NZ ACCOUNTING STANDARDS BOARD

Board Meeting Agenda

Wednesday 7 February 2018
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**			
IPSASB					
9.55 am	**3**	**IPSASB**			
10.30 am		*Morning tea*			
10.45 am	**3**	**IPSASB (contd)**			
B: PUBLIC SESSION					
PBE Item for Consideration					
11.40 am	**4**	**IPSASB ED 63 *Social Benefits***	(LK/JS)		
	4.1	Cover Memo	Consider	Paper	
	4.2	Draft Comment Letter	Consider	Paper	
	4.3	ED 63 Social Benefits	Note	Supp paper	
	4.4	ED 63 At A Glance	Note	Supp paper	
12.40 pm		*Lunch*			
PBE Item for Consideration					
1.10 pm	**5**	**Guidance for Service Performance Reporting**	(JS/VSF)		
	5.1	Cover Memo	Consider	Paper	
	5.2	Draft Guidance	Consider	Paper	
	5.3	PBE FRS 48 Service Performance Reporting	Note	Supp paper	
For-profit and PBE Item for Consideration					
1.40 pm	**6**	**Insurance**	(DB/VSF)		
	6.1	Cover Memo (includes FP specific disclosures and outreach plan for PBEs)	Consider	Paper	
	6.2	Application of PBE Policy Approach	Consider	Paper	
	6.3	Policy Approach to Developing the Suite of PBE Standards	Note	Supp paper	

Est Time	Item	Topic	Objective		Page
<u>For-profit Item for Consideration</u>					
2.25 pm	**7**	**<u>IASB Materiality Practice Statement</u>**	(JP)		
	7.1	Cover Memo	Consider	Paper	
	7.2	IASB Materiality Practice Statement	Note	Paper	
<u>PBE Item for Approval</u>					
2.55 pm	**8**	**<u>Limited Scope Project – Tier 3 and Tier 4 Standards</u>**	(LK)		
	8.1	Cover Memo	Consider	Paper	
	8.2	Draft ITC and ED	Approve	Paper	
3.25 pm		*Afternoon tea*			
<u>For-profit Standards for Approval</u>					
3.40 pm	**9**	**Annual Improvements to NZ IFRSs 2015–2017 Cycle**	(JS/VSF)		
	9.1	Cover Memo	Consider	Paper	
	9.2	Draft *Annual Improvements to NZ IFRSs 2015–2017 Cycle*	Approve	Paper	
	9.3	Draft Signing Memorandum	Note	Paper	
	9.4	Application of PBE Policy Approach	Consider	Paper	
<u>Standard for Noting</u>					
4.00 pm	**10**	**<u>Standard Approved</u>**	(VSF)		
	10.1	Approval 94 *Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28)	Note	Paper	
C: NON-PUBLIC SESSION					
<u>Items for Noting</u>					
4.01 pm	**11**	**<u>International & Domestic Update</u>**			
4.50 pm		*Finish*			

Next NZASB meeting: Wednesday 21 March 2018

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	26 January 2018
To:	NZASB Members
From:	Lisa Kelsey and Joanne Scott
Subject:	**IPSASB ED 63 Social Benefits**

Recommendation[1]

1. We recommend that the Board PROVIDES FEEDBACK on the draft comment letter on IPSASB ED 63 *Social Benefits*.

Background

2. The IPSASB issued ED 63 in October 2017. Comments are due to the NZASB by 23 February 2018 and the IPSASB by 31 March 2018.

<u>Background to IPSASB's documents</u>

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 programmes 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 NZASB commented on that

[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).

Consultation Paper in 2016. Since then the IPSASB has continued its work on accounting for social benefits and the related topic of non-exchange expenses.

AASB public sector insurance proposals

7. In November 2017 the AASB issued a Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities* (November 2017) to seek feedback on proposals to modify AASB 17 *Insurance Contracts* to lead to more consistent reporting of public sector insurance liabilities.[2] The AASB's proposals are intended to address the fact that similar insurance risks are being accounted for differently by public sector entities. Some risks are being accounted for in accordance with the AASB's insurance standards while others are being accounted for in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

8. Some of the matters discussed in the AASB's DP are relevant to the NZASB's consideration of ED 63 and we have therefore referred to the AASB DP in the draft comment letter. For example, the AASB is proposing to extend the scope of AASB 17 to capture a wider range of insurance-like activities but has proposed slightly different criteria for these activities than the criteria for the insurance approach in ED 63. The main difference is that ED 63 requires that a social benefit scheme wishing to use the insurance approach be fully funded. The AASB considered and rejected full funding as a criterion. See the draft response to SMC 3.

Outreach

9. Since the December meeting we have continued to contact people that might have an interest in ED 63 to make them aware of the proposals in the ED. We have continued to seek feedback from staff at the major government departments responsible for social benefits and obtained feedback from staff at the Accident Compensation Corporation (ACC). The Treasury has also contacted these organisations.

10. In December the Board suggested that we look at organising a roundtable discussion with interested parties to seek feedback on ED 63. We have not done this, mainly because the following events have now been organised and will be attended by staff.

    (a) Ian Carruthers, Chair of the IPSASB, will be presenting at roundtables in Wellington (8 February) and Auckland (23 February). Ian's presentation will include an overview of ED 63. There will be table discussions and opportunities for feedback at these events.

    (b) The Centre for Accounting, Governance and Taxation Research of Victoria University is holding a seminar on ED 63. Ken Warren (Chief Accounting Advisor, the Treasury and former IPSASB member) will present the seminar on 15 February.

Draft comment letter

11. Agenda item 4.2 contains an initial draft of a comment letter. We have attempted to draft complete paragraphs rather than bullet points so that the Board can consider whether it is comfortable with both the content and tone of the responses.

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2 http://www.aasb.gov.au/Work-In-Progress/Open-for-comment.aspx?id=2119

12. In developing the initial draft of the comment letter we have drawn upon the following sources:

    (a) the NZASB's views on IPSASB's 2015 CP on social benefits (a copy of the NZASB's comment letter was included in the NZASB's December 2017 agenda as item 4.6). We have also looked at the views of some respondents from New Zealand and Australia on that CP;

    (b) the NZASB's views on IPSASB's 2017 CP *Accounting for Revenue and Non-Exchange Expenses* (see agenda item 2.3.2);

    (c) feedback from Board members and ACC staff; and

    (d) issues discussed in AASB Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities*.

Next steps

13. We will bring back a revised draft comment letter, together with an analysis of submissions received, in March. We will be seeking approval of the comment letter in March.

Attachments

Agenda item 4.2: Draft comment letter

Agenda item 4.3: ED 63 *Social Benefits* (in supporting papers)

Agenda item 4.4: At A Glance ED 63 *Social Benefits* (in supporting papers)

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Initial draft of comment letter for discussion and feedback.

[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 in next draft

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?

Information for the Board

Below are some extracts from ED 63, paragraphs 4–5 and BC21(c).

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 and AG3 provide additional guidance.

BC21(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.

The table on the following pages summarises the illustrative examples that accompany ED 63 in relation to the application of the scope and definitions. We thought this table would be useful background in thinking about SMC 1 as it explains why the IPSASB has decided a benefit is in or out of the scope of ED 63.

Illustrative Examples in ED 63 – Scope and Definitions

Description	Social benefits are provided to:				In or out of scope of [draft] IPSAS [X] (ED 63).
	Specific individuals and /or households who meet eligibility criteria;	**Mitigate the effect of social risks; and**	**Address the needs of society as a whole; but**	**Are not universally accessible services**	
Example 1–Provision of Retirement Benefits to Government Employees 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.	Yes	Yes 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.	No 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.	Yes The retirement benefits are not universally accessible services.	Out The retirements 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 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	Yes	Yes 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.	Yes 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	Yes The state retirement pension does not meet the definition of universally accessible services.	In Within the scope of of [draft] IPSAS [X] (ED 63).

Description	Social benefits are provided to:				In or out of scope of [draft] IPSAS [X] (ED 63).
	Specific individuals and /or households who meet eligibility criteria;	**Mitigate the effect of social risks; and**	**Address the needs of society as a whole; but**	**Are not universally accessible services**	
same amount to each retiree regardless of the contributions made			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		
Example 3–Provision of Universal Healthcare Services 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	Yes The healthcare services are provided to specific individuals who meet eligibility criteria	Yes 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	Yes	No 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.	Out Consequently, the healthcare services are outside the scope of [draft] IPSAS [X] (ED 63).
Example 4–Provision of Disability Pensions 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	Yes The disability pensions are provided to specific individuals who meet eligibility criteria.	Yes 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	Yes	Yes The disability pensions do not meet the definition of universally accessible services.	In Consequently, the disability pensions are within the scope of [draft] IPSAS [X] (ED 63).

Description	Social benefits are provided to:				In or out of scope of [draft] IPSAS [X] (ED 63).
	Specific individuals and /or households who meet eligibility criteria;	**Mitigate the effect of social risks; and**	**Address the needs of society as a whole; but**	**Are not universally accessible services**	
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.		address the needs of society as a whole			
Example 5–Provision of Unemployment Benefits 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.	Yes The unemployment benefits are provided to specific individuals who meet eligibility criteria	Yes 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.	Yes	Yes The unemployment benefits do not meet the definition of universally accessible services.	In Consequently, the unemployment benefits are within the scope of [draft] IPSAS [X] (ED 63).

Description	Social benefits are provided to:				In or out of scope of [draft] IPSAS [X] (ED 63).
	Specific individuals and /or households who meet eligibility criteria;	**Mitigate the effect of social risks; and**	**Address the needs of society as a whole; but**	**Are not universally accessible services**	
Example 6–Provision of Disaster Relief 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.	Partially 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.	No 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.		Partially	Consequently, the disaster relief is outside the scope of [draft] IPSAS [X] (ED 63).
Example 7–Provision of Defense Services Government G maintains an army, navy and air force to provide defense for the country.	No These defense services are not provided to specific individuals who meet eligibility criteria, but instead are collective services, in that: They are delivered simultaneously to each member of the community or section of the community; and Individuals cannot be excluded from the benefits of collective goods and services.				Out Consequently, the provision of defense services is outside the scope of [draft] IPSAS [X] (ED 63).

Proposed response to SMC1

Definition of a social benefit

We acknowledge that the definition of a "social benefit" is a key determinant of what is in or out of the scope of ED 63. We have found the definition problematic to apply in practice and have provided comments on the definition under SMC2 below.

Universally accessible services

We do not agree with the exclusion of universally accessible services from the scope of the ED.

The NZASB has recently commented on the IPSASB's Consultation Paper *Accounting for Revenue and Non-Exchange Expenses* (the CP). In its comment letter on the CP the NZASB noted that the determination of an obligating event for social benefit schemes is not substantively different from the determination of an obligating event for general obligations to provide services to the public, including collective services and universally accessible services.

Similar issues arise in respect of these general obligations to provide services to the public as are being considered in ED 63. In many cases, the beneficiaries of these services have existing rights that have been established through legislation, policy announcements, or other government actions. For example, in New Zealand, the Government's obligations to provide universal superannuation to beneficiaries over 65 (a social benefit) and to provide free education for children aged between 5 and 19 (a universally accessible service), are both established through legislation. In our view, there is no substantive difference between obligations for benefits to be provided in the form of money (e.g. national superannuation) or in the form of services (e.g. education services). Accordingly, issues being discussed in ED 63 relating to determining the point when, and the extent to which, the government concerned has a present obligation to provide those benefits also arise in the context of universally accessible services and collective services.

Therefore, the NZASB considers that where expense transactions such as social benefits, collective services and universally accessible services have similar characteristics, a consistent approach for liability and expense recognition is required. We therefore encourage the IPSASB to consider developing a standard that has a broader scope than ED 63 and that includes collective services and universally accessible services.

Social risks and other risks

We disagree with the 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 standing benefits available for natural disasters. For example, New Zealand farmers affected by an adverse event (e.g., 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.

Artificial boundary

The IPSASB has acknowledged in paragraph BC21(c) that social benefits and non-exchange expenses fall along a continuum, and that any boundary between these two categories of expenses will, to some extent, be artificial. In creating separate standards for the spectrum of public sector expenses, we are concerned that there may be a risk that some schemes might have multiple components, only some of which fall within the scope of ED 63.

Transaction versus scheme

We note that the scope paragraph (paragraph 5) refers to a transaction but the rest of the [draft] standard establishes requirements for schemes. The [draft] standard does not define a scheme. We do not think that this is a major issue, but some acknowledgment of the fact that social benefits are frequently administered, or referred to, as schemes, or some discussion of what is meant by a scheme would be helpful for readers.

Suggested changes to scope

Some possible wording for a scope paragraph is shown below.

> This [draft] Standard applies to:
>
> (a) A transaction that meets the definition of a social benefit, and
>
> (b) General obligations to provide services to the public
>
> …
>
> Application Guidance:
>
> General obligations to provide services to the public are those obligations that are established through legislation, policy announcements or other actions that create a legal or non-binding obligation, including universally accessible services and collective services (for example, healthcare, education, public order and defence).

The definition of a social benefit is discussed under SMC2.

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?

Information for the Board on SMC2

Extract from ED 63, paragraph 6.

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

A copy of the NZASB's comment letter on the IPSASB's Consultation Paper *Accounting for Revenue and Non-Exchange Expenses* is available at agenda item 2.3.2. This comment letter includes the NZASB's proposed framework for non-exchange expense recognition.

Proposed response to SMC2

Definitions

We acknowledge that the purpose of the definitions is to limit the scope of the ED to social benefits that have eligibility criteria related to social risk. The satisfaction of the eligibility criteria then becomes the key to the timing of the recognition of a liability.

We have found the definitions contained in ED 63 problematic to apply in practice. We are still not convinced that consistency with the classification system used by GFS is the best driver for establishing the scope of an IPSAS. In particular, we have still struggled with applying the concept of 'social risk'. The concept of social risk is not well understood by the accounting community in all jurisdictions and the interpretation of this term could lead to diversity in practice.

By way of example, some of the questions or issues we have faced in trying to apply the definitions to particular benefits are as follows.

- The diagram under IG2 says universal education does not mitigate the effect of social risk. However, we are of the view that free education reduces the risk of unemployment and note that employment status is considered a social risk. We also note that having to pay for education would impose additional demands on household resources.
- Is citizenship/residency considered an eligibility criterion?
- If a benefit is available to everyone under 5 years of age, is age an eligibility criterion?
- If a benefit is available to everyone under 5 years of age, is it universally assessable?
- If there are eligibility criteria, but most people above a certain age meet the eligibility criteria (for example, NZ superannuation), should the benefit be considered universally accessible?
- 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 paragraph AG10).

IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

Provisions and contingent liabilities arising from social benefits are excluded from the scope of IPSAS 19. As discussed in paragraphs BC2 and BC3, existing IPSASs do not define social benefits. Instead IPSAS 19 includes the following broad description of a social benefit.[1]

> 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.

The description of social benefits in IPSAS 19 includes both the provision of services and the payment of benefits. In New Zealand, we think of "social welfare" as the provision by the state of benefits and services. In other words, this would include the payment of, for example, a job seeker payment (a social benefit) and the provision of essential health services (universally accessible services).

In our response to the IPSASB's Consultation Paper *Accounting for Revenue and Non-Exchange Expenses* we provided a proposed framework for expense recognition. This framework acknowledged the broad spectrum of public sector expense transactions. It is our understanding that by defining social benefits in ED 63 the IPSASB is trying to capture those transactions for which a "special" accounting treatment is required. As we acknowledged in our response to that Consultation Paper we would have reservations about the application of the NZASB's Obligating Event Approach (OEA) to social benefits and general obligations to provide services to the public, as that could have a dramatic impact on the amount of liabilities recognised in a government's financial statements without necessarily improving the usefulness of those financial statements for decision-making and accountability.

In our view ED 63 is attempting to capture those types of benefits/services for which there is a desire to limit the amount of liability recognised, i.e. those that are described in the scope exclusion in IPSAS 19.

Suggested changes to definitions

We suggest that the definition of social benefits be simplified by removing the concept of social risk. We would prefer a definition more along the lines of the current scope exclusion in IPSAS 19.

[1] We note that ED 63 is proposing to amend IPSAS 19 to remove this description. Our comments are not about the removal of the description from IPSAS 19 but whether this text would provide a better description of the types of social benefits under consideration.

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?

<u>Information for the Board on SMC3</u>

Extracts from ED 63 (insurance approach section)

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. 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 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.

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.

<u>Proposed response to SMC3(a)</u>

SMC3(a) Do you agree that, with respect to the insurance approach, it should be optional?

We support the use of the insurance approach for schemes that are managed in the same way as insurance obligations as it aligns the reporting with the management of such schemes. However, we do not agree that the insurance approach should be optional.

The obligating events approach and the insurance approach are almost at opposite ends of the spectrum in terms of the liabilities that would be recognised. In the case of a scheme which pays for long-term injury treatment following an accident, the insurance approach would require recognition of a liability for treatment over the remainder of a person's life but the obligating event approach would require the recognition of a liability for the next year only (with revalidation being required each year). The difference in the amounts recognised under each approach could be material for both the entity and any whole of government statements into which the entity is consolidated.

Entities that manage large social benefit schemes often want to benchmark their performance against similar international schemes. Consistent accounting is necessary for benchmarking to be possible.

<u>Proposed response to SMC3(b)</u>

SMC3(b) Do you agree that, with respect to the insurance approach, the criteria for determining whether the insurance approach may be applied are appropriate?

We support the criterion (in paragraph 9(b)) that the entity must manage the scheme in the same way as an insurer would manage its insurance contracts. Our view is that entities engaged in insurance-like activities should report on them in the same way as insurers.

We do not support the criterion (in paragraph 9(a)) that the social benefit scheme is intended to be fully funded from contributions. Although we agree that this would be a desirable characteristic of schemes (and in most cases the criterion would be satisfied by an entity wanting to use the assurance approach), we do not agree that whether or not they are fully funded should determine the recognition of liabilities.

We note that the Australian Accounting Standards Board (AASB) has recently considered similar issues in developing its Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities* (November 2017).[2] The AASB considered and rejected full funding as a scope criterion. The AASB noted that this would not be consistent with other accounting standards or its Conceptual Framework as these pronouncements do not treat the ability to fund a liability as the determinant or limiter on whether a liability is recognised. We concur with this point.

We also think there could be practical difficulties in applying the fully funded criterion in paragraph 9(a). For example, most components of a scheme may be fully funded, but one or more components may not. Paragraphs 9 and A13 talk about “a scheme”, but do not indicate whether the assessment is carried out with respect to an entire scheme including all its components, or for each individual component. We assume that schemes which are intended to be fully funded from a certain date would meet the criterion.

In relation to the examples we have considered in New Zealand, the Accident Compensation Corporation, which currently applies insurance accounting, has one component which is not fully funded. This component has been accounted for consistently with the other components and the assessment of future levies for this component is based in part on the liabilities recognised in the financial statements. If the accounting for this component were to change from an insurance approach to the obligating event approach it would have a dramatic impact on the amount of the liability recognised in the financial statements and would send the wrong signals about future funding requirements.

The arguments considered by the IPSASB in deciding to make the insurance approach optional are set out in paragraphs BC35 to BC41 of ED 63. Although the IPSASB has considered arguments both for and against making the insurance approach optional, cost seems to have been the main reason for deciding that it should be optional with the difficulty of applying the criteria a secondary consideration. We do not agree that the cost of applying the insurance approach should be used to

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2 The AASB issued this Discussion Paper in November 2017. The AASB is seeking feedback on proposals to modify AASB 17 *Insurance Contracts* to lead to more consistent reporting of public sector insurance liabilities.

justify making this approach optional. Significant liabilities and significant risks should be accounted for appropriately.

The arguments considered by the IPSASB in deciding to propose the use of the obligating events approach for social benefits in general are set out in paragraphs BC59 to BC89. One of the key factors that seemed to influence the IPSASB's thinking was the difficulty of determining that there has been a past event that has given rise to a liability. In the case of obligations for benefits that would meet the criteria to be accounted for using the insurance approach this argument is not relevant. In the case of such liabilities there is general agreement that there has been a past event that has given rise to a liability.

If, after considering responses on ED 63, the IPSASB remains concerned about the cost of mandatory application of IFRS 17 requirements, it could include simplified insurance approach requirements directly in a standard. These requirements could be based on the requirements for the recognition of provisions in IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. This approach would result in some differences compared to the application of IFRS 17 but we consider that such differences would be more justifiable than permitting non-recognition of liabilities that are generally agreed to be liabilities. Examples of differences between these two approaches are as follows.

(a) IFRS 17 requires outstanding claims to be measured as the central estimate of the present value of expected future payments with an additional risk adjustment. The additional risk adjustment is the compensation an entity requires for bearing the uncertainty about the amount and timing of future cash flows arising from non-financial risk as the entity fulfils insurance contracts. IPSAS 19 does not require a risk adjustment for inherent uncertainty.

(b) The discount rate requirements differ. IFRS 17 requires that the discount rates applied to the estimate of cash flows shall: (a) reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts; (b) be consistent with observable market prices of those financial instruments whose cash flow characteristics are consistent with those of the insurance contracts; and (c) exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts. IPSAS 19 requires the use of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(c) IFRS 17 includes presentation and disclosure requirements designed specifically to cater for insurance activities, such as disclosures around claim development. IPSAS 19 does not.

<u>Proposed response to SMC3(c)</u>

SMC3(c) Do you agree that, with respect to the insurance approach, 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?

We are broadly in agreement with the IPSASB's proposal to direct entities to IFRS 17 or national equivalents.

We note that the words "by analogy" have been used throughout the standard. We assume that this is because the IPSASB is of the view that the liabilities arising from social benefit schemes would not fall within the scope of IFRS 17 and that the requirements in IFRS 17 would be applied to such obligations “as if they were insurance contracts”. We think it would be helpful for the BC to explain why the IPSASB has used the words “by analogy”.

As we already have an insurance standard for public sector and not-for-profit entities and are considering whether or not to develop an equivalent of IFRS 17 for such entities, we would need to carefully consider the scope of any social benefit standard and the IFRS 17 equivalent, and the transitional arrangements. We make this point because most jurisdictions looking to pick up the insurance approach in ED 63 for social benefits would need to consider how entities in that jurisdiction have previously been accounting for such social benefits and develop appropriate transitional requirements.

In our response to (b) above we have discussed the possibility of the IPSASB including insurance approach requirements directly in a social benefit standard. These comments may be relevant if the IPSASB decides not to proceed with the insurance approach proposals in ED 63.

<u>Proposed response to SMC3(d)</u>

SMC3(d) Do you agree that, with respect to the insurance approach, the additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

We agree that the additional disclosures required by paragraph 12 are appropriate. Paragraph 12(a) is fairly clear that it requires a summary of the key features of the social benefit scheme as it also requires that the entity explain how additional information about the scheme can be obtained. Paragraph 12(b) which requires disclosure of significant amendments to the scheme during the reporting period also seems to have a high-level focus.

