, Table 3 after paragraph A109, A184

Question for Respondents
1. Do you agree with the proposed amendments to the Tier 3 standards arising from the issuance of the PBE Conceptual Framework? If you disagree, please provide reasons.

2.3 Amendments to address implementation issues

15. The NZASB has become aware of some implementation issues associated with the Tier 3 and Tier 4 standards and is seeking to address some of these issues. The NZASB's intention is to address minor issues and clarify existing requirements. Other implementation issues will be considered as part of the post-implementation review of the Tier 3 and Tier 4 standards, which is planned for 2019–2020.

16. The NZASB's proposals are set out below.

Date of finalisation/authorisation

17. The NZASB has received feedback that it is important for users to know when the performance report was authorised for issue as the performance report does not reflect events after this date. The NZASB notes that many entities already sign and date their performance reports.

18. The NZASB is therefore proposing to add a requirement to the Tier 3 and Tier 4 standards to require disclosure of the date of finalisation and the individual or body who authorised the performance report for issue. The NZASB would also propose to amend the Tier 3 and Tier 4 templates to reflect this change.

19. These amendments are made to the following paragraphs in the Tier 3 and Tier 4 standards.

Tier 3 NFP Standard	Tier 3 PS Standard	Tier 4 NFP Standard	Tier 4 PS Standard
Paragraphs A148.1 and A148.2.	Paragraphs A150.1 and A150.2.	Paragraphs A69.1 and A69.2.	Paragraphs A72.1 and A72.2.

Question for Respondents
2. Do you agree with the proposed amendments to the Tier 3 and Tier 4 standards to require disclosure of the date of approval and authorisation of the performance report? If you disagree, please provide reasons.

Reversal of impairment charges

20. *Table 3: Recording Specific Types of Assets* of the Tier 3 standards sets out when an entity records an expense for an impairment of specific types of assets. However, the Tier 3 standards do not explain what an entity should do to reverse a prior period impairment (should the need arise).

21. The NZASB has received feedback that it would be helpful if the Tier 3 standards explicitly addressed this issue. The NZASB is proposing to amend the Tier 3 standards to specify when and how to reverse prior period impairments.

22. These amendments are made to the following paragraphs in the Tier 3 standards:

Tier 3 NFP Standard	Tier 3 PS Standard
Table 2 Recording of Specific Types of Asset A107.1 and A107.2	Table 2 Recording of Specific Types of Asset A109.1 and A109.2

Question for Respondents
3. Do you agree with the proposed amendments to the Tier 3 standards to clarify the accounting treatment for the reversal of impairment charges for assets? If you disagree, please provide reasons.

Approval of multi-year grants/donations made

23. The Tier 3 NFP Standard requires that grants and donations are recorded as an expense when the grant or donation has been approved and the recipient advised.

24. The NZASB has received a request to clarify how this requirement should be applied to the approval of multi-year grants and donations to other organisations or individuals. Does this mean the full amount of the multi-year grant or donation is recorded as an expense (and liability) when approved and the recipient is advised?

25. The NZASB is proposing to clarify when a Tier 3 grantor would record the current year amount of a multi-year grant/donation as an expense and when it would record the full amount of a multi-year grant as an expense.

26. The amendments are made to Table 2: *Recording of Specific Types of Expenses* and paragraphs A80.1, A80.2 and A80.3 have been added to the Tier 3 NFP Standard. Entities will need to apply judgement when applying the requirements to their own facts and circumstances.

Multi-year grants and donations

A80.1 Grantors or donors sometimes commit to provide funding over multiple years to individuals or organisations. Such commitments may be outlined in funding agreements which set out the circumstances in which the grantor/donor may review or terminate the agreement.

A80.2 If the grantor or donor has no such funding agreement in place, and has little or no realistic alternative to avoid making the future payments, a liability and an expense shall be recorded for the full amount when the multi-year grant or donation has been approved and the recipient advised.

A80.3 If the grantor or donor has a funding agreement in place which gives the grantor or donor the discretion to terminate or modify the funding arrangement, and thereby avoid future payments, an expense shall be recorded for the current year amount when the multi-year grant or donation has been approved and the recipient advised.

Alternative section drafted to reflect the TRG's view

Approval of multi-year grants/donations made

The Tier 3 NFP Standard requires that grants and donations are recorded as an expense when the grant or donation has been approved and the recipient advised

The NZASB has received a request to clarify how this requirement should be applied to the approval of multi-year grants and donations to other organisations or individuals. Does this mean the full amount of the multi-year grant or donation is recorded as an expense (and liability) when approved and the recipient is advised?

The NZASB is proposing to amend the Tier 3 NFP Standard to clarify that an entity will need to apply judgement to determine whether it has a liability for the full amount when the multi-year grant or donation has been approved and the recipient advised, and record the expense accordingly.

The amendments are made to Table 2: *Recording of Specific Types of Expenses* and paragraph A80.1 has been added to the Tier 3 NFP Standard.

Multi-year grants and donations

A80.1 Grantors or donors sometimes commit to provide funding over multiple years to individuals or organisations. A grantor or donor shall exercise judgement to determine whether it has a liability for the full amount when the multi-year grant or donation has been approved and the recipient advised, and record the expense accordingly.

Question for Respondents

4. Do you agree with the proposed amendments to the Tier 3 NFP Standard to clarify when a Tier 3 grantor should expense multi-year grants? If you disagree, please provide reasons.

Opting up to apply PBE Standards

27. In certain circumstances, the Tier 3 standards allow entities to opt up and apply the requirements in a Tier 2 PBE Standard for a specific/particular type of transaction. For example, an entity that wishes to revalue land and buildings can opt up and apply the requirements in PBE IPSAS 17 *Property, Plant and Equipment*.

28. The NZASB has heard that Tier 3 NFP entities tend to opt up to the Tier 2 PBE Standards to (i) revalue property or (ii) measure investments in shares at fair value. The NZASB is proposing to clarify what is meant by "to a specific type of transaction" when opting up to apply PBE IPSAS 17 *Property, Plant and Equipment* and the standards that apply to financial instruments.

29. These amendments are made to the following paragraphs in the Tier 3 standards.

Tier 3 NFP Standard	Tier 3 PS Standard
Paragraphs 7, 8, 9, A113, A114, A115, A180.	Paragraphs 7, 8, 9, A115, A116, A117, A182.

Question for Respondents

5. Do you agree with the proposed amendments to the Tier 3 standards to clarify the opting up requirements? If you disagree, please provide reasons.

2.4 Amendments arising from the 2017 Amendments to XRB A1

30. In October 2017, the XRB Board issued 2017 Amendments to XRB A1. Paragraph 42A of XRB A1 now requires that a PBE determine its eligibility to report in accordance with the Tier 4 standards based on the total combined operating payments of the entity and any entities that it controls (that is, on a group basis). Where the total operating payments of the group are less than $125,000 in each of the two preceding accounting periods, all the entities would be eligible to report under the Tier 4 standards and the controlling entity would not be required to prepare consolidated financial statements.

31. The NZASB is therefore proposing to amend the scope of the Tier 4 standards to align the scope of the standards with the amended criteria in XRB A1. The proposals clarify that where an entity controls another entity (or entities) and the total combined operating payments of the group are within the statutory threshold to apply the Tier 4 standards, the controlling entity is not required to prepare consolidated financial statements.

32. Paragraph 2.1 has been added to the Tier 4 standards.

Question for Respondents
6. Do you agree with the proposed amendment to the Tier 4 standards arising from the 2017 amendments to XRB A1? If you disagree, please provide reasons.

2.5 Minor Editorial Amendments

33. The proposed amendments also include the following minor editorial corrections:

    (a) Paragraph A202 of the Tier 3 NFP Standard is amended to be consistent with paragraph A206 with regard to transactions below market price with a related party.