We agree that the standard should require disclosure of summary information about benefits and changes to them. However, in the case of schemes which manage many different benefits we wonder if this information needs to be included in the financial statements or could be provided elsewhere. If such information is readily available in other reports we think the standard could permit cross referencing to such other documents. This could be in relation to the information required by paragraph 12, but it could also be in relation to other disclosure requirements.

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*.

<u>Proposed response to SMC4</u>

Overall, we do not support the IPSASB’s proposal that 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, including being alive. This is because we support some of the arguments expressed in the Alternative View.

Despite our overall disagreement with the arguments used by the IPSASB to support the obligating event approach we do accept that this approach could lead to appropriate accounting for some social benefits. And, despite supporting a number of points made in the Alternative View, we do not advocate recognition of all social benefit obligations as liabilities in the financial statements. The Alternative View focuses on the application of the definitions of elements and the recognition criteria in the Conceptual Framework. We think that the objectives of financial reporting and the qualitative characteristics in the Conceptual Framework are equally important and could be used to justify the non-recognition of some social benefit liabilities.

A more detailed explanation of our views follows.

Paragraph 13 of ED 63 is consistent with the definitions of elements and the recognition criteria in the Conceptual Framework. It is therefore difficult to argue with paragraph 13 as the starting point for developing requirements. Because paragraph 13 offers a conceptual starting point, we have tried to explain how our main points on ED 63 and the Alternative View relate to paragraph 13.

We think that ED 63 (and the Basis for Conclusions) is too blunt in saying that there is never a present obligation before the point at which an individual or entity has satisfied all of the eligibility criteria for a benefit, including staying alive. We 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. We believe that in some cases an entity could have a present obligation for all future benefits to be made to a person, not just the benefits between then and the next validation point. We therefore support the comments in the Alternative View (see paragraph AV15) about the possibility of key participatory events giving rise to a liability. As we have previously commented to the IPSASB, the nature of the government’s promise to potential recipients 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”.

In New Zealand at least, we consider that upon reaching the age of 65 and satisfying the other eligibility criteria, most New Zealand citizens will have a valid expectation that they will receive National Superannuation payments for the rest of their lives. Although governments can and do change entitlements to such schemes, they tend to do this by raising the age of entitlement or lowering benefits for future recipients – they do not tend to change the entitlements of recipients that have already met the threshold eligibility criteria.

We also agree with the comments in the Alternative View (see paragraphs AV16 to AV21) that, in cases where an entity has a present binding obligation in respect of future social benefits, staying alive is a measurement issue rather than a recognition criterion. We concur with the comments in paragraph AV18 that measurement of long-term liabilities is possible and note that actuarial assessments are already used to support the measurement of a number of long-term liabilities.

Staying alive could be regarded as a recognition criterion in respect of short-term benefit promises where frequent revalidation is required. However, we would prefer that any standard focus on the nature of the promise, the eligibility criteria collectively and the ongoing requirement for revalidation, rather than focusing on staying alive.

Although we support much of the discussion in the Alternative View about the identification and measurability of liabilities, we do not think that the Alternative View has gone far enough. The Alternative View has not considered whether the recognition of very large liabilities would be consistent with the objectives of general purpose financial reporting, the role of financial statements and the application of the qualitative characteristics.

In our view the recognition of large liabilities for social benefits, without the recognition of future cash flows that will fund those benefits, is unlikely to result in financial statements that meet the objectives of general purpose financial reporting and satisfy the qualitative characteristics. We do not think that the recognition of all social benefit liabilities provides the most useful information for decision-making.

The topic of social benefits calls into question the boundary between what should be included in financial statements and what should be included in long-term fiscal sustainability reports. Generally we think the definitions of assets and liabilities and the recognition criteria serve us well in drawing appropriate boundaries around what is recognised in financial statements. In the case of social benefit liabilities we are not sure that definitions and recognition criteria are sufficient. We have considered whether there are any particular qualitative characteristics that would support taking a broader view of what should be recognised in the financial statements. The difficulty that we have encountered is that Chapter 3 of the Conceptual Framework is written with general purpose financial reports (not just financial statements) in mind. We consider that the focus of Chapter 3 of the Conceptual Framework is appropriate, but it does not help us in considering the application of the qualitative characteristics to these two different forms of reporting.

Relevance and understandability are the two qualitative characteristics that we think would be most pertinent to the consideration of whether information is most usefully reported in financial statements or long-term fiscal sustainability reports. We acknowledge that the relevance and understandability of information is influenced by users' education, experience and expectations. At this point in time we do not consider that the recognition of all social benefit liabilities in financial statements would meet the needs of users of financial statements and long-term fiscal sustainability reports.

As noted in the UK *Fiscal Sustainability Report* (January 2017) in analysing the stocks and flows of a government, 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."

In our view social benefit liabilities sit on the cusp of the dividing line between completeness and certainty. Judgements about the existence of a present obligation require knowledge of the type of benefit and the experience and expectations of recipients in that jurisdiction. In some cases the existence of a present obligation for future benefits is clear and in some it is not. The larger the potential liability the more difficult it can be to make this determination and the larger the potential liability the more likely it is that recognition or nonrecognition could influence the usefulness of the financial statements.

In looking for a way forward on this issue we think that rather than focusing solely on the definitions of elements and the recognition criteria, the IPSASB needs to seek views on where users would find information on social benefit liabilities most useful. We think that the characteristics of some large social benefit liabilities means that information on them may be more useful in the context of long-term projections. In responding to SMC6 we have noted the usefulness of long-term fiscal sustainability reporting for providing a more complete picture of a government's projected inflows and outflows over a longer-term horizon.

To come back to our opening remarks on this SMC, we disagree with the arguments used by the IPSASB to support the obligating event approach but we accept that this approach could lead to appropriate accounting for some social benefits. We suggest that the IPSASB attempt to develop a different rationale for the non-recognition of liabilities for certain social benefits based on the objectives of general purpose financial reporting and the qualitative characteristics.

You will note that we refer to "some social benefits" and "certain social benefits". That is because we are not advocating the non-recognition of any and all social benefit liabilities. Rather we think that there is a subset of social benefits where non-recognition of liabilities for future payments could be justified. We propose that the IPSASB limit the scope of the standard to the types of benefits to which it wants this "special" accounting to apply.

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?

<u>Information for the Board on SMC5(a)</u>

Extract from ED 63, paragraph 31.

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.

<u>Proposed response to SMC5(a)</u>

Regarding the disclosure requirements for the obligating event approach, do you agree that the disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate?

We acknowledge that the information required to be disclosed by paragraph 31 would be useful to readers of the financial statements. However, we do have concerns that it would add considerable length to the financial statements. We would be concerned that this increased length could obscure other useful information. We would like the IPSASB to consider whether the financial statements are the most appropriate place for this information.

A better option might be to allow cross-referencing to other documents or sources of information. We note that paragraph 31(a)(ii) requires a statement about how additional information about the scheme can be obtained and paragraph 31(a)(iii)a permits a cross reference to the location of information on social contributions. We suggest that the IPSASB allow the more general use of cross referencing in meeting the disclosure requirements of the proposed standard. There would also need to be some requirements regarding the use of cross referencing.

We note that the NZASB has recently issued a domestic standard on reporting service performance information. An extract from PBE FRS 48 *Service Performance Reporting* in relation to the use of cross-referencing is shown below.

32. An entity may cross reference the service performance information and the financial statements so that users can assess the service performance information within the context of the financial statements.

33. In presenting service performance information in accordance with this Standard an entity may incorporate, by cross-reference, information outside the general purpose financial report. The use of cross-referencing is permitted subject to the following requirements.

  (a) It is still possible to identify the complete set of service performance information presented in accordance with this Standard.

  (b) Locating the information elsewhere enhances the understandability of the general purpose financial report as a whole and the service performance information remains understandable and fairly presented.

  (c) The cross-referenced information is available to users of the service performance information on the same terms as the general purpose financial report and at the same time.

34. Incorporating service performance information by cross-reference enhances the understandability of the service performance information if it:

  (a) Links related information together so that the relationships between items of information are clear; and/or

  (b) Reduces duplication of information.

35. If an entity applies cross-referencing in accordance with paragraph 33, it shall:

  (a) Disclose, together with the statement of compliance in accordance with paragraph 28 of PBE IPSAS 1 *Presentation of Financial Reports*, a list of cross-referenced information that forms part of a complete set of service performance information in accordance with this Standard;

(b) Depict cross-referenced information as being information prepared in accordance with this Standard (and audited if applicable);

(c) Make the cross-referencing direct and precise as to what it relates to; and

(d) Ensure cross-referenced information remains unchanged and available over time at the cross-referenced location.

We have considered the discussion in ED 63's Basis for Conclusions on whether the IPSASB should 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. Materiality is well-established as a concept in relation to recognition and measurement, but is less so in relation to disclosure. We believe that this signals a need for specific guidance on making judgements on materiality in relation to disclosures.

We note that the illustrative examples provided in ED 63 are for the reconciliation required by paragraph 33 and expected cash outflows required by paragraph 34. ED 63 does not have an illustrative example on the characteristics of social benefit schemes. Such an example could be used to provide guidance on materiality and aggregation.

Information for the Board on SMC5(b)

Extract from ED 63, paragraphs 32 and 33.

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.

Proposed response to SMC5(b)

Regarding the disclosure requirements for the obligating event approach, do you agree that the disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate?

We note that 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.

We acknowledge that reconciliations between opening and closing balances are useful – but their preparation imposes costs on the entity. If users could get most of this information from analysis of the financial statements, does the benefit of providing the additional information provided by the reconciliation outweigh the cost.

Information for the Board on SMC5(c)

Extract from ED 63, paragraph 34.

> *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.

Proposed response to SMC5(c)

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

Overall, we do not support the disclosures proposed in paragraph 34. We can understand why the IPSASB has proposed the five-year disclosure period as it would provide more context for the limited liabilities recognised in the financial statements.

We consider that these disclosures are likely to be most useful when a government does not prepare long-term fiscal sustainability reports. But in the case of governments that already prepare long-term fiscal information, or individual entities that already prepare long-term information about particular schemes, we consider that these disclosures would require extra work, for little or no added benefit. Our comments about the role of financial statements versus long-term fiscal sustainability reports in SMC4 and SMC6 are also relevant to this question.

The proposed disclosures focus on outflows. We think that projections of outflows are best considered together with projections of inflows, and that projections are most useful when they are comprehensive rather than focusing on a single social benefit scheme.

If such disclosures were to be required, we think that the standard would need to consider how to deal with the duplication of information in consolidated reports. Would both the entity administering the scheme and the whole of government be required to present the disclosures or would there be the possibility of cross-referencing information already available in another report? These considerations are particularly important given the recent focus on trying to limit the length of financial statements and keep disclosures understandable and accessible.

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.
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.

<table><tr><td>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?</td></tr></table>

Information for the Board on SMC6

RPG 1 *Reporting on the Long-Term Sustainability of an Entity's Finances*

- encourages same reporting boundary as for the financial statements, but notes that some governments may choose to prepare long-term fiscal sustainability reports for the general government sector;
- requires that projections be based on current policy and assumptions about future;
- requires reporting on three dimensions: service, revenue and debt;
- requires the disclosure of principles, assumptions and methodologies; and
- specifies that 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 long-term fiscal sustainability reports include Australia, Canada, Denmark, Germany, New Zealand, Norway, Sweden, Switzerland, United Kingdom, USA and the European Union. Some countries also prepare separate fiscal risk reports. Despite all of these reports being produced we have not identified any that assert 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.

Each jurisdiction tends to have its own fiscal indicators, some of which might be required by legislation. For example, the EU has three indicators which it uses to compare countries: (i) medium sustainability indicator S1; (ii) long-term sustainability indicator S2; and (iii) intertemporal net worth indicator INW. There are debates about which indicators are the most useful/appropriate and some governments report variants on these indicators.

New Zealand's long-term reporting

- 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 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.

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

- It looks at four countries (Australia, Canada, France and the United Kingdom) that have endeavoured to rationalise their fiscal reporting.
- 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.

Proposed response to SMC6

The IPSASB's project on social benefits highlights the importance of long-term fiscal sustainability reports and their role in helping jurisdictions consider their long-term fiscal challenges and the options for dealing with them.

In accordance with section 26N of the Public Finance Act 1989 the New Zealand Treasury is required to publish a statement on the long-term position of the Government (for the next 40 years) at least every four years. The fourth such report, *He Tirohanga Mokopuna: 2016 Statement on New Zealand's Long-term Fiscal Position*, was published in November 2016.

We agree that the IPSASB has identified the main arguments for and against developing mandatory reporting requirements on long-term fiscal sustainability. Having considered these arguments and looked at some recent examples of long-term fiscal reports, our view is that the IPSASB should not develop mandatory requirements.

We consider that RPG 1 is a helpful source of guidance for jurisdictions producing long-term sustainability reports, but that jurisdictional differences, including legislative reporting requirements, would make it difficult to establish mandatory requirements. These legislative differences would mean that any standard would need to have an even higher-level focus than RPG 1. Although an increasing number of countries are now producing long-term fiscal sustainability reports, we have not identified any that assert compliance with RPG 1. It could be interesting to identify what the main reasons for this are. For example, do jurisdictions consider that such assertions are not necessary, or are there conflicts between RPG 1 and legislative requirements?

In addition to the arguments identified by the IPSASB against developing mandatory requirements, we note that such reports are continuing to evolve and that it would be difficult to establish mandatory requirements in such an environment. The 2017 OECD report *Rationalising Government Fiscal Reporting – Lessons learned from Australia, Canada, France and the United Kingdom on how to better address users' needs* shows that fiscal reporting, of which long term sustainability reporting forms a part, is continuing to evolve and outlines developments in those jurisdictions.

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

This evolution is also occurring in New Zealand. As was the case in the July 2013 Statement, the November 2016 projections indicated long-term fiscal challenges and some of the options for managing those pressures. However, the November 2016 Statement also considered whether improving social outcomes would provide fiscal benefits in addition to improving living standards.

We think that the IPSASB has a role to play in continuing to emphasise the importance of reports on long-term fiscal sustainability and stressing the importance of good financial reporting as a precursor to good long-term reporting.

One way of increasing the visibility of long-term fiscal sustainability reports would be to require that entities include a reference, in their financial statements to any published long-term fiscal sustainability reports. Such a requirement would need to be drafted in fairly general terms as long-term fiscal sustainability reports tend to be produced at a whole-of-government level and other forms of reports might be produced by individual entities.

Note for Board:

The following two paragraphs suggest that the IPSASB consider developing guidance for long-term reporting at an individual entity level and refer to financial condition reports as an example of such reporting. However, financial condition reports might not be the best comparison with long-term fiscal sustainability reports, as the New Zealand Government periodically issues another document, the Investment Statement, which deals more with financial condition and the ability to survive future risk scenarios. The Public Finance Act requires that the Investment Statement describe and state the current value of the Crown's assets and liabilities, as well as changes in the last four years and foreseeable changes in the coming four years.

Should we delete the next two paragraphs?

The IPSASB could assess whether there is a need for guidance at an individual entity level on an entity's current financial position and its ability to survive future risk scenarios. A number of jurisdictions have statutory reporting requirements for life insurance companies to prepare financial condition reports. Although social benefit schemes are not life insurers, they have obligations to pay specified benefits and face many of the same risks as life insurers.

In New Zealand the Accident Compensation Corporation (ACC) is required by legislation to produce a financial condition report each year. This report is prepared in line with general insurance industry practice, taking into consideration the risks inherent in ACC's business model. The report complies, to the extent possible, with the relevant actuarial standard. It assesses projected funding and obligations to ensure that contributions are in line with targets.

Other comments

First-time Adoption

ED 63 proposes to give a three-year relief period for the recognition and/or measurement of social benefits for first-time adopters. Although we understand that one of the roles of IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* is to encourage the adoption of IPSASs we do not agree with granting a three-year exemption from application of the standard.

Our reasons for disagreeing with this proposal are as follows.

(a) We are not supportive of three-year exemptions in general.

(b) Social benefits are a fundamental aspect of a government's activities.

(c) An entity should have the information required to report in accordance with the obligating event proposals in ED 63 (although we have commented on compliance costs associated with the proposed disclosures).

(d) An entity that is already managing a scheme as an insurance scheme and that intends to apply insurance accounting should have good information about its liabilities.

Editorial comments

We have identified some minor editorial matters for consideration in finalising the standard.

Paragraph	Comment
13	(b) … and takes account of the pervasive constraints on information in general purpose financial reports. Although paragraph 13(b) is consistent with the wording in paragraph 6.2 of the Conceptual Framework, anyone reading paragraph 6.2 will be aware that the constraints referred to are those discussed in the Conceptual Framework. Readers of ED 63 would not necessarily go back to the Conceptual Framework to read all of Chapter 6.
30 and 34	Paragraph 30 refers to future cash flows that "may" arise from an entity's social benefit schemes and refers to paragraph 34. Paragraph 34 refers to projected cash flows that "will" arise from a scheme.
	Amendments to other IPSASs
IPSAS 19	Paragraph 1 lists scope exclusions. ED 63 is proposing to replace the current social benefit exclusion in paragraph 1(a) with the words "Social benefits within the scope of [draft] IPSAS [X] (ED 63). However, paragraph 1(e) already excludes provisions, contingent liabilities and contingent assets "covered by another IPSAS". Paragraph 1(a) could therefore be deleted.
IPSAS 19	Check numbering of effective date paragraph. We think paragraph 111G should be paragraph 111H.
IPSAS 28	Check numbering of effective date paragraph. We think paragraph 60E should be paragraph 60F.
IPSAS 33	Check numbering of effective date paragraph. We think paragraph 157 should be paragraph 158 (if paragraphs are numbered sequentially from paragraph 154).

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	26 January 2018
To:	NZASB Members
From:	Joanne Scott and Vanessa Sealy-Fisher
Subject:	Service Performance Reporting – Update on Guidance

Purpose and introduction

1. The purpose of this agenda item is to seek the Board's feedback on the tone and direction of the material that has been developed to date for guidance on service performance reporting.

Recommendations

2. We recommend that the Board:
   (a) PROVIDES FEEDBACK on the tone and direction of the draft guidance;
   (b) AGREES that staff should continue to work on the guidance with the assistance of selected Board members; and
   (c) AGREES to receive an update on this project mid-year.

Structure of the memo

3. This memo is set out under the following headings.
   (a) Background
   (b) What we have done so far and how we might proceed
   (c) What we would like feedback on
   (d) Next steps

Background

4. The Board approved PBE FRS 48 *Service Performance Reporting* in November 2017. The Board has previously agreed to develop guidance to support this standard. Staff had started work on the guidance over a year ago but it was put on hold until we had completed the standard.

5. So far the Board has given us the following direction about the development of the guidance.
   (a) Focus on developing guidance for smaller Tier 2 not-for-profit entities.
   (b) Include examples looking at different types of organisations.
   (c) Base the introductory material (which puts service performance reporting in context and which talks about the planning and reporting cycle) on a Canadian publication

entitled *Improved Annual Reporting by Not-for-Profit Organizations* (CPA Canada Guide).[1] This document was originally published by the Canadian Institute of Chartered Accountants in 2011, and has since been reissued by the Chartered Professional Accountants of Canada (CPA Canada). We have agreement in principle from CPA Canada to use material from this document, subject to tracking the material used and including an acknowledgement (wording to be determined at a later stage) about its publication.

(d) Develop generic examples, rather than using real examples or creating a reference document to other sources of guidance. This feedback was in response to a staff proposal to include a number of links to other documents and websites.

6. ED NZASB 2016-6 *Service Performance Reporting* asked respondents about possible guidance. The Board noted this feedback in 2016 when it considered the submissions on ED NZASB 2016-6. See Appendix A to this memo.

What have we done so far and how might we proceed

7. This guidance is very much a work-in-progress.

8. We have started drafting the following sections of the guidance.

   (a) Introduction

   (b) Telling the Story

   (c) Plan, Do (and Monitor), Report, Evaluate

   (d) Overview of PBE FRS 48

   (e) Contextual Information about the Entity

   (f) Goals and Performance (in part).

9. Developing the examples in the draft has been very time consuming and we are aware that the examples and how they are integrated in the document need further work. At this stage we would like feedback as to whether the Board is comfortable with how the material is shaping up and suggestions for which further examples we should focus on. We are happy to receive detailed feedback on drafting and layout out of session.

10. The examples provided under each section are independent of each other: we have not tried to draft one complete example.

11. Appendix B to this memo includes the main activities that registered charities with less than $10m expenditure undertake and an approximate number of entities that undertake each activity. We thought this might be a useful guide as to the types of activities that should be covered in the examples.

1. If you would like to look at this document in its entirety, it is available at:https://www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/not-for-profit-organizations/publications/annual-reporting-for-not-for-profit-organizations

What we would like feedback on

12. We would appreciate feedback on all aspects of the draft, including the tone and content of the guidance and the examples provided to date. You will see that we are still playing with ideas for content and structure. We therefore suggest that you skim through the document, giving more attention to whether you think the examples under construction are appropriate.

13. From a Board perspective we think that the most efficient way of developing the guidance will be to have 2 or 3 Board members reviewing and commenting on drafts out of session with periodic updates to the full Board.

14. Board members that have previously been involved with this project are Kimberley Crook, Angela Ryan, Francis Caetano and Todd Beardsworth. We would welcome feedback on which Board members currently have an interest in, and capacity to assist with, this project.

Next steps

15. We will work on the draft guidance between Board meetings and plan to bring it to alternate Board meetings.

16. Once the document is getting closer to completion we think it would be helpful to seek feedback from a few people that are actively involved in the NFP sector. We would like to have a reasonably complete and coherent draft before we do this.

Attachments

Agenda item 5.2: Draft guidance

Appendix A

ED NZASB 2016-6 *Service Performance Reporting* included the following question.

Q9	What type of guidance should the NZASB develop to support entities preparing service performance information in accordance with the proposed standard?

Comments from respondents included:

(a) Guidance should include examples of good (and bad, or not so good) performance reporting, as well as examples (even stylised) of the range of ways in which performance information may be presented.

(b) Guidance should include examples of qualitative measures and descriptions.

(c) Guidance is needed on appropriate narrative reporting. Exemplars would be helpful to improve the appropriateness of comparative information for narratives.

(d) Include examples for different types of entities. But do not take a template model approach.

(e) Some of the information in the proposed standard would be better provided as guidance, for example, the requirement to report on outputs, impacts and outcomes.

(f) Guidance should help with reporting progress towards “Why” an entity exists. Reporting is expected to be done annually but progress is a multi-year story.

(g) Service performance may be assessed against four criteria – economy, efficiency, effectiveness and equity – provide guidance and discussion on these. Include guidance on various types of performance indicators.

(h) The guidance should be tailored for different users, e.g. the preparer of service performance information as well as those charged with governance.

(i) Guidance must be developed well in advance of the implementation of the new standard.

(j) Focus first on the not-for-profit sector.

(k) Work with other agencies to produce guidance for different types of public sector PBEs. Provide guidance to link dimensions to terminologies used in legislation. Treasury guidance for preparation of Annual Reports and Statements of Intent may provide useful pointers.