    (b) Table 1: Recording Specific Types of Revenue (under paragraph A62) of the Tier 3 NFP Standard is amended to be consistent with paragraph A55 regarding the categorisation of revenue from providing goods or services.

2.6 Effective Date

34. The proposed effective date for the proposed amendments to the Tier 3 and Tier 4 PBE Accounting Requirements is periods beginning on or after [date], with early application permitted

Question for Respondents
7. Do you have any other comments on ED NZASB 2018-1?

2018 OMNIBUS AMENDMENTS TO TIER 3 AND TIER 4 PBE ACCOUNTING REQUIREMENTS

Issued [Date]

This [draft] Standard was issued on [date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

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

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective dates, which are set out in Part [xx].

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

This [draft] Standard has been issued to amend the Tier 3 and Tier 4 PBE Accounting Requirements for the following:

(a) To align terminology and concepts with the *Public Benefit Entities' Conceptual Framework*;

(b) To make limited changes to clarify existing requirements; and

(c) To reflect amendments arising from the *2017 Amendments to XRB A1* Application of the Accounting Standards Framework.

ISBN

CONTENTS

Part A: Introduction

This [draft] Standard includes amendments for the following:

(a) Amendments to align terminology and concepts with the *Public Benefit Entities' Conceptual Framework* (PBE Conceptual Framework). These amendments are only to the Tier 3 standards;

(b) Clarifications of existing requirements;

(c) Amendments arising from the *2017 Amendments to XRB A1* Application of the Accounting Standards Framework (2017 Amendments to XRB A1). These amendments are only to the Tier 4 standards; and

(d) Minor editorial corrections.

Part B: Scope

This Standard applies to Tier 3 and Tier 4 public benefit entities.

Part C: Amendments to simple format reporting standards

PBE SFR-A (NFP) *Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)*

Paragraphs 6, 7, 8, 9, A10, Table 1: *Recording of Specific Types of Revenues*, Table 2: *Recording of Specific Types of Expenses*, Table 3: *Recording of Specific Types of Assets*, A113, A114, A115, A180, A182 and A202 are amended, paragraphs 14, A80.1, A80.2, A80.3, A107.1, A107.2, A148.1 and A148.2 are added and paragraph A12 is deleted. Paragraphs A116 and A206 have not been amended but are shown for ease of reference. New text is underlined and deleted text is struck through.

Note for Board – This text box shows how the amendments relate to the issues in the cover memo

Paragraphs A148.1 and A148.2 are added. New text is underlined. [Issue 1.6]

Paragraph A202 is amended. Paragraph A206 is not amended but is included for context. New text is underlined and deleted text is struck through. [Issue 2.1]

Table 1 Recording of Specific Types of Revenues after paragraph A62 is amended. New text is underlined and deleted text is struck through. [Issue 2.2)]

Paragraphs 7, 8, 9, A113, A114, A115, A180 are amended. New text is underlined and deleted text is struck through. Paragraph A116 is not amended but is shown for completeness. [Issue 4.1]

Paragraphs A107.1 and A107.2 are added and Table 2: Recording of Specific Types of Expenses is amended. New text is underlined. [Issue 4.2(a)]

Table 2 Recording of Specific Types of Expenses after paragraph A80 is amended. Paragraphs A80.1, A80.2 and A80.3 are added. New text is underlined [Issue 4.3]

…

Standard

…

6. Where this Standard does not provide guidance on a specific type of transaction or event, the entity shall use its judgement to determine an appropriate method of accounting for that transaction type that results in the performance report providing relevant and ~~reliable~~ faithfully representative information. The entity shall refer to, and consider the applicability of, the following in descending order:

   (a) The principles and requirements in this Standard dealing with similar and related transactions or events; and

   (b) The definitions and concepts in the PBE Conceptual Framework ~~*Framework*~~ to the extent that they do not conflict with this Standard.

   In making the judgement described above, the entity might also consider (but is not required to apply) the relevant requirements in the Tier 2 PBE Accounting Requirements dealing with the same, similar or related transactions or events.

Application of PBE Standards

7. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements to a specific type of transaction, as long as it applies that option to all transactions of that type. For example, an entity may decide to opt up to PBE IPSAS 17 *Property, Plant and Equipment* so that it can revalue a class of assets, or an entity may decide to opt up to the financial instruments standards (PBE IPSAS 28 *Financial Instruments: Presentation*, PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* (or PBE IFRS 9 *Financial Instruments*), and PBE IPSAS 30 *Financial Instruments: Disclosures*) for a class[1] of financial instruments, such as, investments in shares, so that it can measure that class of financial instruments at fair value (in which case it must apply the whole standard).

1. PBE IPSAS 30 paragraphs 9, AG1, AG2 provide guidance on determining classes of financial instruments.

8. If, for a ~~particular~~ specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity shall disclose this in the statement of accounting policies.

9. If, for a ~~particular~~ specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity cannot then choose to return to applying this Standard for that type of transaction unless the entity complies with the requirements of this Standard for changes in accounting policies (see paragraph A180).

…

Effective Date

…

14. *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*, issued in [Date], amended paragraphs 6,7, 8, 9, A10, Table 1: *Recording of Specific Types of Revenues*, Table 2: *Recording of Specific Types of Expenses* Table 3: *Recording of Specific Types of Assets* A113, A114, A115, A180, A182, A202, added paragraphs A80.1, A80.2, A80.3, A107.1, A107.2, A148.1, A148.2 and deleted paragraph A12. An entity shall apply those amendments for periods beginning on or after [Date].

…

Appendix A: Specific Requirements

This Appendix contains the requirements for Public Benefit Entity Simple Format Reporting - Accrual (Not-For-Profit). It is an integral part of the Standard.

…

Presentation of the Entity's Performance

A10. The performance report shall present fairly (or "provide a true and fair view" of) the entity's service performance, financial performance and cash flows over the financial year, and its position at balance date, in accordance with this Standard. Fair presentation is achieved by compliance with this Standard, and also requires an entity to:

(a) Select and apply appropriate accounting policies (section 8);

(b) Present information in the best way to achieve the following goals:

(i) Relevance: the information can be used to assess the entity's performance.

(ii) ~~Reliability~~ Faithful representation: the information represents what has happened in a way that most users would see as a fair representation of the situation~~, with no bias~~. Information is complete, neutral and free from material error.

(iii) Understandability: information is presented so that users can identify the main points of the entity's performance in that year and ask questions about that. Users should not have to be a qualified accountant to do this.

(iv) Timeliness: The performance report should be provided as soon as possible following the end of the financial year so that the information is useful and relatively current. For some not-for-profit PBEs legislation[2] defines the period by which the annual performance report must be completed.

(v) Comparability: users are able to compare what the entity did this year with what the entity did last year. Users might also want to see how the entity performed compared to similar entities in the same sector this year.

~~(vi) Understandability: information is presented so that users can identify the main points of the entity's performance in that year and ask questions about that. Users should not have to be a qualified accountant to do this.~~

(vi) Verifiability: users are able to form judgements about the appropriateness of the assumptions that underlie the information disclosed and the methodologies adopted in compiling that information.

…

A12. ~~Timeliness of reporting is important. The performance report should be provided as soon as possible following the end of the financial year so that the information is useful and relatively current. For some not-for-profit PBEs legislation defines the period by which the annual performance report must be completed.~~ [Deleted]

…

Accounting for Revenue

A62. Revenue shall be recorded on the occurrence of a recognition event. This is when there is a legal right to receive cash either now or sometime in the future. The timing of the recording of specific revenue types is provided in Table 1.

Table 1: Recording of Specific Types of Revenues

Source	**When to Record**	**Comments**
Donations, fundraising and other similar revenue		
…		
~~Grants that are service contracts which have a "use or return" condition attached~~	~~On receipt of grant record asset received (generally cash) and a liability. As the conditions are met (i.e. services provided) the liability is reduced and revenue is recorded.~~	~~The liability as at balance date reflects the extent to which obligations under the service contract have not been satisfied.~~
…		
Revenue from providing goods or services		
…		
Grants that are service contracts which have a "use or return" condition attached	On receipt of grant record asset received (generally cash) and a liability. As the conditions are met (i.e. services provided) the liability is reduced and revenue is recorded.	The liability as at balance date reflects the extent to which obligations under the service contract have not been satisfied.
…		
Other revenue		

…

[2] The Charities Act 2005 requires that the financial statements must accompany the annual return that must be filed within 6 months of the end of the financial year.

Accounting for Expenses

A80. Expenses shall be recorded on the occurrence of a recognition event. This is where there is a legal obligation to pay cash either now or sometime in the future (this is normally referred to as the point at which an expense is "incurred"). The timing of the recording of specific expense types is provided in Table2.

Table 2: Recording of Specific Types of Expenses

Source	**When to Record**	**Comments**
…		
Other expenses		
…		
Impairment charges (changes in the value of assets) <u>Reversal of an impairment charge recorded in a prior period</u>	Record the expense when it is apparent that an asset is recorded at an amount that is greater than its net realisable value. <u>Reverse the expense when there is an indication that an impairment charge recorded in a prior period may no longer exist or may have decreased.</u> <u>(see paragraphs A107.1 and A107.2)</u>	The impairment expense is the amount by which the asset's recorded amount is reduced. Impairment charges relate mostly to property, plant and equipment, inventory, and receivables (which become bad debts). See also Table 3 for further discussion on impairment.
…		
Grants and donations made		
Grants and donations made	Record the expense when the grant or donation has been approved and the recipient advised.	
<u>Multi-year grants and donations</u>	<u>Record only the current year amount as an expense (when the grant or donation has been approved and the recipient advised) unless the grantor or donor has little or no realistic alternative to avoid making the future payments (see paragraph A80.1 to A80.3).</u>	<u>Disclosure of commitments to provide grants may also be required (see paragraph A198).</u>

<u>*Multi-year grants and donations*</u>

<u>A80.1 Grantors or donors sometimes commit to provide funding over multiple years to individuals or organisations. Such commitments may be outlined in funding agreements which set out the circumstances in which the grantor/donor may review or terminate the agreement.</u>

<u>A80.2 If the grantor or donor has no such funding agreement in place, and has little or no realistic alternative to avoid making the future payments, a liability and an expense shall be recorded for the full amount when the multi-year grant or donation has been approved and the recipient advised.</u>

<u>A80.3 If the grantor or donor has a funding agreement in place which gives the grantor or donor the discretion to terminate or modify the funding arrangement, and thereby avoid future payments, an expense shall be recorded for the current year amount when the multi-year grant or donation has been approved and the recipient advised.</u>

Alternative view TRG:

Grants and donations made		
Grants and donations made	Record the expense when the grant or donation has been approved and the recipient advised.	
Multi-year grants and donations	See paragraph A80.1.	Disclosure of commitments to provide grants may also be required (see paragraph A198).

Multi-year grants and donations

A80.1 Grantors or donors sometimes commit to provide funding over multiple years to individuals or organisations. A grantor or donor shall exercise judgement to determine whether it has a liability for the full amount when the multi-year grant or donation has been approved and the recipient advised, and record the expense accordingly.

…

Accounting for Assets

A107. Assets shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the asset type. Details for recording and measuring specific asset types are provided in Table 3.

Table 3: Recording of Specific Types of Asset

…	
Other Assets	
When to record	When: (a) The asset is acquired; and The asset has a cost or value that can be measured reliably.[(a)]
…	
[(a)] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.	

Reversal of Impairment Charges

A107.1 If there is any indication that an impairment charge recognised in prior periods for an asset may no longer exist or may have decreased, an entity shall reverse all or part of that impairment charge.

A107.2 The reversal of the impairment charge shall:

(a) In the case of inventories, be limited to the amount of the original write-down;

(b) In the case of investments, not result in the carrying amount of the asset being recorded at more than its original cost; and

(c) In the case of property, plant and equipment, not result in the carrying amount of the asset (net of depreciation) being recorded at more than it would have been had the impairment not been recorded.

…

Revaluation of Property, Plant and Equipment

A113. As specified in Table 3, purchased property, plant and equipment is to be measured on the cost basis. However, an entity may elect to revalue a class of property, plant and equipment. Entities are more likely to make such an election when the value of an asset ha~~d~~s increased significantly over that asset's life (such as land or a building).

A114. If an entity wishes to revalue ~~an~~ class of assets, it shall apply the relevant requirements of PBE IPSAS 17 *Property, Plant and Equipment*, except that the entity may use the current rateable or government valuation (rather than fair value as required by PBE IPSAS 17) when revaluing. Where this is the case, the entity shall disclose the source and date of the valuation in the notes to the performance report.

A115. It is important to note that once property, plant and equipment is revalued, the requirements of ~~Tier 2~~ PBE ~~Accounting~~ Standards mean that it is likely that the entity will need to continue measuring ~~those assets~~ that class of assets at revalued amounts thereafter (rather than reverting back to asset cost).

A116. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may choose to disclose that current value, and the basis (such as the, rateable or government valuation) and date of that valuation in the notes to the performance report.

…

Other Information

Date of Finalisation

A148.1 It is important for users to know when the performance report was authorised for issue, as the performance report does not reflect events after this date

Required Information

A148.2 An entity shall disclose at the bottom of the statement of financial position the date the performance report was approved and authorised for issue and who gave that authorisation.

…

Specific Accounting Policies

…

A180. Where an entity has elected to apply the requirements of a PBE Standard that is part ~~a provision~~ of the Tier 2 PBE Accounting ~~Standards~~ Requirements in place of a requirement of this Standard (see paragraphs 7–9), the ~~Tier 2~~ PBE ~~Accounting~~ Standard applied shall be disclosed.

…

A182. An entity shall change an accounting policy only if the change:

(a) Is required by this Standard; or

(b) Is in accordance with this Standard and results in the statements providing more ~~reliable~~ faithfully representative or more relevant information about the effects of transactions or other events and conditions on the entity's service performance, financial performance, financial position, or cash flows.

…

Related Party Transactions

Explanation

A202 A related party transaction is a transfer of money or other resource between the reporting entity and a person or other entity that is closely associated with the reporting entity that has the ability to influence the reporting entity. This includes significant normal business transactions as well as ~~significant~~ transactions below market price (including the provision of free goods or services).

…

Requirements

A206. An entity shall disclose in the notes to the performance report, transactions with a related party that have occurred during the financial year if:

(a) The transaction is significant to the entity (individually or in aggregate with similar transactions); or

(b) The transaction (either significant or insignificant) is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

PBE SFR-A (PS) *Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)*

Paragraphs 6, 7, 8, 9, A11, Table 2 *Recording of Specific Types of* Expenses, Table 3: *Recording of Specific Types of Assets*, A115, A116, A117, A182 and A184 are amended, Paragraphs 14, A109.1, A109.2, A150.1, A150.2 are added and paragraph A13 is deleted. Paragraphs A118 has not been amended but is shown for ease of reference. New text is underlined and deleted text is struck through.