Appendix B

Main activities undertaken by Tier 2 entities with less than $10m expenditure. The information was obtained from a search of the Charities Register in January 2018.

Type of activity	**No. entities (approx.)**
Acts as umbrella/resource body	33
Makes grants/loans to individuals	9
Makes grants to other organisations (including schools and other charities)	72
Provides advice/information/advocacy	58
Provides buildings/facilities/open spaces	57
Provides human resources (staff/volunteers)	13
Provides other finance (eg investment funds)	5
Provides religious services/activities	49
Provides services (care/counselling)	320
Sponsors/undertake research	15
Other (categories other than those above include health, education, arts & culture, sports, aged care). Some entities listed more than one of the categories above so are included in this category	166

EXPLANATORY GUIDE AX SERVICE PERFORMANCE REPORTING (EG AX)

Issued [Date]

This Explanatory Guide provides guidance for Tier 1 and 2 not-for-profit entities preparing service performance information in accordance with PBE FRS 48 *Service Performance Reporting*.

This Explanatory Guide is an explanatory document and has no legal status.

Staff Note
At this stage this is very much work in progress. We have outlined the requirements of the standard and tried to include examples of how an entity could meet those requirements. The contents and structure need more work, but we would like some direction from the Board on how this is shaping up and what further work we should do.

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Acknowledgement

The XRB gratefully acknowledges permission from the Chartered Professional Accountants of Canada to draw upon copyrighted material from *Improved Annual Reporting by Not-for-Profit Organizations*, 2011 in this Guidance.

Note: The wording of this acknowledgement is still subject to agreement with CPA Canada. The draft Guide identifies which text is drawn from the CPA Canada document.

CONTENTS

Introduction

1. This Explanatory Guide is intended to assist those staff and/or volunteers of a not-for-profit public benefit entity who are responsible for reporting in accordance with standards issued by the External Reporting Board, and in particular for reporting service performance information in accordance with PBE FRS 48 *Service Performance Reporting.*[1] PBE FRS 48 requires an entity to present service performance information in the same general purpose financial report as its financial statements. For the purpose of this Explanatory Guide, the term 'annual report' is used to refer to an entity's general purpose financial report.

2. Service performance reporting is an evolutionary process that builds on research, experimentation, practical experience and consensus. This Explanatory Guide is intended to assist entities that are at an early stage in this process. The intended audience is smaller Tier 2 not-for-profit entities.

3. The Guide outlines the requirements in PBE FRS 48 and gives examples of how entities could respond to those requirements. It also refers to other publications that may be useful, including some that discuss performance indicators in more detail.

4. Service performance reporting is not just about satisfying external requirements. Effective annual reports can help build an entity's reputation, can make a case for support, and can be a key means of reaching new donors, partners and volunteers. The annual report is an opportunity for the entity to both explain the financial information and to present key non-financial information to demonstrate its performance. [This paragraph is based on CPA Canada pg 3, just above the boxed text]

5. Not-for-profit entities may be subject to a range of reporting requirements including requirements to report to funders. Although this Guide is based on the requirements in PBE FRS 48, that standard establishes high-level requirements and was developed in the knowledge that it would be applied by a range of entities, including those that are subject to more specific requirements.

Telling the Story

The first two paragraphs in this section are based on *Improved Annual Reporting by Not-for-Profit Organizations*, CPA Canada, 2011, page 4, Telling the Story. Changed a reference to "mission" to "broader aims and objectives" for consistency with PBE FRS 48.

6. The purpose of including service performance information in an annual report, together with the financial statements, is to communicate the entity's service performance story to its stakeholders, with a particular focus on a specific time period. The key message that needs to be conveyed is how the entity is delivering on its broader aims and objectives. This will involve:

   (a) Setting out the entity's mission and its objectives, as well as the strategy for meeting those objectives and the activities undertaken in support of the strategy.

   (b) Discussing how activities unfolded over the year, how they compared to expectations and how they compared to prior years. This should be done in a fair and balanced manner – openly reporting bad news as well as good.

   (c) Discussing what the entity's future goals are and the strategy and expectations for the coming year.

7. Good reporting should draw the links between the financial information and other key information about the entity's accomplishments in order to give a clear and consistent picture of the entity's performance over the past year and its progress towards its goals. It can help stakeholders understand what the financial statements show and do not show, discuss important information that may not be fully reflected in the financial statements, and discuss important trends and risks affecting the entity.

8. The process of reporting service performance provides an opportunity for management and staff to review and reflect on the entity's accomplishments and challenges and should deepen board members' knowledge about the entity. An entity is likely to already have much of the information it needs to report on its service performance although it might not be in the appropriate format for reporting to external parties. It is often

[1] PBE FRS 48 forms part of the Tier 1 and Tier 2 PBE Accounting Requirements applied by public benefit entities. Tier 3 PBE Accounting Requirements are the accounting standards, referred to as PBE Simple Format Reporting – Accrual and Tier 4 PBE Accounting Requirements are the accounting standards, referred to as PBE Simple Format Reporting – Cash. Separate guidance on service performance reporting is available for Tier 3 and Tier 4 public benefit entities in the guidance that accompanies the Simple Format Reporting Standards.

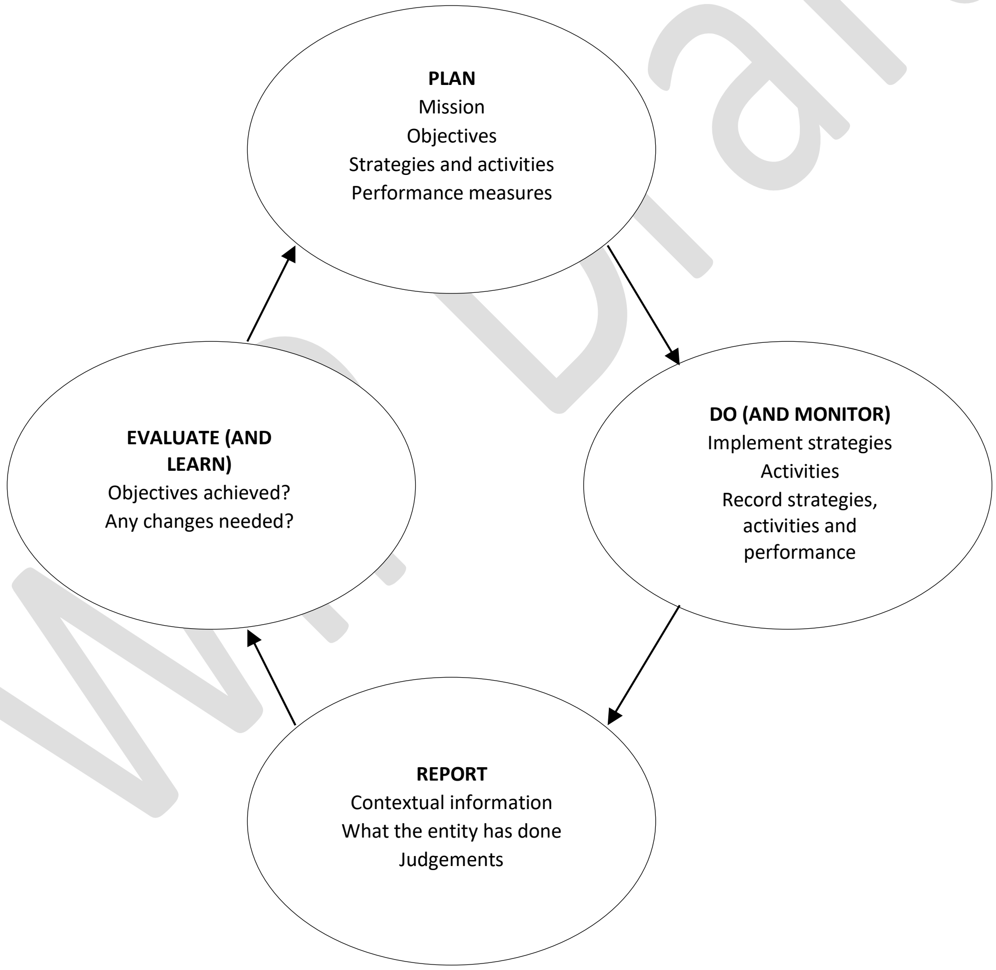
simply a question of pulling it together, connecting the dots, highlighting the important elements, and making it appealing and accessible to readers.

9. There is no "one best way" to present service performance information, and neither PBE FRS 48 nor this Explanatory Guide is intended to serve as a template. Reporting on service performance in an annual report is easier to do when an entity plans, measures, monitors and assesses performance, learning and adjusting throughout the period and publicly reporting on what was accomplished. Having a good understanding of users' perspectives will help the entity present its service performance information.

10. It is important for the entity to plan ahead and think about what service performance information it wants to report, and how it will measure its performance, so that the information can be recorded throughout the year. It is also a good idea for an entity to discuss with its entity's auditor how it plans to collect and collate its service performance information throughout the year.

Plan, Do (and Monitor), Report, Evaluate

11. Service performance reporting is a continuous process. The following diagram shows a simple outline of a planning and reporting cycle. In practice, these steps can overlap as entities are likely to start their planning for the next year before the current period is finished.



Plan

12. This step in the process requires the entity to set its objectives and decide what it wants to achieve or influence. These objectives may be short, medium or long-term, or a combination of all these timeframes. Some of an entity's objectives may be met by working with other entities that have similar or complementary objectives.

13. Once the objectives have been set, the strategies and activities needed to meet those objectives are determined, together with the performance measures that will be used to report on those activities. The entity will also need to consider how it is going to evaluate what it has done.

14. For some types of activities, there may be established measures of performance/outcomes that are used throughout the sector or required by a funder. For example, an entity that purchases disability services from a range of fund not-for-profit entities may have a very detailed set of outputs falling under headings such as accommodation support, various forms of therapy, counselling, respite care and advocacy.

15. The entity also needs to consider how it is going to monitor and evaluate its achievements as this is part of the ongoing process.

Do (and Monitor)

16. The annual report, including service performance information, of Tier 1 and Tier 2 not-for-profit entities is required to be audited. The entity needs to record and measure its activities in such a way that the information can be audited and reported to stakeholders. This involves thinking about what, and how, the entity wants to report as part of its service performance information so that the relevant information is recorded.

17. It is important for the entity to start recording activities as soon as possible – waiting until the end of the financial year is too late. Recording activities can be as simple as the entity keeping a spreadsheet or putting photographs of its activities on its website. Alternatively, the entity may need to implement processes and systems.

18. The entity may already have some of its service performance information available, but it may not be in a form that is appropriate to be reported to external parties. For example, the entity may receive funding and, in exchange for that funding, is required to report back to the provider of that funding. However, for the purpose of meeting the requirements in PBE FRS 48 the entity may need to record more detail than is needed to report back to the provided of the funding.

19. It is a good idea to discuss the activities to be reported and how the information is to be captured internally with the auditor so that issues can be identified and addressed before the end of the financial year.

20. As well as an evaluation of its activities at the end of the reporting year, it is may be useful for the entity to regularly monitor its activities during the year. Although targets may have been set at the beginning of the year, circumstances can change and the entity needs to be able to respond to those changes when they arise. Ideally, the governing body will be aware of the risks to and opportunities for the entity as part of its regular risk assessment.

21. In order for the entity to evaluate its performance, it will have to decide how to assess that performance. The entity will often identify targets that it wants to meet.

Report

22. The users of a not-for-profit public benefit entity's annual report will generally be its stakeholders, or a particular group of stakeholders. The types of stakeholder groups vary for each entity but may include, for example, members, donors and potential donors, funding agencies, volunteers, beneficiaries of services provided by the entity, creditors, corporate sponsors, the media and the general public. After identifying the users of the annual report, the entity needs to consider who the primary users are likely to be and to what extent the service performance information presented should be targeted to the needs of specific groups or should be more general. [CPA Canada p5]

23. The service performance information should provide practical, useful information that will guide stakeholders and users in their dealings with the entity. There is no "one size fits all" rule for reporting service performance information: each entity determines the most effective way of communicating the information that stakeholders and users want. [CPA Canada p5]

24. PBE FRS 48 requires an entity to present service performance information that is useful for accountability and decision-making purposes, and to apply the qualitative characteristics of information and pervasive constraints on information identified in the *Public Benefit Entities Conceptual Framework* (PBE Conceptual Framework). This results in information that is appropriate and meaningful to the users of the service performance information.

25. Although the service performance information reported, as well as its format and presentation, will differ from entity to entity, there are some key principles that apply to all service performance information presented. Those principles are outlined below. [CPA Canada p6, reworded to align with PBE FRS 48]

    (a) *Focus on the mission of the entity* – clearly articulate the entity's mission and objectives and related service performance and progress towards achieving the mission (this is discussed in more detail below).

    (b) *Tell the story* – present the service performance information in a meaningful way, which could include a combination of qualitative descriptions, qualitative measures and quantitative measures.

    (c) *Have a strategic perspective* – focus on the entity's plan for achieving its mission and its outlook for the future and address risks that could affect that plan.

    (d) *Account for stewardship* – report on the use of resources with clear references to activities undertaken to achieve the entity's objectives.

    (e) *Meet user needs* – service performance information should be complete, understandable, accessible and relevant to the needs of users.

    (f) *Be fair and balanced* – balance positive and negative information, take responsibility for shortfalls as well as successes, disclose risks and challenges as well as accomplishments.

26. PBE FRS 48 and this Explanatory Guide focus on external reporting. Explanations and examples of service performance information to be reported are provided later in this Explanatory Guide.

Evaluate

27. It is essential for the entity to evaluate its performance over the period compared with its mission, objectives and desired outcomes.

28. If necessary or relevant, changes may be needed to the entity's objectives, strategies and activities.

29. If the entity changes its strategies and/or activities, this will need to be disclosed in the annual report for the following period for comparability purposes.

Overview of PBE FRS 48

30. PBE FRS 48 establishes high-level principles and requirements to be applied by entities in telling their story. This high-level approach was deliberate because entities differ in size, organisational form, nature of activities and are subject to a range of external reporting requirements. However, the NZASB was aware that entities at an early stage in their service performance reporting might be looking for more practical guidance or ideas. This Explanatory Guide identifies a range of material that might be useful to smaller Tier 2 not-for-profit entities reporting in accordance with PBE FRS 48.

31. PBE FRS 48 requires an entity to provide:

    (a) sufficient contextual information so that users understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this;

    (b) for the current period, information about what the entity has done during the reporting period in working towards its broader aims and objectives as described in the contextual information; and

    (c) the judgements that have the most significant effect on the selection, measurement, aggregation and presentation of the service performance information reported that are relevant to an understanding of that information.

Contextual Information about the Entity

32. PBE FRS 48 requires that an entity provide users with:

    (a) sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this; and

    (b) Information about what the entity has done during the reporting period in working towards its broader aims and objectives.

Extracts from PBE FRS 48 Paragraphs 17-21

17. Paragraph 15(a) requires contextual information about why an entity exists, what it intends to achieve and how it goes about this. This information should be drawn from relevant documents such as founding documents, governance documents, accountability documents and planning documents. For example, a not-for-profit entity would consider documents such as its constitution, trust deed, mission statement (vision, purpose) and its most recent plans and strategies. If an entity uses a performance framework, theory of change or intervention logic at its highest level of management or in the governance of the entity, the contextual information should also draw upon that performance framework, theory of change or intervention logic. For example, a local authority's Long-Term Plan provides a meaningful performance framework for its activities.

18. In providing the contextual information required by paragraph 15(a), an entity shall explain the main ways in which it carries out its service performance activities. For example:

(a) Delivering goods and services directly to individuals, entities or groups (including members);

(b) Working together with other entities that share common objectives;

(c) Contracting with other entities to deliver goods and services on their behalf; or

(d) Making grants to other individuals or entities.

19. The nature of the information that an entity provides to meet the requirements of paragraph 15(b) will depend on the circumstances of the entity. An entity shall consider all of the following factors in deciding what to report.

(a) *What it is accountable/responsible for*. Some entities have responsibility for working towards particular improvements in the health, education, welfare and/or social or economic well-being of individuals or a segment of society. For example, a public sector entity may be required to target its resources to reduce disparity in educational achievement between different groups in society. In this case, the entity's service performance information is likely to focus on whether and the extent to which those particular improvements occurred. In other cases, entities are primarily responsible for the delivery of specific types and/or volume of goods or services to a target population, rather than trying to bring about particular improvements in the health, education, welfare and/or social or economic well-being of the recipients of those goods and services. For example, an entity may be required to provide support services to elderly people in a city. In that case, the entity's service performance information is likely to focus on the delivery of the specified goods or services. Even in cases where an entity determines the nature and extent of its service performance itself, it will need to consider the nature of its accountability to funders and service recipients.

(b) *What it intended to achieve during the reporting period*. The information that an entity provides about its planned performance will be influenced by how much information the entity has previously published about its planned performance. If a not-for-profit entity has identified specific performance goals or targets when obtaining funding from other parties, its service performance information is likely to focus on reporting whether, and/or the extent to which, it met those goals or targets. If a not-for-profit entity has been working towards general service performance objectives for the reporting period (for example, a planned increase in the range or volume of goods or services provided or a planned improvement in the entity's effect on a target population) rather than specific service performance goals or targets, its service performance information is likely to focus on reporting whether, and/or the extent to which, it made progress in relation to those general objectives. Public sector entities are often required to publish information about planned performance in planning documents. In such cases this Standard requires comparisons between actual and planned performance (see paragraph 37).

(c) *How it went about achieving its service performance objectives.* If an entity delivers goods and services in conjunction with another entity or collaborates with another entity in seeking to achieve its service performance objectives and goals, it needs to consider the most appropriate and meaningful way of reporting on its service performance. If an entity has agreed to deliver goods and services and then contracts with another entity to deliver those goods and services on its behalf, the first entity generally remains accountable for reporting on the delivery of those goods and services. If an entity makes grants to other entities to be used by those entities in delivering goods and services, the entity needs to exercise judgement in deciding whether to report solely on its funding activities or to include information about the goods and services provided by those other entities. In the public sector a department may administer an appropriation used by another department or it may use an appropriation administered by another department. The information a department includes in its service performance information will reflect which department has responsibility for reporting on such appropriations.

(d) *Other factors* relevant to an understanding of its service performance during the period, such as the links between its financial statements and service performance information and/or external social, legal or economic factors (for example, changes in funding levels that affect its service performance).

33. The reader needs information to understand the entity and the environment within which it operates. This is the setting for the entity's story. [CPA Canada, 2011 page 7, Organizational Purpose]

34. Relevant information often includes some brief background on the entity and its activities, an explanation of the geographical area or population served, a description of the particular sector, and any significant implications of the regulatory framework the entity works within. [CPA Canada, 2011 page 7, Organizational Purpose]

35. This information doesn't have to be comprehensive, but it should provide the reader with a general understanding of the way the entity works. [CPA Canada, 2011 page 7, Organizational Purpose]

Mission/Vision

36. The entity's mission (or vision and mission) should be central to the annual report. After all, that's what the entity is all about, and readers of the report may not be familiar with the entity's mission. The aims of the entity should be clearly expressed so that the reader gets a clear sense of what success looks like for that particular entity. [CPA Canada, 2011 page 8]

37. The mission can be referenced throughout the report, as the information presented relates back to the mission. The report should explain how the activities and programmes over the past year moved the entity closer to delivering on the mission or achieving its vision. Reference to measurable results can show how much progress was made by the entity over the course of the past year in working towards its broader aims and objectives. Where possible, the financial information should also be related back to the mission, as the report can explain how the entity's financial results and the stewardship of its resources support its ability to deliver on its mission. [CPA Canada, 2011 page 9, Mission/Vision.]

Strategy

38. It is helpful to set out the entity's strategy early in the report to provide context for the user. The entity's strategy will have both shorter-term (over the next year or two) as well as longer-term components. [CPA Canada, 2011 page 10, Strategy]

EXAMPLES of mission

NFP A (One-stop shop Youth Charity)

The mission of NFP A is to reduce suicide among young people.

The entity works to fulfil this mission through four strategies:

1. Provide crisis counselling to young people thinking of suicide.
2. Offer resources, supportive counselling and a sense of community to young people to reduce the risk that they become suicidal.
3. Educate those who interact with young people at risk on suicide prevention, risk detection and response.

Charitable Trust

The mission of Charitable Trust is to provide funding to enable increased populations of native birds in their natural habitat.

The Trust provides funding to entities that undertake the following types of activities:

1 Caring for and rehabilitating injured birds;

2 Breeding of endangered species;

3 Ridding natural habitats of predators that are a danger to native birds; and

4 Educating people about the risk to native birds of dogs, cats and other predators that are kept as pets.

Goals and Performance

39. One of the key things that an annual report does is to report on the results of the past year. This is often the "feel-good" part of the report – the stories of successful programmes delivered, fundraising events held, etc. This is a key part of the report and a powerful opportunity for the entity to tell its story, especially as it relates to achieving the mission. [CPA Canada, 2011 page 13, Goals and Performance]

40. Entities can demonstrate real accountability by explaining performance with greater detail and context; for example, by explaining what the goals were for the past year, how those goals were related to the mission, and what progress was made in achieving them. [CPA Canada, 2011 page 13, Goals and Performance]

41. Reports should explain how the activities of the past year relate to the entity's strategy. Performance measures can be used to define and measure an entity's progress towards achieving its goals. To be truly effective, these measures should be set in advance and measurable. They can include both financial and non-financial measures. [CPA Canada, 2011 page 13, Goals and Performance. We would probably have to acknowledge that although many entities will choose to report against detailed targets, the accounting standard itself does not require this and some entities may report against broader objectives] Although PBE FRS 48 does not require an entity to report against detailed targets, some entities may decide to report against broader objectives.

42. Historical comparisons can be included where relevant as they provide a useful means of tracking the entity's progress. The means of tracking performance should be consistent from one year to the next, and any changes should be explained. Whatever measures the entity selects, the report should explain how the metrics were determined. As far as possible, measures should be comparable – within the entity year-to-year, and even with other similar entities if possible. [CPA Canada, 2011 page 13, Goals and Performance]

43. Reports that demonstrate true accountability will be balanced and clearly address areas in which objectives were not achieved. They will also include a discussion of the factors both within and outside the control of the entity which affect the achievement of its goals. [CPA Canada, 2011 page 13, Goals and Performance.]

How much to focus on service performance information versus the rest of the annual report?

CPA Canada 2011 has sections on the following topics but they're more about the annual report than service performance information. Should we have a brief section explaining that service performance information should be consistent with information presented elsewhere in the report and give some examples of what that other information might cover?