Note for Board – This text box shows how the amendments relate to the issues in the cover memo

Paragraph A150.1 and A150.2 are added. New text is underlined. [Issue 1.6]

Paragraph 7, 8, 9, A115, A116, A117 and A182 are amended. New text is underlined and deleted text is struck through. Paragraph A118 is not amended but is shown for completeness. [Issue 4.1]

Paragraphs A109.1 and A109.2 are added and Table 2 Recording of Specific Types of Expenses under paragraph A82 is amended. New text is underlined. [Issue 4.2(a)]

…

Standard

6. Where this Standard does not provide guidance on a specific type of transaction or event, the entity shall use its judgement to determine an appropriate method of accounting for that transaction type that results in the performance report providing relevant and ~~reliable~~ faithfully representative information. The entity shall refer to, and consider the applicability of, the following in descending order:

   (a) The principles and requirements in this Standard dealing with similar and related transactions or events; and

   (b) The definitions and concepts in the PBE Conceptual Framework ~~*Framework*~~ to the extent that they do not conflict with this Standard.

   In making the judgement described above, the entity might also consider (but is not required to apply) the relevant requirements in the Tier 2 PBE Accounting Requirements dealing with the same, similar or related transactions or events.

7. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements to a specific type of transaction, as long as it applies that option to all transactions of that type. For example, an entity may decide to opt up to PBE IPSAS 17 *Property, Plant and Equipment* so that it can revalue a class of assets, or an entity may decide to opt up to the financial instruments standards (PBE IPSAS 28 *Financial Instruments: Presentation*, PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* (or PBE IFRS 9 *Financial Instruments*), and PBE IPSAS 30 *Financial Instruments: Disclosures*) for a class[1] of financial instruments, such as, investments in shares, so that it can measure that class of financial instruments at fair value (in which case it must apply the whole standard).

   [1.] PBE IPSAS 30 paragraphs 9, AG1, AG2 provide guidance on determining classes of financial instruments.

8. If, for a ~~particular~~ specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity shall disclose this in the statement of accounting policies.

9. If, for a ~~particular~~ specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity cannot then choose to return to applying this Standard for that type of transaction unless the entity complies with the requirements of this Standard for changes in accounting policies (see paragraph A18~~0~~2).

…

Effective Date

…

14. *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*, issued in [Date], amended paragraphs 6, 7, 8, 9, A11, Table 2 *Recording of Specific Types of* Expenses, Table 3: *Recording of Specific Types of Assets*, A115, A116, A117, A182, A184, added paragraphs A109.1, A109.2, A150.1, 150.2 and deleted paragraph A13. Paragraph A118 is not amended but is shown for ease of reference. An entity shall apply those amendments for periods beginning on or after [Date].

Appendix A: Specific Requirements

This Appendix contains the requirements for Public Benefit Entity Simple Format Reporting – Accrual (Public Sector). It is an integral part of the Standard.

…

Presentation of the Entity's Performance

A11. The performance report shall "fairly present" (the entity's service performance, financial performance and cash flows over the financial year, and its position at balance date, in accordance with this Standard. Fair presentation is achieved by compliance with this Standard, and also requires an entity to:

(a) Select and apply appropriate accounting policies (section 8);

(b) Present information in the best way to achieve the following goals:

(i) Relevance: the information can be used to assess the entity's performance.

(ii) ~~Reliability~~ Faithful representation: the information represents what has happened in a way that most users would see as a fair representation of the situation, ~~with no bias~~. Information is complete, neutral and free from material error.

(iii) Understandability: information is presented so that users can identify the main points of the entity's performance in that year and ask questions about that. Users should not have to be a qualified accountant to do this

(iv) Timeliness: the performance report should be provided as soon as possible following the end of the financial year so that the information is useful and relatively current. For some public sector PBEs legislation defines the period by which the annual performance report must be completed.

(v) Comparability: users are able to compare what the entity did this year with what the entity did last year. Users might also want to see how the entity performed compared to similar entities in the same sector this year.

(vi) Verifiability: users are able to form judgements about the appropriateness of the assumptions that underlie the information disclosed and the methodologies adopted in compiling that information.

~~(vi) Understandability: information is presented so that users can identify the main points of the entity's performance in that year and ask questions about that. Users should not have to be a qualified accountant to do this.~~

…

~~A13. Timeliness of reporting is important. The performance report should be provided as soon as possible following the end of the financial year so that the information is useful and relatively current. For some public sector PBEs legislation defines the period by which the annual performance report must be completed.~~ [Deleted]

…

Accounting for Expenses

A83. Expenses shall be recorded on the occurrence of a recognition event. This is where there is a legal obligation to pay cash either now or sometime in the future (this is normally referred to as the point at which an expense is "incurred"). The timing of the recording of specific expense types is provided in Table 2.

Table 2: Recording of Specific Types of Expenses

Source	When to Record	Comments
Impairment charges (changes in the value of assets) Reversal of an impairment charge recorded in a prior period	Record the expense when it is apparent that an asset is recorded at an amount that is greater than its net realisable value. Reverse the expense when there is an indication that an impairment charge recorded in a prior period may no longer exist or may have decreased. (see paragraphs A109.1 and A109.2)	The impairment expense is the amount by which the asset's recorded amount is reduced. Impairment charges relate mostly to property, plant and equipment, inventory, and receivables (which become bad debts). See also Table 3 for further discussion on impairment.

…

Accounting for Assets

A109. Assets shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the asset type. Details for recording and measuring specific asset types are provided in Table 3.

Table 3: Recording of Specific Types of Asset

…	
Other Assets	
When to record	When: (a) The asset is acquired; and (b) The asset has a cost or value that can be measured reliably.[(a)]
…	
(a) Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.	

Reversal of Impairment Charges

A109.1 If there is any indication that an impairment charge recognised in prior periods for an asset may no longer exist or may have decreased, an entity shall reverse all or part of that impairment charge.

A109.2 The reversal of the impairment charge shall:

(a) In the case of inventories, be limited to the amount of the original write-down;

(b) In the case of investments, not result in the carrying amount of the asset being recorded at more than its original cost; and

(c) In the case of property, plant and equipment, not result in the carrying amount of the asset (net of depreciation) being recorded at more than it would have been had the impairment not been recorded.

…

Revaluation of Property, Plant and Equipment

A115. As specified in Table 3, purchased property, plant and equipment is to be measured on the cost basis. However, an entity may elect to revalue a class of property, plant and equipment. Entities are more likely to make such an election when the value of an asset ha~~d~~s increased significantly over that asset's life (such as land or a building).

A116. If an entity wishes to revalue ~~an~~ class of assets, it shall apply the relevant requirements of PBE IPSAS 17 *Property, Plant and Equipment*, except that the entity may use the current rateable or government valuation (rather than fair value as required by PBE IPSAS 17) when revaluing. Where this is the case, the entity shall disclose the source and date of the valuation in the notes to the performance report.

A117. It is important to note that once property, plant and equipment is revalued, the requirements of ~~Tier 2~~ PBE ~~Accounting~~ Standards mean that it is likely that the entity will need to continue measuring ~~those assets~~ that class of assets at revalued amounts thereafter (rather than reverting back to asset cost).

A118. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may choose to disclose that current value, and the basis (such as the, rateable or government valuation) and date of that valuation in the notes to the performance report.

…

Other Information

Date of Finalisation

A150.1 It is important for users to know when the performance report was authorised for issue, as the performance report does not reflect events after this date

Required Information

A150.2 An entity shall disclose at the bottom of the statement of financial position the date the performance report was approved and authorised for issue and who gave that authorisation.

…

Specific Accounting Policies

…

A182. Where an entity has elected to apply the requirements of a PBE Standard that is part ~~a provision~~ of the Tier 2 PBE Accounting ~~Standards~~ Requirements in place of a requirement of this Standard (see paragraphs 7–9), the ~~Tier 2~~ PBE ~~Accounting~~ Standard applied shall be disclosed.