- Risks and Opportunities
- Financial and Non-financial Highlights
- Fundraising
- Outlook for the Future
- Governance

44. It is important to check that the narrative information regarding the financial statements is consistent with the financial statements themselves, the notes to the financial statements, and information disclosed elsewhere. This can include reports to funders and regulators, and is important because providing inconsistent information can hurt an entity's credibility with stakeholders and users, and its reputation in the community. When audited financial statements are included in the annual report, the auditor should be informed of this and given the opportunity to review the annual report prior to its publication. [CPA Canada 2011 Page 21, final para]

Performance Measures and/or Descriptions

Requirements from PBE FRS 48 paragraphs 20 to 28 on performance indicators and or descriptions

20. **In reporting on what an entity has done during the reporting period an entity shall provide users with an appropriate and meaningful mix of performance measures and/or descriptions for the reporting period. The performance measures and/or descriptions used by an entity to communicate its service performance may**

be:

(a) **Quantitative measures: Examples of quantitative measures are the quantity of goods and services, the cost of goods and services, the time taken to provide goods and services, levels of satisfaction using a rating scale on a questionnaire or survey, and numerical measures for service performance objectives or goals;**

(b) **Qualitative measures: Examples of qualitative measures are descriptors such as compliance or non-compliance with a quality standard, ratings such as high, medium or low, or ratings assigned by experts; or**

(c) **Qualitative descriptions: Examples of qualitative descriptions are those based on participant observations, open-ended questions on interviews and surveys and case studies. For example, how did an entity's service performance activities change the well-being and circumstances of a client group?**

21. An entity shall exercise judgement to select an appropriate and meaningful mix of performance measures and/or descriptions so as to provide users of its financial statements with sufficient, but not excessive, information about its service performance for the period. In determining the type and extent of information to provide, the entity considers a balance between providing:

(a) Enough information to provide users with an overall picture of its service performance for the period; and

(b) Not so much information that it could obscure the overall picture.

22. In selecting the performance measures and/or descriptions to be reported an entity shall consider the qualitative characteristics and the constraints on information in general purpose financial reports. Judgement is needed to determine the most appropriate and meaningful performance measures and/or descriptions to be reported. The most appropriate and meaningful performance measures and/or descriptions are those that measure aspects of performance that are of particular value or importance for accountability or decision-making purposes.

23. In general, performance measures and/or descriptions shall have an external focus. However, this does not preclude an entity from providing information on internal activities, processes, plans or policies if it considers that this information provides important context for its service performance.

24. Performance measures and/or descriptions may be used to inform assessments of efficiency and effectiveness or they may attempt to provide information directly on an entity's efficiency and effectiveness in relation to its service performance.

25. Performance measures and/or descriptions may be used to inform assessments of the broad or longer-term effects of a project or an entity's work (also referred to as the difference the entity makes) on individuals who are direct recipients of a project or an entity's work, effects on those who are not direct recipients, or effects on society or subgroups of society. Examples of broad or longer-term effects include changes to educational achievements, changes to poverty and crime levels, or changes to the health of different groups within society.

26. Performance measures and/or descriptions are more useful when they are accompanied by comparisons (for example, comparisons over time (trend data), comparisons by population or provider subgroups, international comparisons and comparisons against a target or standard).

27. If an entity determines that reporting on goods and services delivered provides appropriate and meaningful service performance information, performance measures and/or descriptions for goods and services may include:

(a) The quantity of the goods and services;

(b) The quality of the goods and services;

(c) The timeframe over which the goods and services were produced;

(d) The physical location where the goods and services were delivered; and

(e) The cost of the goods and services.

28. Reporting on the cost of goods and services provides an important link between the financial statements and service performance information. However, it may not always be practicable, or the most appropriate way of reporting on goods and services. The reporting on the cost of goods and services will depend on an entity's accounting policies and its cost allocation policies. If an entity reports on the cost of goods and services it shall provide a reconciliation between the expenses in the financial statements and the total goods and services costs reported in the service performance information. Where unrecognised goods or services in-kind are a significant component of producing

goods and services, any cost information provided shall also acknowledge the use of these resources. PBE IPSAS 23 *Revenue from Non-Exchange Transactions* establishes requirements for the recognition of donated goods and services.

45. PBE FRS 48 requires an entity to report what it has done during the reporting period. This is achieved by reporting both quantitative and qualitative service performance information.

46. Each entity needs to think about what it is trying to measure and why. It also needs to think about how to use performance indicators to convey key messages about its service performance to stakeholders. For entities beginning this process it can be difficult to know where to start.

EXAMPLES

One stop shop Youth Charity

Contextual information

[Based in part on Kapiti Youth Support – combined with material from other one-stop shops]

Entity XYZ wants to improve the health and wellbeing of youth in the region, particularly those that face social, psychological or economic pressures. It does this by providing a one stop shop youth health care services in a safe, confidential and youth-focused environment.

New Zealand has a high rate of poor outcomes in adolescence – it has high rates of teenage suicide and measures of teenage risk-taking (including smoking, alcohol use and pregnancy). The long-term consequences of such activities to young people are particularly significant in terms of health, earning capacity and social integration. These consequences are reflected in significant emotional costs to families and individuals and in major costs for many components of government including social welfare, justice, education, police and corrections. They also create or reinforce cycles of intergenerational disadvantage.

Young people often find it difficult to access the services they need, and they may need more than one service. The one stop shop approach provides integrated youth health care services in one location, so that a young person receives holistic care in a coordinated way. There are a number of studies reporting the results of evaluation research into integrated care services [cite studies if appropriate].[2] These studies indicate that many young people who may not otherwise have sought help are accessing the services they need through one stop shops.

Young people report having benefited from and being highly satisfied with these services. Pre- and post-counselling intervention assessments show that young people report developing healthier coping strategies and increased self-belief. Evaluations have demonstrated an increased understanding of stress and management techniques. This approach seems to work well for many young people, although those with more serious health issues may benefit from more direct specialist care.

Entity XYZ provides a range of interventions to young people including one-to-one work, group work, mentoring and counselling, crisis support and social and recreational activities. The types of issues that we assist with include mental health, low self-confidence, low self-esteem, low resilience, low aspirations, family problems, teenage pregnancy, sexual health, sexual identity, eating disorders, education and employment, drug and alcohol use and self-harm. We provide some medical services on site and refer youth to other services as required.

We work alongside groups of young people that meet regularly, like Youth Advisory Groups and Youth Health Councils. We have established formal and informal links with many other organisations including PHOs, DHBs, Maori health providers, child and adolescent mental health services, women's health centres, sexual health clinics, family health centres, dental health services, various Ministries, Child Youth and Family, the NZ Police, local city councils, schools and groups such as the Alcohol Advisory Council, New Zealand Aotearoa Adolescent Health and Development, Family Planning and the YMCA.

We are funded by central government agencies, the Lottery Grants Board and the local authority. We also receive donations. The level of funding has remained stable over 2016 and 2017 and the nature and level of services provided is also expected to remain stable.

The entity's ultimate aims are to achieve a sustainable transformative change in the life of a young person through (for example) improved mental and physical health, improved self-confidence and self-esteem, and

[2] A report written for Counties Manukau District Health Board made recommendations for the development of a Pacific Youth Health Service in Counties Manukau based on a review of national and international evidence surrounding 'one stop shop' approaches and consultation with Pacific young people within Counties Manukau, their communities, and other key individuals.

improved social and personal skills. However, some of the entity's services aim to reduce the immediate risk of harm or occurrence of risk and problematic behaviour.

When reporting on activities for a particular year, measures that might be appropriate include:

- Number of service users (this could be in total, for various types of services or by age bracket)
- Percentage of service users reporting satisfaction with services available
- Percentage of service users reporting satisfaction with services used
- Percentage of users reporting a decrease in drug or alcohol use
- Number of drug and alcohol awareness sessions delivered to the community

Ways of collecting information include:[3]

- In-house records of number and type of services provided
- Questionnaires that give feedback on activities or indicate changes in young people's circumstances or lifestyle. These can include self-evaluations of progress between the start and completion of a course of one-to-one support. Such tools may be developed by the entity itself, be used by a number of entities or be nationally validated measures of clients' feelings in areas such as well-being, problems, functioning and risk.[4, 5]
- Systematically collected 'user feedback' about what participants think of activities, and whether they believe they have benefited from them
- Workshops or consultations to obtain direct feedback on services
- Data on what happens to young people immediately after they finish a programme, such as whether they re-enter education, find a job, or enrol in another programme
- Longer term tracking of a selected group of young people that have used the entity's services

Housing Trust

Contextual information

Housing Trust provides housing for senior citizens who do not own their own property. The Trust wants to provide secure homes and a sense of community for the residents.

The Trust owns a selection of one and two-bedroomed houses which are located in three suburbs in Town Z. The houses have been built by the Trust over the years from bequests received and are located close to local shops and public transport. The houses are grouped together in each suburb in such a way that the residents form their own small community. There are between 10 and 12 houses in each group.

The Trust employs a property manager who is responsible for the maintenance of the properties. The property manager is the first port of call for residents if repairs are needed and also undertakes property inspections every two months. This ensures that the properties are well-maintained and repairs are undertaken in a timely manner. Residents are encouraged to take pride in their small community. This involves looking after the gardens surrounding their houses. For those residents who are not gardeners, volunteers maintain the flower beds and shrubberies as well as mowing the lawns and generally keeping everything tidy.

To encourage residents to feel part of the larger community of the Trust there are regular monthly outings. These outings comprise activities such as visits to museums, visits to botanical gardens, going to the movies, line dancing, and lunch at a café. Residents also provide suggestions for outings.

To evaluate whether the Trust is meeting its objectives, written feedback is sought from residents on an annual basis. If an issue arises between these evaluations, the matter is addressed immediately by one or more of the Trustees.

When reporting on activities for a particular year, measures that might be appropriate include:

- Number of houses
- Number of residents, including changes during the year
- Number and type of outings
- Number of complaints received and number resolved

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3 Some information may be useful in reporting on the current year's performance and some may be relevant for longer term assessments.

4 Some entities offering youth services use a tool called TOMM – The Outcomes Measurement Model which was developed in New Zealand.

5 Research can provide interesting comparisons of various instruments. The following manuscript was written to serve as a clinical guide and reference for the selection of assessment instruments in low-resource mental health settings. Beidas, Rinad & Stewart, Rebecca & Walsh, Lucia & Lucas, Steven & Downey, Margaret Mary & Jackson, Kamilah & Fernandez, Tara & Mandell, David. (2014). *Free, Brief, and Validated: Standardized Instruments for Low-Resource Mental Health Settings*. Cognitive and Behavioral Practice. 22. . 10.1016/j.cbpra.2014.02.002.

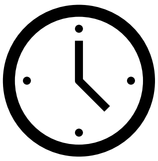
- Percentage of residents who report feeling part of a community
- Common concerns raised by residents and how addressed

Ways of collecting information include (some of this information may be reported at Trustee meetings):

- Records for each house, which includes tenants and work undertaken on the house
- Details of which residents attended which events (possibly needed for other purposes as well)
- Maintain correspondence regarding complaints and how they were resolved
- Maintain record of evaluation forms completed each year
- Details of maintenance carried out at each house (possibly needed for other purposes as well)

47. PBE FRS 48 does not specify the manner in which information must be presented. In addition to narrative, graphs, pie charts and infographics are all possible ways of presenting information. Some examples are shown below.

COUNSELLING



266

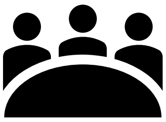
Counsellors provided 266 hours of counselling to 115 individuals

OR

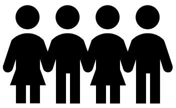
Approx

2,500

counselling sessions were run over the year

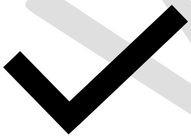


20 awareness sessions delivered to the community

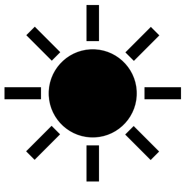


10,000

SERVICE USERS



95% of stakeholders report satisfaction with our services



60% report feeling more optimistic

Helpline

Narrative description of service
Explain how quality is maintained (eg training and supervision)
Number of calls, callers, hours spent
Gender breakdown
Age breakdown
Issues raised
Number or type of referrals
Ability to cope with demand for services
Description of a real or typical scenario

Would the Board like to include a generic outline for presenting information about services (see below)? Or Would the Board prefer that we draft examples similar to the two real examples shown below (from YMCA East Surrey)?

Possible generic layout for presenting quantitative and qualitative information about a service		
Name of service		
Description of service, who it is offered to and for how long, where and how the service is accessed	Icons, images, charts	Real life example or story Quotes from service users
Highlights for the year (examples only) • New activities • New levels of activity • New partnerships • More locations or improved service		

RAIFE
WAVES Youth Club

1 in 5 young people experience anxiety, depression or body confidence issues

16

YOUTH SERVICES | *WAVES Youth Club*

"When I first came to WAVES a year ago, I wasn't in the greatest place," admits Raife, 14.

"There's so much stress and pressure on young people that, when I heard about the group through a talk at my school, I wanted to give it a try. I felt nervous about coming along as it was unknown territory."

WAVES (Wellbeing, Awareness & Voice in East Surrey) is our mental health support drop-in group for young people aged 11 to 19. The project provides a safe space where young people who are experiencing or have experienced mental health issues can come along and talk to staff, take part in positive activities, combat stigma and build up friendships and support networks with other young people.

"I found the WAVES group friendly and welcoming," says Raife. "Sessions feel relaxed, the staff are always ready to listen and I've made new friends who really understand how I feel. It helps so much to have people there who will support me without judging."

In February, Inclusive Youth Support Worker Ella Sowton took five WAVES members on a trip to the House of Parliament to take part in an All-Party Parliamentary Group on Youth Affairs. Raife wrote a speech, which was read by Ella, about her experiences with body image anxiety, giving her view of what she felt would help young people to overcome the problems they face.

"This was a turning point for Raife," says Ella. "When she first came to WAVES, she was quiet and withdrawn, finding loud situations very difficult. The Parliament trip marked a tremendous change in her confidence and I was so proud when she stood up with me and took ownership of her speech."

1 in 5 young people experience symptoms of anxiety, depression and issues with their body confidence and 1 in 10 have a diagnosable mental health issue. Our Reigate group now has an average of 11 young people in regular attendance and we are currently trying to expand WAVES to provide much needed drop-in sessions in different areas around East Surrey.

"Raife once told me that she felt there was no youth club that fitted her," says Ella. "Now, she is a willing ambassador for WAVES, one of the leaders of our group and she fits in perfectly. Our challenge is to reach and support more young people like Raife."

"I still have times when I get down but now there are people I can turn to," says Raife. "It starts to get better when you know you're not alone."

Local Prevention Youth Work

Our youth workers were busy over the summer holidays delivering a range of fully-funded, diversionary activities targeted at young people aged 10-16 at risk of becoming NEET (Not in Education, Employment or Training). The activities aimed to help young people engage with our youth work team and included working at Jolly John's Play Farm as well as trips out to Littlehampton, Thorpe Park and Brighton. Youth workers also provided one-to-one mentoring for young people referred for early help.

Each month, our youth services team deliver approximately 230 hours of youth work and engage with approximately 130 individual young people, helping them to build resilience and achieve their full potential.

17

How do we assess our effectiveness?
[not sure if this should come near the end or near the beginning of the youth health example or be in a separate section of the document]
Some entities aim to address the immediate needs of individuals. If they have delivered goods and services that address those immediate needs and are not attempting to meet needs over a longer time period, then evaluation of effectiveness may not be relevant. For entities that are seeking to make a longer-term impact or where a range of interventions are possible, a discussion of evaluative activity (actual and planned) can provide context.

- Discuss any evaluations carried out by the entity itself, evaluations in which the entity has participated, or evaluations of similar entities or activities.
- Note when future evaluations are expected to occur.
- Mention new activities or innovations which are being trialled and where there is currently no evidence of potential outcome.

Shared Performance

Look for examples of how entities explain their performance

Working Together

Look for examples of how entities report on their performance when they have worked closely with another entity. Try and find a few different scenarios.

Comparative Information and Consistency of Reporting

48. PBE FRS 48 requires an entity to provide service performance information for the current year and the previous year in a consistent manner. This enables users to compare the service performance of the entity over a period of time and with that of other entities that undertake similar activities.

49. An entity is required to provide comparative information for all amounts of service performance information reported in the current period. However, comparative information for narrative and descriptive information is required when it is relevant to an understanding of the current period's service performance information.

50. If an entity changes what it reports and how it reports its service performance information, it is required to explain the nature of those changes and their effect on the current period's service performance information. However, the comparative information is not required to be changed.

Identify the requirements in the standard

Give some examples of comparative numerical measures, changed activities, changed measures

EXAMPLES

Comparative Information

Funding Charity X

Funding Charity X grants funding to not-for-profit entities that train dogs to be assistance dogs other than guide dogs, customs dogs and police dogs. The entity reports the following service performance information for the current year.

	20X2		20X1	
Type of assistance	**No of entities**	**$**	**No of entities**	**$**
Diabetes	10	1,500,000	8	1,300,000
Epilepsy	4	500,000	5	500,000
Help for physically disabled people (eg wheelchair bound)	8	78,000	8	75,000
Tracking kiwi for monitoring	2	25,000	2	25,000
Disaster rescue dogs (eg earthquakes)	4	300,000	4	300,000

Change of Activities

Help for Hikers

Help for Hikers is a registered charity with the purpose of enabling people to enjoy their outdoors recreation safely. The entity receives funding from a variety of sources, including the Department of Conservation. It also has an online shop which sells outdoor safety resources (with all profits used for the entity's purpose) and a website and Facebook page.

The entity works collaboratively with other entities with the aim of reducing injuries, the number of search and rescue call-outs and fatalities in the outdoors.

During the year, the entity decided to start training its own search and rescue dogs. This new activity was proposed by a group of volunteers with the necessary skills. The entity decided to trial this new activity and allocated resources in the budget.

Help for Hikers reports the following service performance information for the current year.

New Activity

At the end of last year, a group of volunteers with the necessary skills suggested that the entity train its own search and rescue dogs rather than relying on other entities when dogs are needed. The governing body agreed to this suggestion and a strategy was developed for sourcing and training the dogs. This activity was also included in the budget.

Volunteers with appropriate qualifications (regarding dog psychology and training) check suitably sized dogs that are available for adoption to assess their suitability to undertake search and rescue activities. Dogs with the correct temperament are adopted by a volunteer and trained to search for people lost and/or injured in the outdoors.

Activity		
Training courses for volunteers	**20X4**	**20X3**
Number of courses presented	9	7
Number of attendees	240	178
Webpage – Be prepared in the outdoors	18,654 hits	15,267 hits
Facebook page	Hits Like 34,789 30,546	Hits Like 10,436 4,198
Search and rescue operations conducted – no serious injuries	23	17
Search and rescue operations conducted – moderate to serious injuries	4	5
Search and rescue dogs trained – new activity	2	

Disclosure of Judgements

Ideas at this stage…

Identify the requirements in the standard

Give some examples of how an entity might meet those requirements or the process that it might go through in deciding whether it needs to disclose judgements.

Go through a simple scenario where an entity has reported what it is planning to do and has identified what measures it will use at the beginning of the period. Simple explanation might suffice.

Then look at another where an entity has developed its own measures and explain the process it used.

Example where an entity is reporting against measures established by someone else or industry standard.

Try and develop an example where an entity has lots of activities and has decided to focus on a selection in its report. Why did it decide those are its most relevant activities?

Other ideas from the CPA Canada Guide

These ideas come from the CPA Canada Guide. We haven't yet decided whether to incorporate them in the NZ guidance.

Practical Questions

[Not sure if we should get into annual reporting processes in this guide.]

Who is Responsible for Reporting?

51. This will depend upon the size and type of entity. Larger entities may have both a dedicated staff person in charge of communications and/or public relations, as well as a communications committee of the board. In smaller entities with few paid staff, the annual report may be prepared primarily by the Executive Director, a volunteer, or a board member or committee. Regardless of who drafts the report, it should be reviewed and approved by the Executive Director and the full board of directors. [CPA Canada 2011, page 38]

How Do We Decide What to Report on Each Year?

52. In order to determine what key information will be most useful to stakeholders and will best serve to communicate the entity's story, it can be helpful to review the report for completeness and links to other important matters.

Completeness

Does the report:

- Provide sufficient background information on the organization's purpose and its operations?
- Clearly explain the organization's mission?
- Set out the organization's strategy for delivering on its mission?
- Present measurable outcomes that demonstrate progress towards objectives?
- Explain the organization's outlook and goals for the future?
- Identify major risks to the organization's ability to achieve its objectives in the future along with measures undertaken to mitigate or manage the risk?
- Integrate financial and non-financial information?
- Highlight and explain key metrics of interest to the organization's stakeholders?
- Demonstrate how the leadership and governance of the organization supports its sustain-ability and ability to deliver on its mission?

Other matters to consider:

- Financial statements – Identify key items and issues that are likely to be of interest to stakeholders or things that are not self-evident.
- Organizational objectives – Consider goals, objectives and challenges for the year.
- Board meetings – Review board agendas and minutes to identify relevant issues relating to strategy, risks, operations, etc.
- Media coverage – Review press releases and external media coverage to recap major events and publicity over the year.
- Other reporting – Have a look at other reports such as reports to funders to identify key financial data and performance indicators.
- External factors – Identify key sector developments that played a role in this year's results and which may affect next year's performance.
- Reports of other entities – Review reports of similar entities or entities that have been recognised for the high quality of their reporting for ideas.

Effective reports often contain an introductory section or executive summary that contains the overall message and a summary of key information. The use of colour, charts, tools, etc. can help break up large blocks of text and highlight key facts. As well, including feedback from users about programs and services helps to heighten readers' interest in the report. [CPA Canada 2011, page 39. Not sure where this would be best located in this Guide.]

How Can We Continuously Improve Our Report?

[Idea for this section comes from CPA Canada 2011 page 40. Not sure if this is relevant for this Guide]

In order to continuously improve reporting, feedback from stakeholders and others is important. Ideas for feedback include:

- asking readers of the report to submit feedback and providing information on how to do this;
- seek advice from independent experts;
- enter contests such as [insert CA ANZ awards]

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	26 January 2018
To:	NZASB Members
From:	David Bassett and Vanessa Sealy-Fisher
Subject:	**Insurance**

Purpose[1]

1. The purpose of this agenda item is to seek the Board's feedback on our proposals to:

   (a) not carry forward into NZ IFRS 17 *Insurance Contracts* or FRS-44 *New Zealand Additional Disclosures*, the New Zealand-specific disclosure requirements in Appendices C and D of NZ IFRS 4 *Insurance Contracts*; and

   (b) develop a PBE Standard based on IFRS 17 *Insurance Contracts* (see agenda item 6.2).

Recommendations

2. We recommend that the Board:

   (a) AGREES not to carry forward into NZ IFRS 17 or FRS-44 the New Zealand-specific disclosure requirements in Appendices C and D of NZ IFRS 4;

   (b) AGREES to develop a PBE Standard based on IFRS 17; and

   (c) AGREES to establish a working group for a project to develop a PBE Standard based on IFRS 17.

Structure of the memo

3. This memo is structured as follows.

   (a) Background to accounting for insurance in New Zealand

   (b) New Zealand-specific disclosure requirements

   (c) Application of the PBE Policy Approach

   (d) Next steps

Background to accounting for insurance in New Zealand

4. Prior to the adoption of IFRS Standards New Zealand generally accepted accounting practice included financial reporting standards for insurance activities. Those standards were FRS-34

[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).