Changes in Accounting Policies

…

A184. An entity shall change an accounting policy only if the change:

(a) Is required by this Standard; or

(b) Is in accordance with this Standard and results in the statements providing more ~~reliable~~ faithfully representative or more relevant information about the effects of transactions or other events and conditions on the entity's service performance, financial performance, financial position, or cash flows.

PBE SFR-C (NFP) *Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit)*

Note for Board – This text box shows how the amendments relate to the issues in the cover memo *Paragraphs A69.1 and 69.2 are added. [Issue 1.6]* *Paragraph 2.1 is added [Issue 5.1]*

Paragraphs 2.1, 7, A69.1 and A69.2 are added.

…

Scope

…

2.1 Where an entity controls[1] one or more entities and the total combined operating payments[2] of the entity and all its controlled entities do not exceed the legislative size threshold to report in accordance with this Standard, the controlling entity is not required to prepare consolidated financial statements.

[1] An entity determines whether it controls another entity in accordance with generally accepted accounting practice (GAAP). Explanatory Guide AG9 *Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes* provides guidance for not-for-profit entities in determining whether an entity has a relationship with another entity for financial reporting purposes and, if so, the nature of that relationship.

[2] The combined operating payments of the entity and all its controlled entities excludes any payments between the entity and the controlled entities and/or between the controlled entities.

…

Effective Date

…

7. *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*, issued in [Date], added paragraphs 2.1, A69.1 and A69.2. An entity shall apply those amendments for periods beginning on or after [Date].

Appendix A: Specific Requirements

This Appendix contains the requirements for Public Benefit Entity Simple Format Reporting - Cash (Not-For-Profit). It is an integral part of the Standard.

…

Other Information

Date of Finalisation

A69.1 It is important for users to know when the performance report was authorised for issue, as the performance report does not reflect events after this date.

Required Information

A69.2 An entity shall disclose at the bottom of the statement of receipts and payments the date the performance report was approved and authorised for issue and who gave that authorisation.

PBE SFR-C (PS) *Public Benefit Entity Simple Format Reporting – Cash (Public Sector)*

Note for Board – This text box shows how the amendments relate to the issues in the cover memo
Paragraphs A72.1 and A72.2 are added. [Issue 1.6]
Paragraphs 2.1 is added. [Issue 5.1]

Paragraphs 2.1, 7, A72.1 and A72.2 are added.

…

Scope

…

2.1 Where an entity controls[1] one or more entities and the total combined operating payments[2] of the entity and all its controlled entities do not exceed the legislative size threshold to report in accordance with this Standard, the controlling entity is not required to prepare consolidated financial statements.

[1] An entity determines whether it controls another entity in accordance with generally accepted accounting practice (GAAP). Explanatory Guide AG9 *Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes* provides guidance for not-for-profit entities in determining whether an entity has a relationship with another entity for financial reporting purposes and, if so, the nature of that relationship.

[2] The combined operating payments of the entity and all its controlled entities excludes any payments between the entity and the controlled entities and/or between the controlled entities.

…

7. *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*, issued in [Date], added paragraphs 2.1, A72.1 and A72.2. An entity shall apply those amendments for periods beginning on or after [Date].

Appendix A: Specific Requirements

This Appendix contains the requirements for Public Benefit Entity Simple Format Reporting - Cash (Not-For-Profit). It is an integral part of the Standard.

…

Other Information

Date of Finalisation

A72.1 It is important for users to know when the performance report was authorised for issue, as the performance report does not reflect events after this date.

Required Information

A72.2 An entity shall disclose at the bottom of the statement of receipts and payments the date the performance report was approved and authorised for issue and who gave that authorisation.

Part D: Effective date

The amendments are effective for periods beginning on or after [date]. Earlier application is not permitted.

Amendments to Explanatory Guides

Amendments to EG A5 Optional template and associated guidance notes for applying Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)

Note for Board

Issue 1.1

Description of issue:

EG A5 contains a “tip” which states:

“Entities that are currently depreciating their assets using the tax depreciation rates provided by the IRD can continue to do so.”

We have received feedback that some constituents find this statement confusing because the IRD has a zero rate for buildings.

Proposed amendments:

Amend EG A5 as follows:

“Tax depreciation rates provided by the IRD should be used only when they are considered to provide a reasonable estimate of the asset’s useful life. For example, the IRD depreciation rate of zero for buildings is not considered appropriate.”

Amendments are not needed to the other three EGs.

Row SoFPer 11 is amended. New text is underlined. [Issue 1.1]

Row	Category	PBE SFR-A (NFP) Ref	Explanation
…			
SoFPer11	Other expenses Note land does not depreciate. Assets under a certain value (usually $500) are often expensed in the year of purchase. Entities that are currently depreciating their assets using the tax depreciation rates provided by the IRD can continue to do so. Tax depreciation rates provided by the IRD should be used only when they are considered to provide a reasonable estimate of the asset’s useful life. For example, the IRD depreciation rate of zero for	A77-A79 *Table 2*	…

Row	Category	PBE SFR-A (NFP) Ref	Explanation
	buildings is not considered appropriate.		

Issue 1.2

Description of issue:

One of the related party examples provided in EG A5 does not disclose the monetary amount of the transaction. This is inconsistent with the requirement in the standard.

Proposed amendments:

Include an amount in the related party example. Amendments need to be made to EG A3, EG A4, EG A5, EG A6.

Row O11 is amended. Table header row is amended. New text is underlined and deleted text is struck through. [Issue 1.2]

Row	Category	PBE SFR-~~C~~ A(NFP) Ref	Explanation
…			
O11	A description of the transaction (whether in cash or amount in kind)* Remember to include free goods or services provided by related parties. Remember to include any management fees paid to a related party.	A207(b)	Include here a description of the transaction(s) with the related party and amounts paid, including transfers of resources for no consideration: Example 1, ABC Training Limited was involved with the oversight of a new training programme for the entity. The total value of all transactions for the financial year was $6,000 (Last Year $5,000). Example 2, Ms Moore sold her house to the entity at the government valuation of $525,000.

Note for Board

Issue 1.3

Description of the issue:

The reference to the Charities Commission in the EGs should be replaced with Charities Services.

References to Charities Commission Register are to be replaced with Charities Register.

Proposed amendments:

Amendments need to be made to EG A3, EG A4, EG A5, EG A6.

Row EI1 and EI4 are amended. New text is underlined and deleted text is struck through. [Issue 1.3]

Row	Section	PBE SFR-A (NFP) Ref	Explanation
EI1	Legal name of entity*	A37(a)	The name of the entity as appears on the Charities ~~Commission~~ Register. If the entity is not a registered charity, it will be the name that appears on the entity's founding documents (for example, its trust deed).
…			
EI4	Registration number		The entity's registration number from the Charities ~~Commission~~ <u>Register </u>(or any other relevant number, such as the entity's company number) can be entered here if you wish.

Issue 1.4

Description of issue

The example accounting policy in EG A5 for Bank Accounts and Cash refers to "short term deposits with original maturities of 90 days or less".

This is not consistent with the Tier 3 not-for-profit standard which states that the balance sheet category of Bank Accounts and Cash comprises petty cash, cheque or savings accounts and deposits held at call with banks (paragraph A93).

In addition, the Tier 3 not-for-profit standard states that all term deposits are classified as Investments (paragraph A98).

Proposed amendments:

Align the accounting policy in EG A5 and the template with the description of the Bank Accounts and Cash classification in the Tier 3 not-for-profit standard.

Amendments need to be made to EG A3, EG A4, EG A5, EG A6.

Row AP3 is amended. New text is underlined and deleted text is struck through. [Issue 1.4]

Row	Category	PBE SFR-A (NFP) Ref	Explanation
…			
AP3	Bank accounts and cash		Bank accounts and cash in the Statement of Cash Flows comprise <u>petty cash, cheque or savings accounts, and deposits held at call with banks</u>. ~~cash balances and bank balances (including short term deposits with original maturities of 90 days or less)~~.

Amendments to EG A6 Optional template and associated guidance notes for applying Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit)

Row O3 is amended. New text is underlined. [Issue 1.2]

Row	Category	PBE SFR-C (NFP) Ref	Explanation
O3	Description and the amount of any receipt or payment related to the transactions* Remember to include free goods or services provided by related parties. Remember to include any management fees paid to a related party.	A114(b)	Include here a description of the transaction(s) with the related party and amounts paid, including transfers of resources for no consideration: Example 1, ABC Training Limited was involved with the oversight of a new training programme for the entity. The total value of all transactions for the financial year was $2,000 (Last Year $1,500). Example 2, Ms Moore sold her house to the entity at government valuation of $525,000

Row EI1 and EI4 are amended. New text is underlined and deleted text is struck through. [Issue 1.3]

Row	Section	PBE SFR-C (NFP) Ref	Explanation
EI1	Legal name of entity*	A25(a)	The name of the entity as appears on the Charities ~~Commission~~ Register. If the entity is not a registered charity, it will be the name that appears on the entity's founding documents (for example, its trust deed).
…			
EI4	Registration number		The entity's registration number from the Charities ~~Commission~~ Register (or any other relevant number, such as the entity's company number) can be entered here if you wish.

Amendments to EG A3 Optional template and associated guidance notes for applying Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)

Row O11 is amended. New text is underlined. [Issue 1.2]

Row	Category	PBE SFR-C (PS) Ref	Explanation
O11	A description of the transaction (whether in cash or amount in kind)* Remember to include free goods or services provided by related parties Remember to include any management fees paid to a related party	A209(b)	Include here a description of the transaction(s) with the related party and amounts paid, including transfers of resources for no consideration: Example 1, ABC Training Limited was involved with the oversight of a new training programme for the entity. The total value of all transactions for the financial year was $6,000 (Last Year $5,000). Example 2, Ms Moore sold her house to the entity at the government valuation of $525,000.

Row AP3 is amended. New text is underlined and deleted text is struck through. [Issue 1.4]

Row	Category	PBE SFR-A (PS) Ref	Explanation
…			
AP3	Bank accounts and cash		Bank accounts and cash in the Statement of Cash Flows comprise petty cash, cheque or savings accounts, and deposits held at call with banks. ~~cash balances and bank balances (including short term deposits with original maturities of 90 days or less)~~.

Amendments to EG A4 Optional template and associated guidance notes for applying Public Benefit Entity Simple Format Reporting – Cash (Public Sector)

Row SSP3 is amended. Deleted text is struck through. [Editorial, to remove duplication]

<table>
<tr><th>Row</th><th>Section</th><th>PBE SFR-C (PS) Ref</th><th>Explanation</th></tr>
<tr><td colspan="4">…</td></tr>
<tr><td>SSP3</td><td>Additional output measures</td><td>A36(b)</td><td>You may include here any additional output measures that are relevant to users’ understanding of what the entity did during the financial year.
For example:
➢ the entity may wish to provide information on the quality and timeliness of delivery of its services;
➢ the entity may wish to provide quantification of the contributions from volunteers in terms of hours or full-time staff equivalents.
Examples of qualitative measures are shown in the table below:
~~An example of qualitative measures is shown in the table below:~~
<table>
<tr><td>Description:*</td><td>Actual This Year*</td><td>Budget This Year</td><td>Actual Last Year*</td></tr>
<tr><td colspan="4">Training Course:</td></tr>
<tr><td>Overall attendee satisfaction</td><td>78%</td><td>85%</td><td>75%</td></tr>
<tr><td>Number of complaints</td><td>3</td><td>0</td><td>5</td></tr>
</table>
</td></tr>
</table>

Row O6 is amended. New text is underlined. [Issue 1.2]

<table>
<tr><th>Row</th><th>Category</th><th>PBE SFR-C (PS) Ref</th><th>Explanation</th></tr>
<tr><td>O6</td><td>A description of the transaction (whether in cash or kind)*
Remember to include free goods or services provided by related parties.
Remember to include any management fees paid to a related party.</td><td>A90(b)</td><td>Include here a description of the transaction(s) with the related party and amounts paid, including transfers of resources for no consideration:
Example 1, ABC Training Limited was involved with the oversight of a new training programme for the entity. The total value of all transactions for the financial year was $2,000 (Last Year $1,500).
Example 2, Ms Moore sold her house to the entity at government valuation<u> of $525,000</u>.</td></tr>
</table>

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	1 December 2017
To:	NZASB Members
From:	Vanessa Sealy-Fisher
Subject:	***Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28)**

Recommendations[1]

1. We recommend that the Board:

   (a) APPROVES for issue *Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28) (agenda item 9.2);

   (b) APPROVES the Certificate Signing Memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue the amending standard (agenda item 9.3); and

   (c) CONSIDERS the application of the *Policy Approach Developing the Suite of PBE Standards* to *Long-term Interests in Associates and Joint Ventures* and AGREES to wait for the IPSASB to consider the incorporation of these amendments into IPSASs (agenda item 9.4).

Introduction

2. The International Accounting Standards Board (IASB) has issued *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) to clarify that an entity is required to apply IFRS 9 *Financial Instruments*, including its impairment requirements, to interests in an associate or joint venture to which the equity method is not applied. These interests include long-term interests that, in substance, form part of the net investment in an associate or joint venture. Such interests may include preference shares, and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans.

Background

3. The IASB issued Exposure Draft ED/2017/1 *Annual Improvements to IFRS® Standards 2015–2017 Cycle* (ED/2017/1) in January 2017. The proposals in ED/2017/1 included the

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

amendments to IAS 28 *Investments in Associates and Joint Ventures.* Comments were due to the IASB by 12 April 2017.

4. The NZASB issued IASB ED/2017/1 for comment in New Zealand around the same time. Comments were due to the NZASB by 17 March 2017. No comment letters were received by the NZASB.

5. The IASB received 50 comment letters on the proposed amendment to IAS 28 from its world-wide constituents. It did not receive comments from any New Zealand constituents, including the NZASB.

6. The IASB issued *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) in October 2017. The amending standard is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

Reason for issuing the amending standard

7. The IASB issued *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) in response to a request to clarify whether IFRS 9 *Financial Instruments* applies to long-term interests. The issue relates to whether the measurement, in particular the impairment, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be determined in accordance with the requirements in IFRS 9, the requirements in IAS 28, or a combination of both.

8. Paragraph 2.1(a) of IFRS 9 states that the scope of IFRS 9 excludes interests in associates and joint ventures that an entity accounts for in accordance with IAS 28. Paragraph 38 of IAS 28 explains that interests in an associate or joint venture that are subject to the allocation of losses are: (a) investments that an entity accounts for using the equity method; and (b) long-term interests. The net investment in the associate or joint venture (which includes long-term interests) is then subject to the impairment requirements in paragraphs 40 and 41A–43 of IAS 28. In the light of these requirements in IFRS 9 and IAS 28, it was unclear to constituents whether paragraph 2.1(a) of IFRS 9 excludes from the scope of IFRS 9 only interests to which an entity applies the equity method, or whether the scope also excludes long-term interests.

9. Some view long-term interests as being within the scope of IFRS 9 but not subject to its impairment requirements. They reach this conclusion because paragraph 41 of IAS 28 states that the impairment requirements in IFRS 9 apply to interests that do not form part of the net investment, and paragraph 38 states that long-term interests are part of the net investment.