Life Insurance Business (issued in November 1998) and FRS-35 *Financial Reporting of Insurance Activities* (issued in July 1999).

5. On adoption of IFRS Standards in New Zealand in 2005, FRS-34 and FRS-35 were incorporated into NZ IFRS 4 *Insurance Contracts* as Appendix C *Life Insurance Entities* and Appendix D *Financial Reporting of Insurance Activities* respectively. Appendices C and D were updated to be consistent with NZ IFRS.

6. The requirements in Appendix C and Appendix D of NZ IFRS 4 are substantively the same as the requirements in AASB 1038 *Life Insurance Contracts* and AASB 1023 *General Insurance Contracts* respectively, except for requirements and disclosures regarding the regulatory frameworks.

7. The Insurance (Prudential Supervision) Act 2010 established the Reserve Bank of New Zealand (RBNZ) as the regulator for licensed insurers. As part of this regulatory responsibility, RBNZ licenses entities to carry out life insurance and non-life insurance activities in New Zealand and issues solvency standards with which those entities must comply. Appendix 2 to this memo outlines the requirements in the *Solvency Standard for Life Insurance Business* relevant for financial reporting purposes.[2]

8. In May 2017, IFRS 17 was issued by the International Accounting Standards Board (IASB).

9. At its June 2017 meeting, the Board received an education session on IFRS 17 and considered a comparison of New Zealand insurance GAAP and IFRS 17. The Board agreed:
   (a) in principle to adopt IFRS 17 as an NZ IFRS without any New Zealand-specific disclosure requirements about solvency, fiduciary activities, the actuarial calculation and the actuary; and
   (b) to consider any proposals for New Zealand-specific disclosure requirements as part of a separate project with the Australian Accounting Standards Board (AASB).

10. NZ IFRS 17, which is identical to IFRS 17 except for a New Zealand scope paragraph to limit application of the standard to Tier 1 and Tier 2 for-profit entities, was issued by the Board on 10 August 2017. The standard is effective for annual reporting periods beginning on or after 1 January 2021. Earlier application is permitted for entities that apply NZ IFRS 9 *Financial Instruments* and NZ IFRS 15 *Revenue from Contracts with Customers*.

New Zealand-specific disclosure requirements

11. We have identified the disclosure requirements contained in Appendices C and D of NZ IFRS 4 that were additional disclosure requirements beyond disclosure requirements for the recognition and measurement requirements of NZ IFRS 4 Appendices C and D. These additional disclosure requirements have been grouped into regulatory disclosure requirements and other disclosure requirements. We have assessed whether these disclosure requirements should be carried forward into NZ IFRS 17 or FRS-44 below.

[2] Although Appendix 2 outlines the requirements in the *Solvency Standard for Life Insurance Business*, the requirements in the *Solvency Standard for Non-life Insurance Business* are substantively the same.

New Zealand-specific regulatory disclosure requirements

12. Paragraphs 17.8, 17.9 and 17.10 of Appendix C of NZ IFRS 4 require disclosures about solvency information, managed funds and other fiduciary activities, and actuarial information respectively. Paragraph 17.8A of Appendix D of NZ IFRS 4 requires disclosures about actuarial information, and those disclosure requirements are identical to the disclosure requirements in paragraph 17.10 of Appendix C of NZ IFRS 4. Similar disclosures were also required by FRS-34 and FRS-35 respectively.

13. Appendix 1 to this memo lists the New Zealand regulatory disclosure requirements in Appendices C and D of NZ IFRS 4 and identifies where those disclosures could be captured by the disclosures in other NZ IFRSs or under the solvency standards.

14. We recommend that the New Zealand-specific regulatory disclosure requirements in Appendices C and D of NZ IFRS 4 not be carried forward into NZ IFRS 17 or FRS-44 for the following reasons.

    (a) Financial reporting standards contain requirements for the preparation of general purpose financial statements rather than financial statements for regulatory purposes.

    (b) The New Zealand regulatory disclosure requirements in Appendices C and D of NZ IFRS 4 were included prior to the regulatory framework established under the Insurance (Prudential Supervision) Act 2010.

    (c) RBNZ, as the regulator, issues solvency standards for licensed insurers. These standards require licensed insurers to calculate a solvency margin using figures from GAAP-compliant financial statements and specifies information to be disclosed in the financial statements or group financial statements.

    (d) The Australian Accounting Standards Board has issued Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities* (DP). The DP proposes that the regulatory disclosure requirements in AASB 1023 and AASB 1038 should not be carried forward into either AASB 17 *Insurance Contracts* or AASB 1054 *Australian Additional Disclosures*.

    (e) Although there might be for-profit entities other than licensed insurers that issue insurance contracts (in which case they would not be regulated by RBNZ), it is unlikely that the contracts issued by those entities would form a significant part of the entity's activities.

Other New Zealand-specific disclosure requirements

15. Paragraphs 18.1 to 18.3.1 of Appendix C of NZ IFRS 4 require disaggregated information about investment-linked and non-investment linked business. We do not propose to carry forward these disclosure requirements on the grounds that NZ IFRS 17 contains requirements for accounting for insurance contracts, not accounting by entities that undertake insurance as an activity. NZ IFRS 17 also contains requirements for an entity to separately report information about different product categories and groupings.

16. Paragraph 18.4 of Appendix C of NZ IFRS 4 requires disclosure of the movement in, and balance of, the Policyholder Credit Account. The Policyholder Credit Account was repealed with the introduction of the life tax rules in 2010, therefore the disclosure requirement is no longer relevant.

17. Appendix D of NZ IFRS 4 requires disclosure of the following.

    (a) The entity's credit rating (paragraph 17.8C). NZ IFRS 17 does not require an entity to disclose its credit rating.

    (b) The principles on which the insurer's reinsurance programme is structured (paragraph 17.8D).

    (c) The amount of equity retained for the purpose of financial soundness and the basis of establishing that amount (for each insurer in the group) (paragraph 17.8E).

18. Paragraph 17.8F.2 of Appendix D notes that the disclosures on reinsurance (paragraph 17.8 D) and the amount of equity retained by an insurer to maintain its continuing financial soundness (paragraph 17.8 E) should describe the types of risk that are covered by these measures and the level of coverage compared to the insurer's total exposure to that type of risk.

19. We do not propose to carry forward the disclosure requirements in paragraphs 17.8C, D and E. We consider that these disclosure requirements are sufficiently covered by the requirements in:

    (a) NZ IFRS 17 and NZ IFRS 7 *Financial Instruments: Disclosures* to disclose qualitative and quantitative information about the risks arising from insurance contracts issued (and reinsurance contracts held) and financial instruments, including insurance risk, market risk, credit risk, liquidity risk and concentrations of risk; and

    (b) the solvency standards issued by RBNZ to calculate a solvency margin and disclose that margin in the financial statements or group financial statements.

20. Staff have contacted representatives from the FMA and RBNZ to ascertain whether they have any objections to not carrying forward into NZ IFRS 17 or FRS-44 the New Zealand regulatory disclosure requirements in Appendices C and D of NZ IFRS 4. We will report our findings verbally to the Board at the meeting.

Question for the Board

Q1 Do you agree not to carry forward into NZ IFRS 17 or FRS-44 the New Zealand-specific disclosure requirements in Appendices C and D of NZ IFRS 4?

Application of the PBE Policy Approach

21. Agenda item 6.2 sets out the application of the *Policy Approach to Developing the Suite of PBE Standards* to NZ IFRS 17.

22. Agenda item 6.2 recommends that the Board agrees to develop a PBE Standard based on IFRS 17 *Insurance Contracts*.

Question for the Board	
Q2	Do you agree that we should develop a PBE Standard based on IFRS 17?

Next steps

23. If the Board agrees that New Zealand-specific disclosure requirements are not necessary in NZ IFRS 17 or FRS-44, we believe that no further action is needed.

24. If the Board agrees to develop a PBE Standard based on IFRS 17, we will start drafting an issues paper and exposure draft to bring back to the Board in May. We also plan to establish a working group consisting of Board representatives and other parties that have insurance accounting expertise. We will consult with the working group on issues identified that may warrant PBE-specific modifications before bringing an issues paper and exposure draft back to the Board.

Question for the Board	
Q3	Do you agree that we should establish a working group for a project to develop a PBE Standard based on IFRS 17?

Attachments

Agenda item 6.2: Application of PBE Policy Approach to IFRS 17

Agenda item 6.3: *Policy Approach to Developing the Suite of PBE Standards* (in supporting papers)

APPENDIX 1

New Zealand-specific regulatory disclosures for insurance

The solvency standards require (i) the calculation of the solvency margin to be based on NZ GAAP financial statements; and (ii) information to be disclosed in the financial statements or group financial statements.

Disclosures required by Appendix C *Life Insurance Entities*	**Other requirements that may lead to similar disclosures**
Solvency information **17.8 A life insurer shall disclose the solvency margin (determined in accordance with the solvency standards made under the Insurance (Prudential Supervision) Act 2010) of each life fund (as defined in the solvency standards made under the Insurance (Prudential Supervision) Act 2010) and the aggregate solvency margin for all life funds of the life insurer. A group shall disclose the solvency margin of each life insurer in the group.**	NZ IAS 1 paragraphs 134–136[3] NZ IFRS 17 paragraph 126[2] The solvency standards specify what comprises capital and the specific disclosures to be made by licensed insurers (see Appendix 2 to this memo) and that information must be included in the financial statements or group financial statements.
Managed funds and other fiduciary activities **17.9 The nature and amount of the life insurer's activities relating to managed funds and trust activities, and whether arrangements exist to ensure that such activities are managed independently from its other activities, shall be disclosed.**	No equivalent disclosures
Actuarial information[4] **17.10 The following shall be disclosed in notes:** **(a) if other than the end of the reporting period, the effective date of the actuarial report on policyholder liabilities and solvency reserves;**	NZ IAS 1 paragraphs 134–136[2]
(b) the name and qualifications of the actuary;	No equivalent disclosure in NZ IFRS Section 78 of the Insurance (Prudential Supervision) Act 2010 requires disclosure in the actuary's report of the actuary's name and work performed.
(c) whether the amount of the solvency margin has been determined in accordance with the requirements of solvency standards made under the Insurance (Prudential Supervision) Act 2010);	NZ IAS 1 paragraphs 134–136[2] The solvency standards require the solvency margin to be calculated on the basis of NZ GAAP financial statements and be disclosed in the financial statements or group financial statements.
(d) whether the actuary is satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined; and	The solvency standards require the actuary to report to RBNZ.
(e) any qualifications contained in the actuarial report.	No equivalent disclosure in NZ IFRS (but would be provided to RBNZ under the solvency standards).

[3] See next page for relevant extracts from other NZ IFRSs.

[4] This disclosure is also required by paragraph 17.8A of Appendix D of NZ IFRS 4.

Extracts from relevant NZ IFRSs

NZ IAS 1 *Presentation of Financial Statements*

Capital

*134 **An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.**

*135 To comply with paragraph 134, the entity discloses the following:

(a) qualitative information about its objectives, policies and processes for managing capital, including:

(i) a description of what it manages as capital;

(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

(iii) how it is meeting its objectives for managing capital.

(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).

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

(d) whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The entity bases these disclosures on the information provided internally to key management personnel.

*136 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

NZ IFRS 17 *Insurance Contracts*

Significant judgements in applying NZ IFRS 17

117 An entity shall disclose the significant judgements and changes in judgements made in applying NZ IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:

(a) the methods used to measure insurance contracts within the scope of NZ IFRS 17 and the processes for estimating the inputs to those methods. Unless impracticable, an entity shall also provide quantitative information about those inputs.

(b) any changes in the methods and processes for estimating inputs used to measure contracts, the reason for each change, and the type of contracts affected.

(c) to the extent not covered in (a), the approach used:

(i) to distinguish changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features (see paragraph B98);

(ii) to determine the risk adjustment for non-financial risk, including whether changes in the risk adjustment for non-financial risk are disaggregated into an insurance service component and an insurance finance component or are presented in full in the insurance service result;

(iii) to determine discount rates; and

(iv) to determine investment components.

118 If, applying paragraph 88(b) or paragraph 89(b), an entity chooses to disaggregate insurance finance income or expenses into amounts presented in profit or loss and amounts presented in other comprehensive income,

the entity shall disclose an explanation of the methods used to determine the insurance finance income or expenses recognised in profit or loss.

119 An entity shall disclose the confidence level used to determine the risk adjustment for non-financial risk. If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique.

120 An entity shall disclose the yield curve (or range of yield curves) used to discount cash flows that do not vary based on the returns on underlying items, applying paragraph 36. When an entity provides this disclosure in aggregate for a number of groups of insurance contracts, it shall provide such disclosures in the form of weighted averages, or relatively narrow ranges.

Nature and extent of risks that arise from contracts within the scope of NZ IFRS 17

121 …

126 An entity shall disclose information about the effect of the regulatory frameworks in which it operates; for example, minimum capital requirements or required interest-rate guarantees. If an entity applies paragraph 20 in determining the groups of insurance contracts to which it applies the recognition and measurement requirements of NZ IFRS 17, it shall disclose that fact.

Basis for Conclusions on IFRS 17 *Insurance Contracts*

Regulatory capital

BC369 IFRS 17 requires an entity to disclose information about the effect of the regulatory frameworks in which it operates; for example, minimum capital requirements or required interest rate guarantees (see paragraph 126 of IFRS 17). Many users of financial statements indicated a desire for additional disclosures that would help them to understand and analyse those effects; in particular:

(a) information about how much regulatory capital an entity needs to hold for the new contracts written in the period, and when that capital will cease to be required; and

(b) information about the amount of equity generated in a reporting period that is not needed to service the regulatory capital requirements. That amount is sometimes referred to as ‘free cash flow’.

BC370 Disclosure of the regulatory capital required could provide users of financial statements with information about:

(a) the entity’s profitability, ongoing capital needs and, thus, financial flexibility;

(b) an entity’s capacity to write new business in future periods, because the excess over regulatory capital held is available to support future new business; and

(c) improved understanding of the financial position, financial performance and cash flows during the reporting period.

BC371 However, entities that issue insurance contracts are not the only entities that operate in a regulated environment. Such disclosures might be useful for all entities operating in a regulated environment. The Board was concerned about developing such disclosures in isolation in a project on accounting for insurance contracts that would go beyond the existing requirements in paragraphs 134–136 of IAS 1. Accordingly, the Board decided to limit the disclosures about regulation to those set out in paragraph 126 of IFRS 17.

APPENDIX 2

Summary of the requirements in the *Solvency Standard for Life Insurance Business*

The *Solvency Standard for Life Insurance Business* includes the following.

1. The minimum requirements for calculating a licensed insurer's Solvency Margin.

2. The Solvency Margin must be calculated on the basis of appropriate NZ GAAP financial statements.

3. The Solvency Standard:

    (a) specifies a minimum amount of fixed capital that must be maintained;

    (b) specifies what comprises capital and deductions from capital for the purpose of determining the minimum solvency capital;

    (c) explains the characteristics of, and general requirements for, capital instruments;

    (d) explains how to calculate the Minimum Solvency Capital;

    (e) imposes obligations on licensed insurers; and

    (f) imposes obligations on appointed actuaries of licensed insurers.

4. The obligations of licensed insurers include:

    (a) ensuring that the actuarial information contained in, or used in the financial statements or group financial statements is reviewed by the appointed actuary;

    (b) providing an Annual Solvency Return which is accompanied by, among other things:

        (i) a copy of the audited financial statements or group financial statements;

        (ii) a report by the auditor of the licensed insurer on the audit of the Annual Solvency Return; and

        (iii) a Financial Condition Report prepared by the appointed actuary of the licensed insurer; and

    (c) disclosing the solvency calculations[5] in the financial statements or group financial statements, and on a website (if any).

5. The obligations of the appointed actuary include:

    (a) performing or reviewing all aspects of the Solvency Margin calculations and documenting the results in the Financial Condition Report; and

    (b) ensuring that all actuarial work is carried out in accordance with the New Zealand Society of Actuaries' Professional Standards.

[5] Actual Solvency Capital, Minimum Solvency Capital, Solvency Margin and Solvency Ratio

NZ ACCOUNTING STANDARDS BOARD

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

Date:	26 January 2018
To:	NZASB Members
From:	David Bassett and Vanessa Sealy-Fisher
Subject:	**Application of PBE Policy Approach – IFRS 17 *Insurance Contracts***

Recommendations[1]

1. We recommend that the Board AGREES to develop a PBE Standard based on IFRS 17 *Insurance Contracts*.

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 6.3).

3. The Board issued NZ IFRS 17 *Insurance Contracts* in August 2017, with an effective date of 1 January 2021.

4. NZ IFRS 17 is based on IFRS 17 *Insurance Contracts* which was issued by the International Accounting Standards Board (IASB) in May 2017.

5. The Board needs to consider whether a PBE Standard based on IFRS 17 should be developed for public benefit entities (PBEs).

Application of the PBE Policy Approach

6. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard.

7. The PBE Policy Approach contains a number of triggers for considering whether to change PBE Standards. In this case the IASB has issued an IFRS Standard (IFRS 17 *Insurance Contracts*) that supersedes an IFRS Standard (IFRS 4 *Insurance Contracts*) which has been used as the basis for a PBE Standard (PBE IFRS 4 *Insurance Contracts*). We have therefore applied section 4.2.3 (paragraphs 35–38) of the PBE Policy Approach.

[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).

Relevant trigger for PBE Policy Approach and its application

8. The relevant trigger to apply the PBE Policy Approach is set out in paragraph (c) of the Policy. In this case there is a change to an IFRS (IFRS 4 is superseded by IFRS 17) that has been used as the basis for a PBE Standard.

Extracts from PBE Policy Approach

35. The NZASB has included selected "frozen" NZ IFRS in the suite of PBE Standards (see footnote 5) in order to maintain current practice until the IPSASB addresses the related issues.

36. In considering a change to an NZ IFRS that is included in the suite of PBE Standards, the NZASB shall consider the factors in the development principle in determining whether to initiate a development of the PBE Standards.

37. However, in situations where there is no equivalent IPSAS on the topic and the IPSASB is not expected to create such a standard in the foreseeable future, the IPSASB's likely response to the change would be less relevant. This will impact on the overall assessment of the costs and benefits of including the NZ IFRS development in the PBE standards. This is because the potential problems associated with "getting ahead of the IPSASB" (as discussed in paragraph 28 above) are less likely to arise.

38. An implication of this policy is that those PBE Standards based on a "frozen" NZ IFRS (see footnote 5) may need to be updated to align with the current equivalent NZ IFRS.

[5] The NZ IFRS applying to PBEs were "frozen" in 2011, pending the establishment of the XRB and the anticipated development of PBE Standards. The "frozen" NZ IFRS that the NZASB has included in the PBE Standards are PBE IFRS 3 *Business Combinations*, PBE IFRS 4 *Insurance Contracts*, PBE IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations*, PBE IAS 12 *Income Taxes* and PBE IAS 34 *Interim Financial Reporting*, together with NZ IFRIC 12 *Service Concession Arrangements* and NZ-SIC 29 *Service Concession Arrangements: Disclosures* (which are the basis for PBE FRS 45 *Service Concession Arrangements: Operator).*

9. NZ IFRS 17 supersedes NZ IFRS 4, which is the basis for PBE IFRS 4 *Insurance Contracts*.

10. The International Public Sector Accounting Standards Board (IPSASB) does not have an equivalent standard on insurance and has no plans to develop such a standard. Furthermore, IPSASB ED 63 *Social Benefits* propose to permit an entity, in certain circumstances, to apply the insurance approach in IFRS 17 when accounting for certain social benefits.

11. We have identified four not-for-profit licensed insurers and some public sector entities that apply PBE IFRS 4 (see the Appendix to this memo).

12. Staff have spoken with staff of Accident Compensation Corporation (ACC), who have indicated that they are broadly supportive of the NZASB developing a PBE Standard based on IFRS 17. However, they would like the NZASB to consider a variation in relation to the risk adjustment (discussed in the following section). ACC staff also noted that they benchmark against similar schemes in Australia and Canada and therefore having consistent accounting requirements would assist comparability.

13. Initial discussions with the RBNZ staff indicate support for the NZASB developing a PBE Standard based on IFRS 17. The RBNZ commented that there are several licenced insurers that are PBEs and would be subject to the solvency standards issued by the RBNZ. The solvency standards refer to NZ GAAP for determining the solvency margin. As a consequence, the RBNZ's preference is to have consistent NZ GAAP requirements for all licenced insurers. We

are seeking confirmation of this from the RBNZ and will report verbally to the Board at the meeting.

Potential issues identified that might warrant PBE-specific modifications

14. Staff have identified the following issues that will need to be considered by the Board in developing a PBE Standard. These issues have been provided to assist the Board's discussion of whether to proceed with a project to develop a PBE Standard based on IFRS 17. Staff are not seeking the Board's feedback on these issues at this stage. If the Board agrees to develop a PBE Standard based on IFRS 17 staff will bring an issues paper to a future Board meeting for consideration.

Issue	**Initial comments**
Scope and interaction with IPSASB *Social Benefits* project	IFRS 17 applies to insurance contracts.[2] Some PBEs that currently apply PBE IFRS 4, eg ACC, may have insurance-like arrangements that arise from statute rather than contract. Such insurance-like arrangements may not meet the definition of an insurance contract in IFRS 17 and would therefore be outside the scope of IFRS 17. In the IPSASB's Exposure Draft 63 *Social Benefits* (ED 63), the IPSASB proposes that social benefits similar to insurance contracts, which meet specific criteria, could be accounted for under IFRS 17.[3] The Board will need to consider whether to modify the scope of a PBE Standard based on IFRS 17 to capture PBEs with insurance-like arrangements, and the interaction of any scope modifications with the IPSASB's final standard on social benefits.
Risk adjustment in determining an insurance obligation	IFRS17 requires that a risk adjustment[4] be included in determining the insurance obligation under the general approach. Some PBEs with insurance-like arrangements, such as ACC, may not price premiums for inherent uncertainty risk. Therefore, the inclusion of a risk adjustment in determining the insurance obligation could result in an insurer appearing underfunded, when it could be argued that this is not the case.

[2] A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

[3] An entity may recognise 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.

[4] The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.

Issue	**Initial comments**
	Currently, PBEs applying Appendix D of PBE IFRS 4 need to include a risk margin in determining an outstanding claims liability. Therefore, the concept of a risk adjustment would not be new for these PBEs. The IPSASB notes in its Basis for Conclusions on ED 63, that respondents to its Consultation Paper *Recognition and Measurement of Social Benefits* 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 (BC52). 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 and that this would require a significant use of resources, which would defeat the IPSASB's intentions in directing preparers to apply IFRS 17 (BC55).
Discount rate	IFRS 17 specifies that the discount rates applied to the estimates of the future cash flows shall: (a) reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts; (b) be consistent with observable current market prices (if any) for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts, in terms of, for example, timing, currency and liquidity; and (c) exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts. Concerns have been raised regarding the requirement for a liquidity adjustment. The IPSASB noted the following in the Basis for Conclusions on ED 63: 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. …

Issue	Initial comments
	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 paragraphBC41 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.
Schemes that are not fully-funded	IFRS 17 requires an insurance contract to be accounted for as an onerous contract if, at the date of initial recognition, the fulfilment cash flows allocated to the contract, any previously recognised acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow. If schemes with insurance-like arrangement that are not fully-funded, such as ACC's non-earners' account (pre July 2001 claims), apply the requirements IFRS 17 they may have to account for these arrangements as onerous contracts. Consideration will need to be given as to whether such treatment would be appropriate for these schemes.

Other relevant factors and RDR

15. There are no other factors to consider that may be relevant to the Board's decision.

16. There are no RDR concessions in NZ IFRS 17 because licensed insurers are FMC reporting entities considered to have a higher level of public accountability under section 461K of the Financial Markets Conduct Act 2013.

APPENDIX

Not-for-profit entities

The following entities are not-for-profit licenced insurers applying PBE Standards.

- 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 entities

The following entities apply, or may apply, PBE IFRS 4.

- Accident Compensation Corporation (ACC) (Might fall within the scope of IPSASB ED 63)
- Earthquake Commission (EQC)
- NZ Export Credit Office (provides export credit insurance to NZ exporters) – we think this is an insurance activity. It is a non-departmental activity administered by the Treasury on behalf of the Crown.
- Housing New Zealand – provides mortgage insurance to 11 commercial lenders for loans issued under the Welcome Home Loan scheme. The scheme is assessed regularly by an independent actuary and accounted for in accordance with Appendix D of PBE IFRS 4.
- 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 (this results in lower ACC premiums paid to ACC). An entity's participation in this programme is typically valued by actuaries under Appendix D of PBE IFRS 4 (for example, the Department of Corrections).

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	26 January 2018
To:	NZASB Members
From:	Judith Pinny
Subject:	IFRS Practice Statement 2 *Making Materiality Judgements*

Purpose and introduction[1]

1. In September 2017, the IASB issued IFRS Practice Statement 2 *Making Materiality Judgements* (MPS 2). The purpose of this agenda paper is for the Board to confirm the status of MPS 2 in New Zealand. The Board is also asked to consider whether any changes are needed to update Explanatory Guide EG A7 *Materiality for Public Benefit Entities* (EG A7), as a result of MPS 2 being issued.

Recommendations

2. We recommend that the Board:

   (a) AGREES not to issue a New Zealand equivalent to MPS 2;

   (b) AGREES to make both IFRS Practice Statement 1 *Management Commentary* (MCPS 1) and MPS 2 available to for-profit constituents as non-mandatory guidance by providing a link to the IFRS Practice Statements on the XRB's website (Option A); and

   (c) AGREES that no changes to Explanatory Guide EG A7 are required.

Structure of this memo

3. The remaining sections in this memo are:

   (a) Background;

   (b) AASB treatment of IFRS Practice Statements;

   (c) Options for IFRS Practice Statements in New Zealand; and

   (d) Comparison between MPS 2 and EG A7.

Background

4. MPS 2 is one of the outputs of the IASB's Better Communication in Financial Reporting Theme. In October 2015 the IASB issued Exposure Draft ED/2015/8 IFRS Practice Statement: *Application of Materiality to Financial Statements,* with comments due by 26 February 2016.

[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).

The NZASB commented on this ED.[2] Some of our suggestions have been incorporated in the final practice statement. For example, we suggested that the IASB:

(a) issue MPS 2 as non-mandatory guidance; and

(b) widen the objective of the practice statement from "assist management"[3] to "providing reporting entities with non-mandatory guidance on making materiality judgements".[4]

5. The IASB issued MPS 2 on 14 September 2017 as non-mandatory guidance. Staff have reviewed MPS 2 and note the following.

(a) MPS 2 would be useful to assist behavioural change amongst stakeholders by giving greater prominence to materiality judgements and giving preparers more confidence in making materiality judgements.

(b) Many New Zealand entities have already worked on streamlining their financial statements with a greater emphasis on materiality. MPS 2 may further raise the profile of making materiality judgements among New Zealand entities.

6. MPS 2 is the second practice statement issued by the IASB. MCPS 1 was issued in 2010 and a link to MCPS 1 is found on the XRB website (under *Accounting Standards>For-profit standards> Explanatory Guides*)[5]. There are two issues with this location: (i) Users need to scroll down through all of the explanatory guides to find MCPS 1, which makes it relatively difficult to find; and (ii) MPS 2 is located on the same landing page as the explanatory guides but it has not been issued by the NZASB in the same way as the explanatory guides.

7. In the next section of this memo we look at how the AASB has dealt with IFRS Practice Statements and we then consider the options for dealing with MPS 2 in New Zealand.

AASB treatment of IFRS Practice Statements

8. Prior to MPS 2 being issued the AASB had made MCPS 1 available to users with an Australian IP address by way of a link on its website.

9. At its October 2017 meeting, the AASB considered what to do with MPS 2 and concluded that additional work on that statement would be required to make it applicable to all sectors in Australia, i.e. to consider the implications of the AASB's "transaction neutrality" approach for MPS 2. At the AASB's December 2017 meeting the AASB considered the following staff recommendations:

(a) the Board should issue an AASB version of Practice Statement 2 rather than publish the IFRS Practice Statement with an Australian addendum;

(b) there are no conflicts between the IASB guidance and Australian-specific legislation and guidance;

2 https://www.xrb.govt.nz/accounting-standards/standards-in-development/submissions-by-the-nzasb/
3 Draft IFRS Practice Statement *Application of Materiality to Financial Statements*, para 1.
4 MPS 2, para 1.
5 https://www.xrb.govt.nz/accounting-standards/explanatory-guides/

(c) the definition of 'primary users' should be expanded to align with the definition of users in the AASB *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*);

(d) additional Aus paragraphs and illustrative examples that relate to the not-for-profit private and public sectors should be included in the Practice Statement; and

(e) the draft AASB Practice Statement should be issued for a short fatal-flaw review period.

10. At the AASB's December 2017 meeting, the AASB decided to issue an Australian version of MPS 2. The AASB agreed to include references to Australian-specific legislation and standards, add specific guidance for not-for-profit (NFP) entities, including extending the list of 'primary users' of financial statements and additional illustrative examples. The AASB issued AASB Practice Statement 2 in December 2017.

Options for IFRS Practice Statements in New Zealand

11. The status of MCPS 1 was considered by the Financial Reporting Standards Board (FRSB), when it was first issued. In February 2011, the FRSB considered whether MCPS 1 should be designated as having authoritative support in New Zealand.[6] However, the FRSB decided against this. The FRSB noted some jurisdictional concerns regarding the status of the *Management Commentary* and requested that staff make New Zealand constituents aware that the IASB has issued a Practice Statement on *Management Commentary*. This meant that MCPS 1 was not designated as having authoritative support in New Zealand. The New Zealand Institute of Chartered Accountants provided a link to MCPS 1 on its website. Following its inception in July 2011 the NZASB also provided a link to MCPS 1 on the XRB's website.

12. The IASB has now issued MPS 2 as non-mandatory guidance. Staff consider that, consistent with the treatment of MCPS 1, the Board should not designate MPS 2 as having authoritative support in New Zealand. This approach is consistent with the IASB and AASB approaches, is consistent with the approach taken for EG A7, and would avoid any potential conflicts with other laws and regulations.

13. From a limited review of existing laws and regulations in New Zealand staff did not identify any conflicts with the materiality guidance in MPS 2 (see Appendix 1 for more detail about the documents we reviewed).

14. Staff recommend that the Board provides a link to the IFRS Practice Statements on the XRB website under a new IFRS Practice Statement page (Option A below). In coming to this recommendation, we considered the following options.

[6] FRSB Agenda item B6.1 February 2011.

Option	**Rationale**	**Recommendation**
Option A: Provide a link to IFRS Practice Statements at the top right of the For-profit Standards page, just below Explanatory Guides.[7] Links to MCPS 1 and MPS 2 would both be on this landing page.	Staff have not identified any NZ-specific reasons to change MPS 2. Staff consider that the current location of MCPS 1 (on the Explanatory Guide page of the XRB website) makes it relatively hard to find.	Staff recommend this option. See Appendix 2 of this memo for the proposed webpage text.
Option B: Add a new link to MPS 2 under Explanatory Guides.	This would be consistent with the current treatment of MCPS 1. Staff have not identified any NZ-specific reasons to change MPS 2.	Staff do <u>not</u> recommend this option. The current location of MCPS 1 (on the Explanatory Guide page of the XRB website) makes it relatively hard to find.
Option C: Develop a New Zealand Practice Statement based on MPS 2, applicable to for-profit entities. If we did this we could add New Zealand-specific examples.	If the Board considered that it was appropriate for the guidance to have authoritative support, this approach would enable it to do so.	Staff do <u>not</u> recommend this option. Staff have not identified any NZ-specific reasons to change MPS 2.
Option D: Develop a New Zealand Practice Statement based on MPS 2 applicable to both for-profit and public benefit entities.	This option would be consistent with the AASB's approach. If the Board considered that it was appropriate for the guidance to have authoritative support, this approach would enable it to do so.	Staff do <u>not</u> recommend this option. The Board already has materiality guidance for PBEs (EG A7). Developing guidance applicable to both for-profit and public benefit entities would be difficult with two conceptual frameworks and two sets of standards for little added benefit and could be confusing for users of the guidance.

15. Staff recommend Option A as it is straightforward, can be easily implemented, and there is no New Zealand-specific reason to develop a New Zealand equivalent to MPS 2. Option A would

[7] Currently the Management Commentary IFRS Practice Statement is located at the bottom of the list of Explanatory Guides.

also make it easier to locate the IFRS Practice Statements on the XRB website. We would advise constituents about the new link on the website in the next issue of the NZASB Update.

Question for the Board

Q1. Does the Board:

(a) AGREE not to issue a New Zealand equivalent to IFRS Practice Statement 2 *Making Materiality Judgements* (MPS 2) and

(b) AGREE to make both IFRS Practice Statements available to for-profit constituents as non-mandatory guidance by providing a link to the IFRS Practice Statements on the XRB's website (Option A)?

Comparison between MPS 2 and EG A7

16. Explanatory Guide EG A7 *Materiality for Public Benefit Entities* (EG A7) was issued by the NZASB in May 2014.[8] It was written for public benefit entities, and focused on materiality in the context of presentation and disclosure when preparing general purpose financial reports. EG A7 was written to provide PBE preparers with more assistance around the difficult topic of materiality. EG A7 has no legal status, in common with all explanatory guides issued by the NZASB. A comparison of MPS 2 and EG A7 is set out in Appendix 3 of this memo.

17. An area of difference between MPS 2 and EG A7 is the IASB's focus on primary users,[9] being existing and potential investors, lenders and other creditors (paragraph 13 in MPS 2). In contrast, EG A7 is written for users of PBE financial reports (both public sector and not-for-profit) including intermediary users. EG A7 also acknowledges other parties that may have oversight roles. However, the IPSASB and NZASB have never established a "primary user group" in the public or PBE sector respectively. Staff recommend no change to EG A7's discussion of users.

18. The definition of material is somewhat different between MPS 2 and EG A7.[10] The IPSASB will, at some stage, consider the IASB amendments to the definition of material. Given that the IPSASB bases its definition of materiality on its own Conceptual Framework, it is unlikely that it will opt to converge its definition of materiality to the IASB revised definition. Furthermore, the IASB is currently exposing some clarifications to its definition of materiality in ED/2017/6 *Definition of Material* (Proposed amendments to IAS 1 and IAS 8).

19. The 4-step Materiality Process in MPS 2 is not in EG A7. Staff note that EG A7 provides a more holistic approach to materiality compared to a "how to" list provided in MPS 2. There appears to be no conflict, they are just different approaches.

20. EG A7 highlights the importance of considering materiality throughout the reporting cycle whereas MPS 2 focuses on period-end account preparation. EG A7 has a broader focus and

8 Since 2014 the Board has made some minor amendments to EG A7 to align the discussion of the qualitative characteristics with the PBE Conceptual Framework.

9 No 5 in table in Appendix 3.

10 No 6 in table in Appendix 3.

discusses the application of materiality to non-financial information. Staff consider that these differences in approach are acceptable and do not propose to align EG A7 with MPS 2.

21. MPS 2 also contains materiality guidance on prior period information, covenants and the interaction between the Practice Statement and local laws and regulations. We do not think that these differences warrant any immediate change to EG A7, but they could be considered as part of any future review of EG A7.

Question for the Board

Q2. Does the Board AGREE that no changes to EG A7 are required?

Attachments

Agenda item 7.2: IFRS Practice Statement 2 *Making Materiality Judgements*

Appendix 1 Materiality in New Zealand guidance

NZ Stock Exchange (NZX)

Staff have considered the treatment of materiality under the NZX Listing Rules, and in particular, the NZX *Guidance Note on Continuous Disclosure* (Guidance Note). We note that the NZX discusses materiality in a different context to MPS 2, and does not limit its discussion to items reported in financial statements.

The Listing Rules require an issuer to release Material Information immediately, subject to certain exceptions. The NZX Guidance Note provides additional commentary, indicating that "immediately" means "promptly, and without delay". Excerpts from the NZX Guidance Note which refer to materiality are shown below. Staff review of the NZX Guidance Note has shown no apparent conflict between it and MPS 2.[11]

Financial Markets Authority (FMA)

The FMA discusses materiality in a number of its publications. Of most relevance to our purpose are firstly the references in the publication *Quality Financial Reporting: How to Improve Financial Statements* which resulted from the FMA's quality financial reporting event in 2014. Also, the FMA's *Guidance Note: Effective Disclosure* from December 2014 in which Section D deals with Material Information. We note that the FMA discusses materiality in a wider context than MPS 2, and that its discussion of materiality is not limited to items reported in financial statements.

Extracts from FMA publications which discuss materiality are shown below. Staff have concluded that MPS 2 does not conflict with the two highlighted publications from the FMA.

Overall, staff consider that MPS 2 is generic in nature and our limited review does not identify anything that would conflict with New Zealand Laws and Regulations. The examples in MPS 2 have been reviewed and can be applied to New Zealand conditions.

NZX – Excerpt from Guidance Note: Continuous Disclosure (April 2017)[12]

3. What is material information?

3.1 The material information test

The most important consideration in relation to continuous disclosure compliance is whether information is "material", and is therefore required to be disclosed immediately.

"Material information" means information in relation to an issuer that:

- a **reasonable person** would expect, if it were generally available to the market, to have a **material effect** on the price of the issuer's quoted securities; and
- relates to particular securities, a particular issuer, or particular issuers, rather than to securities generally, or issuers generally ("**particular information**").

The meaning of material information, including the concepts of a "reasonable person", "material effect" and "particular information" are explained below. Issuers need to consider each of these concepts to

[11] https://www.nzx.com/regulation/listing-rule-guidance

[12] The NZX has developed guidance notes to assist issuers in complying with their listing rules obligations.

determine whether information is "material". While there can be no definitive list of the type of information that is material, some examples of the type of information that is likely to be material are set out in the footnotes to the relevant rules. Copies of these rules and footnotes are provided in Appendix 1 to this guidance note.

When considering whether information is material, issuers should be guided by the principle that if in doubt, they should disclose the information (see footnote 10 to rule 10.1). As noted above, the obligation to disclose material information immediately is a fundamental obligation and NZX may take disciplinary action against issuers for non-compliance. Therefore, NZXR encourages issuers to take a cautious approach when determining whether information is "material information".

3.2 Reasonable person

The reasonable person test is an objective test and is potentially difficult to apply in practice because issuers need to assess whether, if a reasonable person was in possession of the relevant information, that person would consider the relevant information to have a material effect on the price of the issuer's quoted securities.

"Reasonable person" is not defined in the rules, but in NZXR's view, a "reasonable person" is a person who commonly invests in securities, and holds such securities for a period of time, based on their view of the inherent value of the securities.

3.3 Material effect

"Material effect" is not defined in the rules and whether or not a particular price movement constitutes a "material effect" will vary depending on the specific characteristics of the security and the issuer of the security. For example, whether or not a security is liquid or illiquid and the size of the issuer concerned.

In monitoring issuers' compliance with continuous disclosure, NZXR will consider price movements in securities when determining whether information has had a material effect on the price of an issuer's quoted securities:

- A price movement of 10% or more in a quoted security will generally be treated by NZXR as evidence that information has had a material effect on the price of those quoted securities.
- A price movement of 5% or less in a quoted security will generally be treated by NZXR as evidence that information has not had a material effect on the price of those quoted securities.

Whether price movements between 5% and 10% are evidence of a material effect will depend on the specific facts and circumstances. A price movement of 5% may not be considered a "material effect" in respect of an illiquid security, but for issuers with large market capitalisations and highly liquid securities, price movements of this magnitude may be considered evidence of a "material effect". NZXR will consider all available evidence when analysing a particular price movement, including price movements in the market generally or within a particular index or sector and any other information relevant to an issuer that could have contributed to a price movement.

NZXR would generally expect any price movement attributable to the release of information to occur soon after the announcement (i.e. within one trading day) following the release of that information. NZXR will therefore also consider the time period between release of information and a price movement when analysing whether that information has had a material effect on the price of a security. NZXR will also consider whether any price movement occurred prior to the release of information (for example, due to information leak or rumour) and, if appropriate, take that price movement into account when considering whether the price movement is attributable to the release of the relevant information.

It is important to note that the guidance set out above does not alter or replace the definition of “material information” contained in the rules or its application to any particular set of facts. As explained above, the material information test is based on what a reasonable person would expect to happen upon the release of information. It is not a hindsight test based on the degree of price movement which actually occurs upon release of information. Therefore, the price movement guidance set out above is only a guide as to the level of price movement that is likely to be considered by NZXR as evidence that information has had a material effect on the price of an issuer’s quoted securities. It does not preclude NZXR (or any other regulatory body) from taking a different approach in a particular case. In any investigation, NZXR will consider all available evidence of the impact of information on traded price. NZXR encourages issuers to take a cautious approach when determining whether information will have a material effect on the price of its quoted securities.

FMA Publications

The FMA has guidance on materiality in the following publications:

(a) *Quality Financial Reporting: How to Improve Financial Statements* This sets out the FMA’s response to themes raised at its quality financial reporting event in 2014;[13]

(b) *Guidance Note: Effective Disclosures* (December 2014);

(c) *Supervisors: Your Obligations*[14] is website guidance applying to supervisors of debt securities, registered schemes (including KiwiSaver and superannuation schemes), and retirement villages;

(d) Information Sheet February 2015 *Reporting SIPO*[15] *limit breaks.* This information sheet outlines the reporting obligations of a Managed Investment Scheme (MIS) manager if there has been a limit break under its SIPO under Part 4 of the Financial Markets Conduct Act 2013 (FMC Act); and

(e) Information sheet April 2015 *DIMS limit breaks under the FMC Act*. This information sheet outlines the obligations of Discretionary Investment Management Services (DIMS) providers under the FMC Act relating to investment authority limits and reporting breaches of those limits.

These first two are most relevant for issuers. The applicable sections are summarised below.

FMA: *Quality Financial Reporting*[16]

This FMA report includes a section entitled *How should materiality be considered* which notes the definition of materiality in NZ IAS 1 *Presentation of Financial Statements* and then makes the comments shown below. Points of interest are that the FMA refers to primary users (as does MPS 2) and endorses the view that materiality should be considered throughout the financial year, not just

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13 https://fma.govt.nz/assets/Reports/141101-Quality-Financial-Reporting-How-To-Improve-Financial-Statements2014.pdf

14 https://fma.govt.nz/compliance/role/supervisors/your-obligations/

15 Statement of Investment Policy and Objectives.

16 *Ibid.* page 6.

during account preparation. Furthermore, the FMA endorses EG A7 as containing guidance useful to all sectors.

> We believe that disclosure in financial statements should include information assessed as material to the primary users' decision making process. That assessment needs to be made by management applying professional judgement, and determined based on the surrounding circumstances.
>
> Effective application of materiality requires an ongoing application of professional judgement. Therefore, we encourage entities in New Zealand to consider materiality throughout the financial year, not just at the end of the reporting period when financial statements are prepared and not just focusing on quantitative disclosures.
>
> We note that in May 2014, the New Zealand Accounting Standards Board (NZASB) issued an explanatory guide on materiality for public benefit entities. This guide helps with the application of materiality to presentation and disclosure, when preparing general purpose financial reporting in accordance with Public Benefit Entity Standards. Although directed at public benefit entities, we believe it contains guidance helpful to all sectors and we encourage all entities to consider this guide.

FMA: Guidance Note *Effective Disclosure* (December 2014)

This FMA Guidance Note assists people preparing disclosure documents to comply with their legal requirements, being the registered prospectus and the investment statement.[17] It does not change the legal requirements. Section D of this publication covers Material Information. It discusses information to be disclosed about the business, its directors and senior management, auditors, securities trustees and statutory supervisors, risks, related parties and transactions and credit ratings. Each topic has a number of examples where appropriate.[18] It includes some reminders which summarise the content of the section as it relates to the issuance of prospectuses: Prospectuses must identify and explain material information about the investment offer.

Extract from page 23 of the Guidance Note

> The schedules to the Regulations require specific information to be included in a prospectus. The schedules (other than those for simplified disclosure or short form prospectuses) also require that all other material matters relating to the offer (other than matters set out in the financial statements referred to in the prospectus and contracts entered into in the ordinary course of business) must be disclosed in the prospectus. Information about those material matters must be disclosed in the prospectus; it is not sufficient to cross reference to information contained on a website or in another source.

[17] https://fma.govt.nz/assets/Guidance/141201-effective-disclosure-guidance-note.pdf

[18] Ibid. pp 23-33.

Appendix 2 Proposed XRB webpage text for IFRS Practice Statements

IFRS Practice Statements

The International Accounting Standards Board (IASB) has issued the following IFRS Practice Statements. These practice statements provide non-mandatory guidance. Entities applying IFRS® Standards are not required to comply with these IFRS Practice Statements in order to state compliance with IFRS Standards.

The NZASB has provided links to the IFRS Practice Statements, in order to make them available to for-profit entities preparing financial statements in accordance with NZ IFRS.

Entities reporting in accordance with NZ IFRS may be subject to other requirements or guidance on matters covered in the IFRS Practice Statements. Entities are still required to comply with all applicable laws and regulations.

IFRS Practice Statement 1 *Management Commentary*

IFRS Practice Statement 1 *Management Commentary* (MCPS 1), issued in December 2010, provides a broad, non-binding framework for the presentation of management commentary that relates to financial statements that have been prepared in accordance with IFRS Standards.

Entities preparing general purpose financial statements in accordance with NZ IFRS may elect to apply the principles contained in MCPS 1 to management commentary that relates to those financial statements.

To access MCPS 1, click here.

IFRS Practice Statement 2 *Making Materiality Judgements*

IFRS Practice Statement 2 *Making Materiality Judgements* (MPS 2), issued in September 2017, provides guidance and examples that may help preparers in making materiality judgements.