10. IAS 28 does not specify how to account for long-term interests. IAS 28 mentions long-term interests and the net investment, which includes long-term interests, only in the context of recognising losses of an associate or joint venture and impairment. IAS 28 does not specify general recognition or measurement requirements for long-term interests and, as such, long-term interests are not accounted for in accordance with IAS 28 as envisaged in paragraph 2.1(a) of IFRS 9. Furthermore, paragraph 14 of IAS 28 states that IFRS 9 does not apply to interests in associates and joint ventures that are accounted for using the equity method.

11. The IASB concluded that paragraph 2.1(a) of IFRS 9 excludes from the scope of IFRS 9 only those interests in associates and joint ventures to which the equity method is applied, and not long-term interests.

Key issues

12. IASB ED /2017/1 proposed amendments to clarify that an entity is required to apply IFRS 9, including its impairment requirements, to interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture.

13. A large number of respondents agreed with the proposed amendments. Half of those respondents expressed concerns about particular aspects of the proposals.

14. The main reasons for disagreement with the proposals were as follows.

    (a) Given the nature of long-term interests: (i) a few respondents suggested that an entity should consider these interests together with its equity interest in an associate or joint venture; and (ii) one respondent suggested that application of the loss allocation and impairment requirements in IAS 28 to long-term interests appears to be logical and consistent with the concept of the net investment in the associate.

    (b) Some thought that applying both IAS 28 and IFRS 9 to long-term interests could lead to double counting.

15. Respondents who disagreed with the proposals suggested that the IASB reconsider the proposed amendments so that the standards would specify that an entity:

    (a) applies only IAS 28 to long-term interests; or

    (b) applies only IAS 28 or only IFRS 9 to long-term interests; or

    (c) initially recognises and measures long-term interests applying IFRS 9 and subsequently accounts for long-term interests applying IAS 28.

16. Some respondents who agreed with the proposed amendments suggested that they should be only a short-term measure to address existing diversity. In their view, the IASB should comprehensively review the accounting for long-term interests as part of its research project on the equity method of accounting.

17. The IASB and the IFRS Interpretations Committee (the Committee) had discussed many of the concerns raised by respondents when developing the proposed amendments.

18. Many respondents also said that an example would be helpful to illustrate how the requirements in IAS 28 and IFRS 9 interact with respect to long-term interests. The Committee and the IASB had considered an example when developing the proposals and the IASB decided to issue this example as educational material. The example lends itself to being education material because it illustrates book-keeping entries for a particular fact pattern.

19. The IASB decided to finalise these amendments as a narrow-scope amendment separately from the other proposals in IASB ED/2017/1 because of their interaction with IFRS 9. The effective date of the amendments is annual periods beginning on or after 1 January 2019, with early application permitted so this enables entities to apply the amendments at the same time that they first apply IFRS 9, should they wish to do so.

RDR concessions

20. No RDR concessions are proposed for these amendments because they contain no disclosure requirements.

21. The transition requirements are similar to those in IFRS 9 regarding the classification and measurement of financial assets. The transition requirements in IFRS 9 refer to IFRS 7 *Financial Instruments: Disclosures* for the disclosures to be made when an entity first applies IFRS 9. There are currently no concessions in respect of those disclosures.

Consistency with Australian Accounting Standards

22. The Australian Accounting Standards Board expects to issue the equivalent amendments to AASB 128 *Investments in Associates and Joint Ventures* at its meeting in December.

Due process

23. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of IASB ED/2017/1 and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's meeting on 22 June 2017.[2]

24. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.

25. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the standard is likely to require the disclosure of personal information. In our view, the standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Draft amending standard and signing memo

26. Attached as agenda item 9.2 is a copy of *Long-term Interests in Associates and Joint Ventures*. A paragraph has been added to limit its application to Tier 1 and Tier 2 for-profit entities only.

27. Attached as agenda item 9.3 is a draft Certificate Signing Memorandum from the Chair of the NZASB to the Chair of the XRB Board.

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[2] A summary of the IASB's June 2017 meeting is available at: http://www.ifrs.org/news-and-events/updates/iasb-updates/june-2017/#5

Application of the PBE Policy Approach

28. Agenda item 9.4 sets out the application of the *Policy Approach to Developing the Suite of PBE Standards* to *Long-term Interests in Associates and Joint Ventures*. Agenda item 9.4 recommends that the Board agrees not to incorporate the amendments into the PBE Standards at this time, but to wait for the International Public Sector Accounting Standards Board (IPSASB) to consider whether to incorporate the amendments into the equivalent International Public Sector Accounting Standard.

Attachments

Agenda item 9.2:	Draft *Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28)
Agenda item 9.3:	Draft Certificate Signing Memorandum
Agenda item 9.4:	Application of PBE Policy Approach to *Long-term Interests in Associates and Joint Ventures*
Agenda item 9.5:	*Policy Approach to Developing the Suite of PBE Standards* (in supporting papers)

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho
NZ ACCOUNTING STANDARDS BOARD

Long-term Interests in Associates and Joint Ventures (Amendments to NZ IAS 28)

This Standard was issued on 18 January 2018 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 8 February 2018.

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

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

This Standard is based on amendments issued by the International Accounting Standards Board (IASB) to clarify that an entity is required to apply IFRS 9 *Financial Instruments*, including its impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests).

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CONTENTS

Part A

Introduction

This Standard sets out amendments to NZ IAS 28 *Investments in Associates and Joint Ventures* to clarify that an entity is required to apply NZ IFRS 9 *Financial Instruments*, including its impairment requirements, to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Examples of long-term interests may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans.

Tier 2 entities are required to comply with all the requirements in this Standard.

Part B – *Long-term Interests in Associates and Joint Ventures*

Scope

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

Amendments to NZ IAS 28 *Investments in Associates and Joint Ventures*

Paragraphs 14A and 45G–45K are added and paragraph 41 is deleted. Deleted text is struck through.

Equity method

14A An entity also applies NZ IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture (see paragraph 38). An entity applies NZ IFRS 9 to such long-term interests before it applies paragraph 38 and paragraphs 40–43 of this Standard. In applying NZ IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying this Standard.

Application of the equity method

…

41 [Deleted by IASB] ~~The entity applies the impairment requirements in IFRS 9 to its other interests in the associate or joint venture that are in the scope of IFRS 9 and that do not constitute part of the net investment.~~

…

Effective date and transition

…

45G *Long-term Interests in Associates and Joint Ventures*, issued in January 2018, added paragraph 14A and deleted paragraph 41. An entity shall apply those amendments retrospectively in accordance with NZ IAS 8 for annual reporting periods beginning on or after 1 January 2019, except as specified in paragraphs 45H-45K. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

45H An entity that first applies the amendments in paragraph 45G at the same time it first applies NZ IFRS 9 shall apply the transition requirements in NZ IFRS 9 to the long-term interests described in paragraph 14A.

45I An entity that first applies the amendments in paragraph 45G after it first applies NZ IFRS 9 shall apply the transition requirements in NZ IFRS 9 necessary for applying the requirements set out in paragraph 14A to long-term interests. For that purpose, references to the date of initial application in NZ IFRS 9 shall be read as referring to the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application of the amendments). The entity is not required to restate prior periods to reflect the application of the amendments. The entity may restate prior periods only if it is possible without the use of hindsight.

45J When first applying the amendments in paragraph 45G, an entity that applies the temporary exemption from NZ IFRS 9 in accordance with NZ IFRS 4 *Insurance Contracts* is not required to restate prior periods to reflect the application of the amendments. The entity may restate prior periods only if it is possible without the use of hindsight.

45K If an entity does not restate prior periods applying paragraph 45I or paragraph 45J, at the date of initial application of the amendments it shall recognise in the opening retained earnings (or other component of equity, as appropriate) any difference between:

(a) the previous carrying amount of long-term interests described in paragraph 14A at that date; and

(b) the carrying amount of those long-term interests at that date.