Entities preparing general purpose financial statements in accordance with NZ IFRS may elect to apply the guidance contained in MPS 2 in making materiality judgements when preparing those financial statements.

To access MPS 2, click here.

Appendix 3 Comparison between MPS 2 and EG A7

Note: Differences are highlighted in lilac.

No.	Item	MPS 2	EG A7	Conflict?
1.	Examples	Contains 19 examples of material and non-material scenarios. Generic content.	Contains a few examples throughout the text. New Zealand specific content.	No
2.	Sector	For-profit entities Tiers 1 and 2.	Public Benefit Entities Tiers 1 to 4.	No, written for different audiences.
3.	Audience	Preparers of IFRS financial statements.	Preparers of PBE general purpose financial reports.	No, written for different audiences.
4.	Scope	Scope is recognition, measurement, presentation and disclosure.	Scope is presentation and disclosure.	No, para 6 of EG A7 acknowledges that materiality is also important in recognition and measurement.
5.	Users	Primary Users are the focus, being current and potential investors, lenders and other creditors.	All users of public sector and not-for-profit financial statements are listed and considered equally important.	No, written for different audiences.
6.	Definition of Material	Changes to definition of material.	IASB changes to the definition of material on becoming an IFRS Standard will prompt application of the PBE Policy Approach to determine if any changes need to be made to the PBE standards.	No, the IPSASB definition already differs in some respects. The IPSASB may consider the IASB changes to the definition of material at some point.
7.	Materiality process	4-Step materiality process to use in preparing financial statements: • Identify information that may be material. • Assess if it is material. • Organise information within	Summary in para 52: • users and their information needs • qualitative characteristics affecting presentation and disclosure	MPS 2 is more of a “How to” whereas EG A7 is more of a “holistic reflection” which directly considers users and qualitative characteristics. No conflict.

No.	Item	MPS 2	EG A7	Conflict?
		draft financial statements to communicate clearly and concisely to primary users. • Review draft financial statements to determine that all material information has been included.	• nature, size and circumstances • where material financial and non-financial information should be presented and disclosed.	
8.	Prior period information (PPI)	Covers PPI not previously provided; Allows summary of PPI if enough for users to understand current period financial statements.	PPI not explicitly covered	No
9.	Errors	Section on Errors	Reference to PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* in Appendix	No
10.	Covenants	Paras 81–84 and 2 examples about loan agreement clauses and covenant breaches.	Not covered	No
11.	Interim Reporting	Section on Interim Reporting	Reference to PBE IAS 34 *Interim Reporting* in Appendix	No
12.	Service Performance Information	No reference to service performance information.	Refers to service performance information and materiality in para 20	EG A7 reflects the PBE environment. No conflict, just a scope difference.
13.	Qualitative Characteristics (QCs)	Only mentions QCs in appendix references to Conceptual Framework.	QCs are central to the materiality process (paras 21–26).	No, but EG A7 is more directly based on the QCs.

No.	Item	MPS 2	EG A7	Conflict?
14.	Publicly available information	Paras 24-26 consider information from other sources.	Para 39 covers media disclosures and financial reporting disclosures made in the public interest.	No. Incidental to topic of materiality.
15.	Interaction with local laws and regulations	Paras 27–28 and examples G and H.	Not covered.	No
16.	Application date	14 September 2017	Issued May 2014	No impact.
17.	References to Materiality	Excerpts provided in Appendix	Paragraph references only in Appendix	No, each covers the same standards in different sectors.
18.	Status	Non-mandatory guidance	Explanatory document with no legal status	No
19.	Considering Materiality	Para 3 Scope MPS 2 is applicable when preparing financial statements, no mention of reporting cycle.	Para 8 recommends consideration of materiality throughout the financial reporting cycle.	No
20.	Basis for Conclusions	Yes	No	No

September 2017

IFRS® Practice Statement

Making Materiality Judgements

Practice Statement 2

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Making Materiality Judgements
Practice Statement 2

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CONTENTS

The IFRS Practice Statement 2 *Making Materiality Judgements* (Practice Statement) is set out in paragraphs 1–89. This Practice Statement should be read in the context of its objective and Basis for Conclusions, as well as in the context of the *Preface to International Financial Reporting Standards*, the *Conceptual Framework for Financial Reporting* and IFRS Standards.

Introduction

IN1 The objective of general purpose financial statements is to provide financial information about a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. The entity identifies the information necessary to meet that objective by making appropriate materiality judgements.

IN2 The aim of this IFRS Practice Statement 2 *Making Materiality Judgements* (Practice Statement) is to provide reporting entities with guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Standards. While some of the guidance in this Practice Statement may be useful to entities applying the *IFRS for SMEs*® Standard, the Practice Statement is not intended for those entities.

IN3 The need for materiality judgements is pervasive in the preparation of financial statements. An entity makes materiality judgements when making decisions about recognition and measurement as well as presentation and disclosure. Requirements in IFRS Standards only need to be applied if their effect is material to the complete set of financial statements.

IN4 This Practice Statement:

(a) provides an overview of the general characteristics of materiality.

(b) presents a four-step process an entity may follow in making materiality judgements when preparing its financial statements (materiality process). The description of the materiality process provides an overview of the role materiality plays in the preparation of financial statements, with a focus on the factors the entity should consider when making materiality judgements.

(c) provides guidance on how to make materiality judgements in specific circumstances, namely, how to make materiality judgements about prior-period information, errors and covenants, and in the context of interim reporting.

IN5 Whether information is material is a matter of judgement and depends on the facts involved and the circumstances of a specific entity. This Practice Statement illustrates the types of factors that the entity should consider when judging whether information is material.

IN6 A Practice Statement is non-mandatory guidance developed by the International Accounting Standards Board. It is not a Standard. Therefore, its application is not required to state compliance with IFRS Standards.

IN7 This Practice Statement includes examples illustrating how an entity might apply some of the guidance in the Practice Statement based on the limited facts presented. The analysis in each example is not intended to represent the only manner in which the guidance could be applied.

IFRS Practice Statement 2 *Making Materiality Judgements*

Objective

1 This IFRS Practice Statement 2 *Making Materiality Judgements* (Practice Statement) provides reporting entities with non-mandatory guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Standards.

2 The guidance may also help other parties involved in financial reporting to understand how an entity makes materiality judgements when preparing such financial statements.

Scope

3 The Practice Statement is applicable when preparing financial statements in accordance with IFRS Standards. It is not intended for entities applying the *IFRS for SMEs*® Standard.

4 The Practice Statement provides non-mandatory guidance; therefore, its application is not required to state compliance with IFRS Standards.

General characteristics of materiality

Definition of material

5 The *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) provides the following definition of material information (IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provide similar definitions[1]):

> Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.[2]

6 When making materiality judgements, an entity needs to take into account how information could reasonably be expected to influence the primary users of its

1 See paragraph 7 of IAS 1 *Presentation of Financial Statements* and paragraph 5 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

2 Paragraph QC11 of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). However, the Exposure Draft ED/2017/6 *Definition of Material (Proposed amendments to IAS 1 and IAS 8)* (Definition of Material ED) proposes to refine the definition of material to '[i]nformation is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those financial statements'. The Definition of Material ED also identifies consequential amendments to other IFRS Standards, including amendments to the definitions of material in the *Conceptual Framework*, IAS 1 and IAS 8.

financial statements—its primary users—when they make decisions[3] on the basis of those statements (see paragraphs 13–23).[4]

7 The objective of financial statements is to provide financial information about a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.[5] The entity identifies the information necessary to meet that objective by making appropriate materiality judgements.

Materiality judgements are pervasive

8 The need for materiality judgements is pervasive in the preparation of financial statements. An entity makes materiality judgements when making decisions about recognition, measurement, presentation and disclosure. Requirements in IFRS Standards only need to be applied if their effect is material to the complete set of financial statements,[6] which includes the primary financial statements[7] and the notes. However, it is inappropriate for the entity to make, or leave uncorrected, immaterial departures from IFRS Standards to achieve a particular presentation of its financial position, financial performance or cash flows.[8]

Recognition and measurement

9 IFRS Standards set out reporting requirements that the International Accounting Standards Board (Board) has concluded will lead to financial statements that provide information about the financial position, financial performance and cash flows of an entity that is useful to the primary users of those statements. The entity is only required to apply recognition and measurement requirements when the effect of applying them is material.

Example A—materiality judgements on the application of accounting policies
Background An entity has a policy of capitalising expenditures on items of property, plant and equipment (PP&E) in excess of a specified threshold and recognising any smaller amounts as an expense. **Application** IAS 16 *Property, Plant and Equipment* requires that the cost of an item of PP&E is recognised as an asset when the criteria in paragraph 7 of IAS 16 are met.

continued...

3 Throughout this Practice Statement, the term 'decisions' refers to decisions about providing resources to the entity, unless specifically indicated otherwise.
4 See paragraph 7 of IAS 1.
5 See paragraph OB2 of the *Conceptual Framework*.
6 In this Practice Statement the phrases 'complete set of financial statements' and 'financial statements as a whole' are used interchangeably.
7 For the purposes of this Practice Statement, the primary financial statements comprise the statement of financial position, statement(s) of financial performance, statement of changes in equity and statement of cash flows.
8 See paragraph 8 of IAS 8.

...continued

The entity has assessed that its accounting policy—not capitalising expenditure below a specific threshold—will not have a material effect on the current-period financial statements or on future financial statements, because information reflecting the capitalisation and amortisation of such expenditure could not reasonably be expected to influence decisions made by the primary users of the entity's financial statements.

Provided that such a policy does not have a material effect on the financial statements and was not set to intentionally achieve a particular presentation of the entity's financial position, financial performance or cash flows, the entity's financial statements comply with IAS 16. Such a policy is nevertheless reassessed each reporting period to ensure that its effect on the entity's financial statements remains immaterial.

Presentation and disclosure

10 An entity need not provide a disclosure specified by an IFRS Standard if the information resulting from that disclosure is not material. This is the case even if the Standard contains a list of specific disclosure requirements or describes them as 'minimum requirements'. Conversely, the entity must consider whether to provide information not specified by IFRS Standards if that information is necessary for primary users to understand the impact of particular transactions, other events and conditions on the entity's financial position, financial performance and cash flows.[9]

Example B—materiality judgements on disclosures specified by IFRS Standards

Background

An entity presents property, plant and equipment (PP&E) as a separate line item in its statement of financial position.

Application

IAS 16 *Property, Plant and Equipment* sets out specific disclosure requirements for PP&E, including the disclosure of the amount of contractual commitments for the acquisition of PP&E (paragraph 74(c) of IAS 16).

When preparing its financial statements, the entity assesses whether disclosures specified in IAS 16 are material information. Even if PP&E is presented as a separate line item in the statement of financial position, not all disclosures specified in IAS 16 will automatically be required. In the absence of any qualitative considerations (see paragraphs 46–51), if the amount of contractual commitments for the acquisition of PP&E is not material, the entity is not required to disclose this information.

9 See paragraphs 17(c) and 31 of IAS 1.

Example C—materiality judgements that lead to the disclosure of information in addition to the specific disclosure requirements in IFRS Standards

Background

An entity has its main operations in a country that, as part of an international agreement, is committed to introducing regulations to reduce the use of carbon-based energy. The regulations had not yet been enacted in the national legislation of that country at the end of the reporting period.

The entity owns a coal-fired power station in that country. During the reporting period, the entity recorded an impairment loss on its coal-fired power station, reducing the carrying amount of the power station to its recoverable amount. No goodwill or intangible assets with an indefinite useful life were included in the cash-generating unit.

Application

Paragraph 132 of IAS 36 *Impairment of Assets* does not require an entity to disclose the assumptions used to determine the recoverable amount of a tangible asset, unless goodwill or intangible assets with an indefinite useful life are included in the carrying amount of the cash-generating unit.

Nevertheless, the entity has concluded that the assumptions about the likelihood of national enactment of regulations to reduce the use of carbon-based energy, as well as about the enactment plan, it considered in measuring the recoverable amount of its coal-fired power station could reasonably be expected to influence decisions primary users make on the basis of the entity's financial statements. Hence, information about those assumptions is necessary for primary users to understand the impact of the impairment on the entity's financial position, financial performance and cash flows. Therefore, even though not specifically required by IAS 36, the entity concludes that its assumptions about the likelihood of national enactment of regulations to reduce the use of carbon-based energy, as well as about the enactment plan, constitute material information and discloses those assumptions in its financial statements.

Judgement

11 When assessing whether information is material to the financial statements, an entity applies judgement to decide whether the information could reasonably be expected to influence decisions that primary users make on the basis of those financial statements. When applying such judgement, the entity considers both its specific circumstances and how the information provided in the financial statements responds to the information needs of primary users.

12 Because an entity's circumstances change over time, materiality judgements are reassessed at each reporting date in the light of those changed circumstances.

Primary users and their information needs

13 When making materiality judgements, an entity needs to consider the impact information could reasonably be expected to have on the primary users of its financial statements. Those primary users are existing and potential investors, lenders and other creditors—those users who cannot require entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need.[10] In addition to those primary users, other parties, such as the entity's management, regulators and members of the public, may be interested in financial information about the entity and may find the financial statements useful. However, the financial statements are not primarily directed at these other parties.[11]

14 Because primary users include potential investors, lenders and other creditors, it would be inappropriate for an entity to narrow the information provided in its financial statements by focusing only on the information needs of existing investors, lenders and other creditors.

Example D—existing and potential investors, lenders and other creditors

Background

An entity is 100 per cent owned by its parent. Its parent provides the entity with semi-finished products that the entity assembles and sells back to the parent. The entity is entirely financed by its parent. The current users of the entity's financial statements include the parent and the entity's creditors (mainly local suppliers).

Application

The entity refers to the *Conceptual Framework for Financial Reporting* to identify the primary users of its financial statements—existing and potential investors, lenders and other creditors who cannot require the entity to provide information directly to them and must rely on general purpose financial statements. When making materiality judgements in the preparation of its financial statements, the entity does not reduce its disclosures to only those of interest to its parent or its existing creditors. The entity also considers the information needs of potential investors, lenders and other creditors when making those judgements.

15 When making materiality judgements, an entity also considers that primary users are expected to have a reasonable knowledge of business and economic activities and to review and analyse the information included in the financial statements diligently.[12]

10 See paragraph OB5 of the *Conceptual Framework*.
11 See paragraphs OB9 and OB10 of the *Conceptual Framework*.
12 See paragraph QC32 of the *Conceptual Framework*.

Decisions made by primary users

16 An entity needs to consider what type of decisions its primary users make on the basis of the financial statements and, consequently, what information they need to make those decisions.

17 The primary users of an entity's financial statements make decisions about providing resources to the entity. Those decisions involve: buying, selling or holding equity and debt instruments, providing or settling loans and other forms of credit,[13] and exercising rights while holding investments (such as the right to vote on or otherwise influence management's actions that affect the use of the entity's economic resources).[14] Such decisions depend on the returns that primary users expect from an investment in those instruments.

18 The expectations existing and potential investors, lenders and other creditors have about returns, in turn, depend on their assessment of the amount, timing and uncertainty of the future net cash inflows to an entity,[15] together with their assessment of management's stewardship of the entity's resources.[16]

19 Consequently, an entity's primary users need information about:

(a) the resources of the entity (assets), claims against the entity (liabilities and equity) and changes in those resources and claims (income and expenses); and

(b) how efficiently and effectively the entity's management and governing board have discharged their responsibility to use the entity's resources.[17]

20 Financial information can make a difference in decisions if it has predictive value, confirmatory value or both.[18] When making materiality judgements, an entity needs to assess whether information could reasonably be expected to influence primary users' decisions, rather than assessing whether that information alone could reasonably be expected to change their decisions.

Meeting primary users' information needs

21 The objective of financial statements is to provide primary users with financial information that is useful to them in making decisions about providing resources to an entity. However, general purpose financial statements do not, and cannot, provide all the information that primary users need.[19] Therefore,

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13 See paragraph OB2 of the *Conceptual Framework*.

14 The International Accounting Standards Board (Board) considers primary users' resource allocation decisions to include decisions needed to exercise rights while holding investments, such as rights to vote on or otherwise influence management's actions that affect the use of the entity's economic resources. The Board has tentatively decided to clarify this point, which was previously implicit in the phrase 'decisions to hold equity instruments', as part of its deliberations on the revised *Conceptual Framework*.

15 See paragraph OB3 of the *Conceptual Framework*.

16 Paragraph 1.3 of the Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* (Conceptual Framework ED) proposed to reintroduce the term 'stewardship' and to explain explicitly that investors', creditors' and other lenders' expectations about returns also depend on their assessment of management's stewardship of the entity's resources. The Board has tentatively decided to confirm this as part of its deliberations on the revised *Conceptual Framework*.

17 See paragraph OB4 of the *Conceptual Framework*.

18 See paragraph QC7 of the *Conceptual Framework*.

19 See paragraph OB6 of the *Conceptual Framework*.

the entity aims to meet the common information needs of its primary users. It does not aim to address specialised information needs—information needs that are unique to particular users.

Example E—primary users' unique or individual information requests
Background Twenty investors each hold 5 per cent of an entity's voting rights. One of these investors is particularly interested in information about the entity's expenditure in a specific location because that investor operates another business in that location. Such information could not reasonably be expected to influence decisions that other primary users make on the basis of the entity's financial statements. **Application** In making its materiality judgements, the entity does not need to consider the specific information needs of that single investor. The entity concludes that information about its expenditure in the specific location is immaterial information for its primary users as a group and therefore decides not to provide it in its financial statements.

22 To meet the common information needs of its primary users, an entity first separately identifies the information needs that are shared by users within one of the three categories of primary users defined in the *Conceptual Framework*—for example investors (existing and potential)—then repeats the assessment for the two remaining categories—namely lenders (existing and potential) and other creditors (existing and potential). The total of the information needs identified is the set of common information needs the entity aims to meet.

23 In other words, the assessment of common information needs does not require identifying information needs shared across all existing and potential investors, lenders and other creditors. Some of the identified information needs will be common to all three categories, but others may be specific to only one or two of those categories. If an entity were to focus only on those information needs that are common to all categories of primary users, it might exclude information that meets the needs of only one category.

Impact of publicly available information

24 The primary users of financial statements generally consider information from sources other than just the financial statements. For example, they might also consider other sections of the annual report, information about the industry an entity operates in, its competitors and the state of the economy, the entity's press releases as well as other documents the entity has published.

25 However, the financial statements are required to be a comprehensive document that provides information about the financial position, financial performance and cash flows of an entity that is useful to primary users in making decisions about providing resources to the entity. Consequently, the entity assesses whether information is material to the financial statements, regardless of whether such information is also publicly available from another source.

26 Moreover, public availability of information does not relieve an entity of the obligation to provide material information in its financial statements.

Example F—impact of an entity's press release on materiality judgements
Background An entity undertook a business combination in the reporting period. The acquisition doubled the size of the entity's operations in one of its main markets. On the acquisition date, the entity issued a press release providing an extensive explanation of the primary reasons for the business combination and a description of how it obtained control over the acquired business, together with other information related to the acquisition. **Application** In preparing its financial statements, the entity first considered the disclosure requirements in IFRS 3 *Business Combinations*. Paragraph B64(d) of IFRS 3 requires an entity to disclose, for each business combination that occurs during the reporting period, 'the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree'. The entity concludes that information about the business combination is material because the acquisition is expected to have a significant impact on the entity's operations, due to the overall size of the transaction compared with the size of the entity. In these circumstances, even though information relating to the primary reasons for the business combination and the description of how it obtained control is already included in a public statement, the entity needs to provide the information in its financial statements.

Interaction with local laws and regulations

27 An entity's financial statements must comply with the requirements in IFRS Standards, including requirements related to materiality (materiality requirements), for the entity to state its compliance with those Standards. Hence, an entity that wishes to state compliance with IFRS Standards cannot provide less information than the information required by the Standards, even if local laws and regulations permit otherwise.

28 Nevertheless, local laws and regulations may specify requirements that affect what information is provided in the financial statements. In such circumstances, providing information to meet local legal or regulatory requirements is permitted by IFRS Standards, even if that information is not material according to the materiality requirements in the Standards. However, such information must not obscure information that is material according to IFRS Standards.[20]

20 See paragraph 30A of IAS 1 and paragraph BC30F of the Basis for Conclusions on IAS 1.

Example G—information that is immaterial according to IFRS Standards required by local laws and regulations

Background

An entity is a food retailer operating in country ABC. In country ABC, investments in research and development (R&D) are generally limited across the industry; nonetheless, the government requires all entities to disclose, in their financial statements, the aggregate amount of R&D expenditure incurred during the period.

In the current reporting period, the entity recognised a small amount of expenditure on R&D activities as an expense. No R&D expenditure was capitalised during the period.

When preparing its financial statements, the entity assessed the disclosure of information about R&D expenditure incurred during the period as immaterial, for IFRS purposes.

Application

To comply with local regulations, the entity discloses in its financial statements information about R&D expenditure incurred during the period. IFRS Standards permit the entity to disclose that information in its financial statements, but the entity needs to organise its disclosures to ensure that material information is not obscured.

Example H—information that is material according to IFRS Standards not required by local laws and regulations

Background

An entity operates in a country where the government requires the disclosure of the details of property, plant and equipment (PP&E) disposals, but only if their carrying amounts exceed a specified percentage of total assets.

In the current reporting period, the entity disposed of PP&E below the threshold specified in the local regulation. This transaction was with a related party, which paid the entity less than the fair value of the item disposed.

When preparing its financial statements, the entity applied judgement and concluded that information about the details of the disposal was material, mainly because of the terms of the transaction and the fact it was with a related party.

Application

To comply with IFRS Standards, the entity discloses details of that disposal even though local regulations require disclosure of PP&E disposals only if their carrying amount exceeds a specified percentage of total assets.

Making materiality judgements

Overview of the materiality process

29 An entity may find it helpful to follow a systematic process in making materiality judgements when preparing its financial statements. The four-step process described in the following paragraphs is an example of such a process. This description provides an overview of the role materiality plays in the preparation of financial statements, with a focus on the factors the entity should consider when making materiality judgements. In this Practice Statement, this four-step process is called the 'materiality process'.

30 The materiality process describes how an entity could assess whether information is material for the purposes of presentation and disclosure, as well as for recognition and measurement. The process illustrates one possible way to make materiality judgements, but it incorporates the materiality requirements an entity must apply to state compliance with IFRS Standards. The materiality process considers potential omission and potential misstatement of information, as well as unnecessary inclusion of immaterial information and whether immaterial information obscures material information. In all cases, the entity needs to focus on how the information could reasonably be expected to influence decisions of the primary users of its financial statements.

31 Judgement is involved in assessing materiality when preparing financial statements. The materiality process is designed as a practice guide to help an entity apply judgement in an efficient and effective way.

32 The materiality process is not intended to describe the assessment of materiality for local legal and regulatory purposes. An entity refers to its local requirements to assess whether it is compliant with local laws and regulations.