Part C – Effective Date

This Standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	14 December 2017
To:	Graeme Mitchell, External Reporting Board
From:	Kimberley Crook, Chair NZASB
Subject:	***Long-term Interests in Associates and Joint Ventures*** **(Amendments to NZ IAS 28)**

Introduction[1]

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28).

2. The International Accounting Standards Board (IASB) has issued *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) to clarify that an entity is required to apply IFRS 9 *Financial Instruments*, including its impairment requirements, to interests in an associate or joint venture to which the equity method is not applied. These interests include long-term interests that, in substance, form part of the net investment in the associate or joint venture. Such interests may include preference shares, and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans.

Due process

3. The IASB issued Exposure Draft ED/2017/1 *Annual Improvement to IFRS® Standards 2015–2017 Cycle* (ED/2017/1) in January 2017, which included proposals for the amendments to IAS 28 *Investments in Associates and Joint Ventures.*

4. The NZASB issued the ED for comment in New Zealand around the same time. Comments were due to the NZASB on 17 March 2017 and to the IASB on 12 April 2017.

5. The IASB received 50 comment letters on this particular amendment from its world-wide constituents. It did not receive comments from any New Zealand constituents, including the NZASB. The NZASB did not receive any comment letters.

6. A large number of respondents to ED 2017/1 agreed with the proposed amendments. Although concerns were raised by both respondents who agreed with the proposed amendments and those who disagreed, all the concerns raised had already been considered by the IASB and the IFRS Interpretations Committee during the development of the proposals.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

7. Following its consideration of comments from constituents on the amendments to IAS 28, the IASB reviewed the due process steps that it had taken since the publication of ED/2017/1 and concluded that the applicable due process steps for the proposals relating to IAS 28 had been completed. This review of due process occurred at the IASB meeting on 22 June 2017.[2]

8. The IASB issued *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) in October 2017. This amending standard is effective for annual periods beginning on or after 1 January 2019, with early application permitted. The IASB plans to issue separate amending standards to deal with the other proposals in ED/2017/1.

9. The NZASB has approved *Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28). The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.

10. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Consistency with XRB Financial Reporting Strategy

11. The amending standard is a standard in its own right. *Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28) is identical to *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) except for a New Zealand specific introduction and a scope paragraph limiting the application of the standard to Tier 1 and Tier 2 for-profit entities.

12. The Australian Accounting Standards Board (AASB) is expected to adopt an equivalent amending standard at its meeting in December.

13. We do not propose any RDR concessions because the amendments do not include disclosure requirements.

14. Therefore, the Tier 1 and Tier 2 for-profit reporting requirements will continue to be aligned with those in Australia.

15. The issue of this amending standard is consistent with all three elements of the Financial Reporting Strategy: it adopts the international standard, retains a harmonised position with Australia and is consistent with the Accounting Standards Framework.

Other matters

16. There are no other matters relating to the issue of this amending standard that the NZASB considers to be pertinent or that should be drawn to your attention.

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2 An update on the IASB meeting on 22 June 2017 is available at: http://www.ifrs.org/news-and-events/updates/iasb-updates/june-2017/#5

Recommendation

17. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachment

Long-term Interests in Associates and Joint Ventures (Amendments to NZ IAS 28)

Kimberley Crook
Chair NZASB

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	1 December 2017
To:	NZASB Members
From:	Vanessa Sealy-Fisher
Subject:	**PBE Policy Approach – Long-term Interests in Associates and Joint Ventures**

Recommendations[1]

1. We recommend that the Board AGREES not to incorporate *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) into PBE Standards at this time. Instead, we recommend that the Board AGREES to wait for the International Public Sector Accounting Standards Board (IPSASB) to consider the incorporation of these amendments into International Public Sector Accounting Standards (IPSASs).

Background

2. The Board regularly considers whether new or amending IFRS Standards should be incorporated into PBE Standards. These decisions are guided by the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach), a copy of which is included in the supporting papers (see agenda item 9.5).

3. The Board is being asked to approve *Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28) at this meeting (see agenda items 9.1 to 9.3). The Board now needs to consider whether this amending standard should be incorporated into PBE Standards, and if so, when.

4. *Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28) is based on *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) which was issued by the International Accounting Standards Board (IASB) in October 2017.

Application of the PBE Policy Approach

5. The amendments to IAS 28 arise from a request to the IASB to clarify whether IFRS 9 *Financial Instruments* applies to long-term interests in associates and joint ventures. The request asked whether long-term interests are within the scope of IFRS 9 and, if so, whether the impairment requirements in IFRS 9 apply to such long-term investments.

6. The PBE Policy Approach contains a number of triggers for considering whether to change PBE Standards. In this case the IASB has issued an amendment to an IFRS Standard (IAS 28

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

Investments in Associates and Joint Ventures) that is the basis of an IPSAS (IPSAS 36 *Investments in Associates and Joint Ventures*). We have therefore applied section 4.2.1 (paragraphs 26–30) of the PBE Policy Approach.

Relevant trigger for PBE Policy Approach and its application

7. The relevant trigger to apply the PBE Policy Approach is set out in paragraph (a) of the Policy. In this case the IASB has changed an existing IFRS (which was used as the basis for an IPSAS).

> **Extracts from PBE Policy Approach**
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> **27. In considering a change to an NZ IFRS that relates to a topic for which there is an existing PBE Standard based on an IPSAS, the NZASB shall consider the factors in the development principle in determining whether to initiate a development of the PBE Standards. Particular emphasis in this case needs to be placed on the IPSASB's likely response to the change.**
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> **29. Furthermore, in the case of minor amendments to an NZ IFRS, there is a rebuttable presumption that the change should not be incorporated into the equivalent PBE Standard in advance of the IPSASB considering the change.** This is because minor amendments are less likely to meet the cost-benefit test particularly when the potential costs and risks associated with getting ahead of the IPSASB are taken into account.

8. *Long-term Interests in Associates and Joint Ventures* is a narrow scope amendment that clarifies an existing requirement. We therefore conclude that it is a minor amendment.

9. Because these amendments are minor, application of the development principle is not required. Furthermore, we consider there is no strong rationale to rebut the presumption in paragraph 29 of the Policy.

Other relevant factors and RDR

10. There are no other factors to consider that may be relevant to the Board's decision. There are no RDR concessions in *Long-term Interests in Associates and Joint Ventures* as the amendments do not contain disclosure requirements.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 91

Approval to Issue *2017 Omnibus Amendments to NZ IFRS*

In accordance with the protocols established between the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB Board), the NZASB has:

- approved for issue *2017 Omnibus Amendments to NZ IFRS*; and
- provided a signing memo outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memo and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue *2017 Omnibus Amendments to NZ IFRS* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 6th day of November 2017

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Michele J Embling
Deputy Chair
External Reporting Board

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 92

Approval to Issue PBE FRS 48 *Service Performance Reporting*

In accordance with the protocols established between the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB Board), the NZASB has:

- approved for issue PBE FRS 48 *Service Performance Reporting;* and
- provided a signing memo outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memo and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue PBE FRS 48 *Service Performance Reporting* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 6th day of November 2017

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Michele J Embling
Deputy Chairman
External Reporting Board

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 93

Approval to Issue
***Prepayment Features with Negative Compensation* (Amendments to NZ IFRS 9)**

In accordance with the protocols established between the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB Board), the NZASB has:

- approved for issue *Prepayment Features with Negative Compensation* (Amendments to NZ IFRS 9)*;* and
- provided a signing memo outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memo and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue *Prepayment Features with Negative Compensation* (Amendments to NZ IFRS 9) pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 6th day of November 2017

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Michele J Embling
Deputy Chairman
External Reporting Board