A four-step materiality process

33 The steps identified as a possible approach to the assessment of materiality in the preparation of the financial statements are, in summary:

(a) Step 1—identify. Identify information that has the potential to be material.

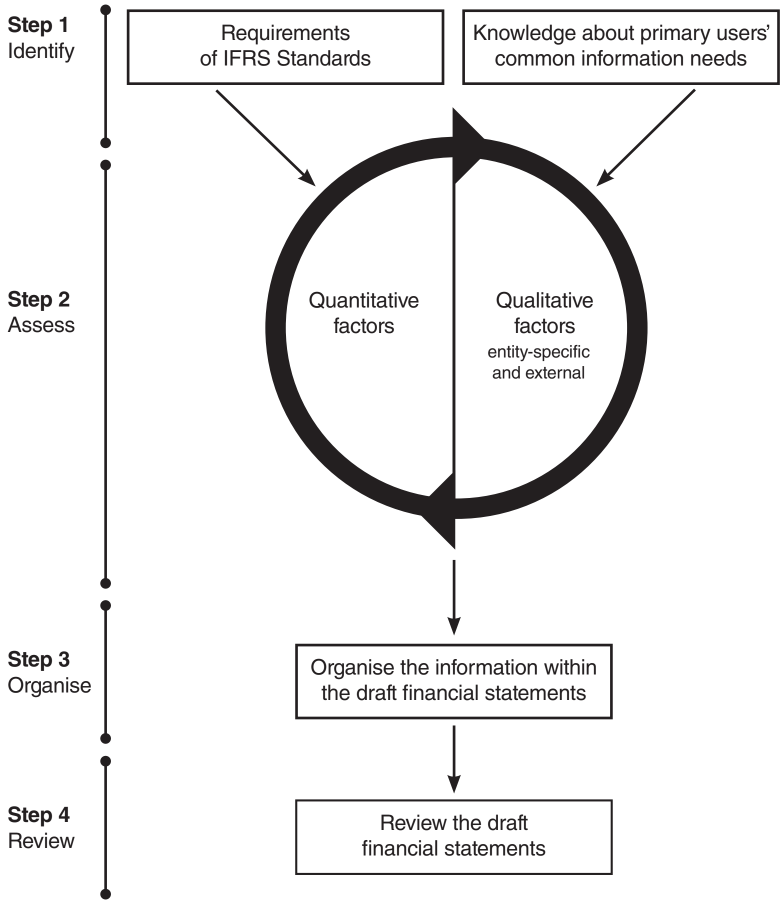
(b) Step 2—assess. Assess whether the information identified in Step 1 is, in fact, material.

(c) Step 3—organise. Organise the information within the draft financial statements in a way that communicates the information clearly and concisely to primary users.

(d) Step 4—review. Review the draft financial statements to determine whether all material information has been identified and materiality considered from a wide perspective and in aggregate, on the basis of the complete set of financial statements.

34 When preparing its financial statements, an entity may rely on materiality assessments from prior periods, provided that it reconsiders them in the light of any change in circumstances and of any new or updated information.

Diagram—the four-step materiality process



Step 1—identify

35 An entity identifies information about its transactions, other events and conditions that primary users might need to understand to make decisions about providing resources to the entity.

36 In identifying this information, an entity considers, as a starting point, the requirements of the IFRS Standards applicable to its transactions, other events and conditions. This is the starting point because, when developing a Standard, the Board identifies the information it expects will meet the needs of a broad range of primary users for a wide variety of entities in a range of circumstances.[21]

37 When the Board develops a Standard, it also considers the balance between the benefits of providing information and the costs of complying with the requirements in that Standard. However, the cost of applying the requirements

21 See paragraph OB8 of the *Conceptual Framework*.

in the Standards is not a factor for an entity to consider when making materiality judgements—the entity should not consider the cost of complying with requirements in IFRS Standards, unless there is explicit permission in the Standards.

38 An entity also considers its primary users' common information needs (as explained in paragraphs 21–23) to identify any information—in addition to that specified in IFRS Standards—necessary to enable primary users to understand the impact of the entity's transactions, other events and conditions on the entity's financial position, financial performance and cash flows (see paragraph 10). Existing and potential investors, lenders and other creditors need information about the resources of the entity (assets), claims against the entity (liabilities and equity) and changes in those resources and claims (income and expenses), and information that will help them assess how efficiently and effectively the entity's management and governing board have discharged their responsibility to use the entity's resources.[22]

39 The output of Step 1 is a set of potentially material information.

Step 2—assess

40 An entity assesses whether the potentially material information identified in Step 1 is, in fact, material. In making this assessment, the entity needs to consider whether its primary users could reasonably be expected to be influenced by the information when making decisions about providing resources to the entity on the basis of the financial statements. The entity performs this assessment in the context of the financial statements as a whole.

41 An entity might conclude that an item of information is material for various reasons. Those reasons include the item's nature or size, or a combination of both, judged in relation to the particular circumstances of the entity.[23] Therefore, making materiality judgements involves both quantitative and qualitative considerations. It would not be appropriate for the entity to rely on purely numerical guidelines or to apply a uniform quantitative threshold for materiality (see paragraphs 53–55).

42 The following paragraphs describe some common 'materiality factors' that an entity should use to help identify when an item of information is material. These factors are organised into the following categories:

(a) quantitative; and

(b) qualitative—either entity-specific or external.

43 The output of Step 2 is a preliminary set of material information. For presentation and disclosure, this involves decisions about what information an entity needs to provide in its financial statements, and in how much detail[24] (including identifying appropriate levels of aggregation an entity provides in the financial statements). For recognition and measurement, the output of Step 2

22 See paragraph OB4 of the *Conceptual Framework*.
23 See paragraph 7 of IAS 1 and paragraph 5 of IAS 8.
24 See paragraph 29 of IAS 1.

involves the identification of information that, if not recognised or otherwise misstated, could reasonably be expected to influence primary users' decisions.

Quantitative factors

44 An entity ordinarily assesses whether information is quantitatively material by considering the size of the impact of the transaction, other event or condition against measures of the entity's financial position, financial performance and cash flows. The entity makes this assessment by considering not only the size of the impact it recognises in its primary financial statements but also any unrecognised items that could ultimately affect primary users' overall perception of the entity's financial position, financial performance and cash flows (eg contingent liabilities or contingent assets). The entity needs to assess whether the impact is of such a size that information about the transaction, other event or condition could reasonably be expected to influence its primary users' decisions about providing resources to the entity.

45 Identifying the measures against which an entity makes this quantitative assessment is a matter of judgement. That judgement depends on which measures are of great interest to the primary users of the entity's financial statements. Examples include measures of the entity's revenues, the entity's profitability, financial position ratios and cash flow measures.

Qualitative factors

46 For the purposes of this Practice Statement, qualitative factors are characteristics of an entity's transactions, other events or conditions, or of their context, that, if present, make information more likely to influence the decisions of the primary users of the entity's financial statements. The mere presence of a qualitative factor will not necessarily make the information material, but is likely to increase primary users' interest in that information.

47 In making materiality judgements, an entity considers both entity-specific and external qualitative factors. These factors are described separately in the following paragraphs. However, in practice, the entity may need to consider them together.

48 An entity-specific qualitative factor is a characteristic of the entity's transaction, other event or condition. Examples of such factors include, but are not limited to:

(a) involvement of a related party of the entity;

(b) uncommon, or non-standard, features of a transaction or other event or condition; or

(c) unexpected variation or unexpected changes in trends. In some circumstances, the entity might consider a quantitatively immaterial amount as material because of the unexpected variation compared to the prior-period amount provided in its financial statements.

49 The relevance of information to the primary users of an entity's financial statements can also be affected by the context in which the entity operates. An external qualitative factor is a characteristic of the context in which the entity's

transaction, other event or condition occur that, if present, makes information more likely to influence the primary users' decisions. Characteristics of the entity's context that might represent external qualitative factors include, but are not limited to, the entity's geographical location, its industry sector, or the state of the economy or economies in which the entity operates.

50 Due to the nature of external qualitative factors, entities operating in the same context might share a number of external qualitative factors. Moreover, external qualitative factors could remain constant over time or could vary.

51 In some circumstances, if an entity is not exposed to a risk to which other entities in its industry are exposed, that fact could reasonably be expected to influence its primary users' decisions; that is, information about the lack of exposure to that particular risk could be material information.

Interaction of qualitative and quantitative factors

52 An entity could identify an item of information as material on the basis of one or more materiality factors. In general, the more factors that apply to a particular item, or the more significant those factors are, the more likely it is that the item is material.

53 Although there is no hierarchy among materiality factors, assessing an item of information from a quantitative perspective first could be an efficient approach to assessing materiality. If an entity identifies an item of information as material solely on the basis of the size of the impact of the transaction, other event or condition, the entity does not need to assess that item of information further against other materiality factors. In these circumstances, a quantitative threshold—a specified level, rate or amount of one of the measures used in assessing size—can be a helpful tool in making a materiality judgement. However, a quantitative assessment alone is not always sufficient to conclude that an item of information is not material. The entity should further assess the presence of qualitative factors.

54 The presence of a qualitative factor lowers the thresholds for the quantitative assessment. The more significant the qualitative factors, the lower those quantitative thresholds will be. However, in some cases an entity might decide that, despite the presence of qualitative factors, an item of information is not material because its effect on the financial statements is so small that it could not reasonably be expected to influence primary users' decisions.

55 In some other circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of its size—a quantitative threshold could even reduce to zero. This might happen when information about a transaction, other event or condition is highly scrutinised by the primary users of an entity's financial statements. Moreover, a quantitative assessment is not always possible: non-numeric information might only be assessed from a qualitative perspective.

Example I—information about a related party transaction assessed as material

Background

An entity has identified measures of its profitability as the measures of great interest to the primary users of its financial statements. In the current reporting period, the entity signed a five-year contract with company ABC. Company ABC will provide the entity with maintenance services for the entity's offices for an annual fee. Company ABC is controlled by a member of the entity's key management personnel. Hence, company ABC is a related party of the entity.

Application

IAS 24 *Related Party Disclosures* requires an entity to disclose, for each related party transaction that occurred during the period, the nature of the related party relationship as well as information about the transaction and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

When preparing its financial statements, the entity assessed whether information about the transaction with company ABC was material.

The entity started its assessment from a quantitative perspective and evaluated the impact of the related party transaction against measures of the entity's profitability. Having initially concluded that the impact of the related party transaction was not material from a purely quantitative perspective, the entity further assessed the presence of any qualitative factors.

As the Board noted in developing IAS 24, related parties may enter into transactions that unrelated parties would not enter into, and the transactions may be priced at amounts that differ from the price for transactions between unrelated parties.

The entity identified the fact that the maintenance agreement was concluded with a related party as a characteristic that makes information about that transaction more likely to influence the decisions of its primary users.

The entity further assessed the transaction from a quantitative perspective to determine whether the impact of the transaction could reasonably be expected to influence primary users' decisions when considered with the fact that the transaction was with a related party (ie the presence of a qualitative factor lowers the quantitative threshold). Having considered that the transaction was with a related party, the entity concluded that the impact was large enough to reasonably be expected to influence primary users' decisions. Hence, the entity assessed information about the transaction with company ABC as material and disclosed that information in its financial statements.

Example J—information about a related party transaction assessed as immaterial

Background

An entity has identified measures of its profitability as the measures of great interest to the primary users of its financial statements. The entity owns a large fleet of vehicles. In the current reporting period, the entity sold an almost fully depreciated vehicle to company DEF. The entity transferred the vehicle for total consideration consistent with its market value and its carrying amount. Company DEF is controlled by a member of the entity's key management personnel. Hence, company DEF is a related party of the entity.

Application

When preparing its financial statements, the entity assessed whether information about the transaction with company DEF was material.

As in **Example I**, the entity started its assessment from a quantitative perspective and evaluated the impact of the related party transaction against measures of the entity's profitability. Having initially concluded that the impact of the related party transaction was not material from a purely quantitative perspective, the entity further assessed the presence of any qualitative factors.

The entity transferred the vehicle for a total consideration consistent with its market value and its carrying amount. However, the entity identified the fact that the vehicle was sold to a related party as a characteristic that makes information about that transaction more likely to influence the decisions of its primary users.

The entity further assessed the transaction from a quantitative perspective but concluded that its impact was too small to reasonably be expected to influence primary users' decisions, even when considered with the fact that the transaction was with a related party. Information about the transaction with company DEF was consequently assessed as immaterial and not disclosed in the entity's financial statements.

Example K—influence of external qualitative factors on materiality judgements

Background

An international bank holds a very small amount of debt originating from a country whose national economy is currently experiencing severe financial difficulties. Other international banks that operate in the same sector as the entity hold significant amounts of debt originating from that country and, hence, are significantly affected by the financial difficulties in that country.

continued...

...continued

> **Application**
>
> Paragraph 31 of IFRS 7 *Financial Instruments: Disclosures* requires an entity to disclose information that enables users of its financial statements to evaluate the nature and extent of risk arising from financial instruments to which the entity is exposed at the end of the reporting period.
>
> When preparing its financial statements, the bank assessed whether the fact that it holds a very small amount of debt originating from that country was material information.
>
> In making that assessment, the bank considered the exposure to that particular debt faced by other international banks operating in the same sector (external qualitative factor).
>
> In these circumstances, the fact that the bank is holding a very small amount of debt (or even no debt at all) originating from that country, while other international banks operating in the same sector have significant holdings, provides the entity's primary users with useful information about how effective management has been at protecting the bank's resources from unfavourable effects of the economic conditions in that country.
>
> The bank assessed the information about the lack of exposure to that particular debt as material and disclosed that information in its financial statements.

Step 3—organise

56 Classifying, characterising and presenting information clearly and concisely makes it understandable.[25] An entity exercises judgement when deciding how to communicate information clearly and concisely. For example, the entity is more likely to clearly and concisely communicate the material information identified in Step 2 by organising it to:

(a) emphasise material matters;

(b) tailor information to the entity's own circumstances;

(c) describe the entity's transactions, other events and conditions as simply and directly as possible without omitting material information and without unnecessarily increasing the length of the financial statements;

(d) highlight relationships between different pieces of information;

(e) provide information in a format that is appropriate for its type, eg tabular or narrative;

(f) provide information in a way that maximises, to the extent possible, comparability among entities and across reporting periods;

25 See paragraph QC30 of the *Conceptual Framework*.

(g) avoid or minimise duplication of information in different parts of the financial statements; and

(h) ensure material information is not obscured by immaterial information.

57 Financial statements are less understandable for primary users if information is organised in an unclear manner. Similarly, financial statements are less understandable if an entity aggregates material items that have different natures or functions, or if material information is obscured,[26] for example, by an excessive amount of immaterial information.

58 Furthermore, an entity considers the different roles of primary financial statements and notes in deciding whether to present an item of information separately in the primary financial statements, to aggregate it with other information or to disclose the information in the notes.

59 The output of Step 3 is the draft financial statements.

Step 4—review

60 An entity needs to assess whether information is material both individually and in combination with other information[27] in the context of its financial statements as a whole. Even if information is judged not to be material on its own, it might be material when considered in combination with other information in the complete set of financial statements.

61 When reviewing its draft financial statements, an entity draws on its knowledge and experience of its transactions, other events and conditions to identify whether all material information has been provided in the financial statements, and with appropriate prominence.

62 This review gives an entity the opportunity to 'step back' and consider the information provided from a wider perspective and in aggregate. This enables the entity to consider the overall picture of its financial position, financial performance and cash flows. In performing this review, the entity also considers whether:

(a) all relevant relationships between different items of information have been identified. Identifying new relationships between information might lead to that information being identified as material for the first time.

(b) items of information that are individually immaterial, when considered together, could nevertheless reasonably be expected to influence primary users' decisions.

(c) the information in the financial statements is communicated in an effective and understandable way, and organised to avoid obscuring material information.

(d) the financial statements provide a fair presentation of the entity's financial position, financial performance and cash flows.[28]

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26 See paragraph 30A of IAS 1.
27 See paragraph 7 of IAS 1 and paragraph 5 of IAS 8.
28 See paragraph 15 of IAS 1.

63 The review may lead to:

(a) additional information being provided in the financial statements;

(b) greater disaggregation of information that had already been identified as material;

(c) information that had already been identified as immaterial being removed from the financial statements to avoid obscuring material information; or

(d) information being reorganised within the financial statements.

64 The review in Step 4 may also lead an entity to question the assessment performed in Step 2 and decide to re-perform that assessment. As a result of re-performing its assessment in Step 2, the entity might conclude that information previously identified as material is, in fact, immaterial, and remove it from the financial statements.

65 The output of Step 4 is the final financial statements.

Specific topics

Prior-period information

66 An entity makes materiality judgements on the complete set of financial statements, including prior-period[29] information provided in the financial statements.

67 IFRS Standards require an entity to present information in respect of the preceding period for all amounts reported in the current-period financial statements.[30] Furthermore, the Standards require the entity to provide prior-period information for narrative and descriptive information if it is relevant to understanding the current-period financial statements.[31] Finally, the Standards require the entity to present, as a minimum, two statements of financial position, two statements of profit or loss and other comprehensive income, two statements of profit or loss (if presented separately), two statements of cash flows, two statements of changes in equity, and related notes.[32] These requirements are the minimum comparative information identified by the Standards.[33]

68 Assessing whether prior-period information is material to the current-period financial statements might lead an entity to:

(a) provide more prior-period information than was provided in the prior-period financial statements (see paragraph 70); or

29 For this Practice Statement, 'prior-period' should be read as 'prior-periods' if financial statements include amounts and disclosures for more than one prior period.
30 Except when IFRS Standards permit or require otherwise. See paragraph 38 of IAS 1.
31 See paragraph 38 of IAS 1.
32 See paragraph 38A of IAS 1.
33 Paragraph 10(f) of IAS 1 also requires an entity to provide a statement of financial position as at the beginning of the preceding period when the entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D of IAS 1.

(b) provide less prior-period information than was provided in the prior-period financial statements (see paragraph 71).

69 An entity also needs to consider any local laws or regulations, in respect of the prior-period information to be provided in financial statements, when making decisions on what prior-period information to provide in the current-period financial statements. Those local laws or regulations might require the entity to provide in the financial statements prior-period information in addition to the minimum comparative information required by the Standards. The Standards permit the inclusion of such additional information, but require that it is prepared in accordance with the Standards[34] and does not obscure material information.[35] However, an entity that wishes to state compliance with IFRS Standards cannot provide less information than required by the Standards, even if local laws and regulations permit otherwise.

Prior-period information not previously provided

70 An entity must provide prior-period information needed to understand the current-period financial statements,[36] regardless of whether that information was provided in the prior-period financial statements—this requirement is not conditional on whether the prior-period information was provided in the prior-period financial statements. Consequently, the inclusion of prior-period information not previously included would be required if this is necessary for the primary users to understand the current-period financial statements.

Example L—prior-period information not previously provided

Background

In the prior period, an entity had a very small amount of debt outstanding. Information about this debt was appropriately assessed as immaterial in the prior period, and so the entity did not disclose any maturity analysis showing the remaining contractual maturities or other information that would otherwise be required by paragraph 39(a) of IFRS 7 *Financial Instruments: Disclosures*.

In the current period, the entity issued a large amount of debt. The entity concluded that information about debt maturity was material information and disclosed it, in the form of a table, in the current-period financial statements.

Application

The entity might conclude that including a prior-period debt maturity analysis in the financial statements would be necessary for primary users to understand the current-period financial statements. In these circumstances, a narrative description of the maturity of the prior-period balances of the outstanding debt might be sufficient.

34 See paragraph 38C of IAS 1.
35 See paragraph 30A of IAS 1 and paragraph BC30F of the Basis for Conclusions on IAS 1.
36 See paragraph 38 of IAS 1.

Summarising prior-period information

71 Except to the extent required to comply with any local laws or regulations affecting the preparation of financial statements or their audit, an entity does not automatically reproduce in the current-period financial statements all the information provided in the prior-period financial statements. Instead, the entity may summarise prior-period information, retaining the information necessary for primary users to understand the current-period financial statements.

Example M—summarising prior-period information

Background

An entity disclosed, in the prior-period financial statements, details of a legal dispute which led to the recognition, in that period, of a provision. In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* the entity disclosed in the prior-period financial statements a detailed description of uncertainties about the amount and timing of possible cash outflows, in respect of the dispute, together with the major assumptions made concerning future events.

Most of the uncertainties have been resolved in the current period, and, even though the liability has not been settled, a court pronouncement confirmed the amount already recognised in the financial statements by the entity.

The entity considered the relevant local laws, regulations and other reporting requirements and concluded that there were no locally prescribed obligations relating to the inclusion of prior-period information in the current-period financial statements.

Application

In these circumstances, on the basis of the requirements in IFRS Standards, the entity may not need to reproduce in the current-period financial statements all of the information about the legal dispute provided in the prior-period financial statements. Because most of the uncertainties have been resolved, users of the financial statements for the current period may no longer need detailed information about those uncertainties. Instead, information about those uncertainties might be summarised and updated to reflect the current-period events and circumstances and the resolution of previously reported uncertainties.

Errors

72 Errors are omissions from and/or misstatements in an entity's financial statements arising from a failure to use, or misuse of, reliable information that is available, or could reasonably be expected to be obtained.[37] Material errors are errors that individually or collectively could reasonably be expected to influence decisions that primary users make on the basis of those financial statements.

37 See paragraph 5 of IAS 8 (derived from the definition of prior-period errors).

Errors may affect narrative descriptions disclosed in the notes as well as amounts reported in the primary financial statements or in the notes.

73 An entity must correct all material errors, as well as any immaterial errors made intentionally to achieve a particular presentation of its financial position, financial performance or cash flows, to ensure compliance with IFRS Standards.[38] The entity should refer to IAS 8 for guidance on how to correct an error.

74 Immaterial errors, if not made intentionally to achieve a particular presentation, do not need to be corrected to ensure compliance with IFRS Standards. However, correcting all errors (including those that are not material) in the preparation of the financial statements lowers the risk that immaterial errors will accumulate over reporting periods and become material.

75 An entity assesses whether an error is material by applying the same considerations as outlined in the description of the materiality process. Making materiality judgements about errors involves both quantitative and qualitative considerations. The entity identifies information that, if misstated or omitted, could reasonably be expected to influence primary users' decisions (as described in Step 1 and Step 2 of the materiality process). The entity also considers whether any identified errors are material on a collective basis (as described in Step 4 of the materiality process).

76 If an error is judged not to be material on its own, it might be regarded as material when considered in combination with other information. However, in general, if an error is individually assessed as material to an entity's financial statements, the existence of other errors that affect the entity's financial position, financial performance or cash flows in the opposite way, does not make the error immaterial, nor does it eliminate the need to correct the error.

Example N—individual and collective assessment of errors

Background

An entity has identified measures of its profitability as the measures of great interest to the primary users of its financial statements. During the current reporting period, the entity recognised:

(a) an expense accrual of CU100[(a)] that should not have been recognised. The accrual affected the line item 'cost of services'.

(b) the reversal of a provision of CU80 recognised in the previous period that should not have been reversed. The reversal affected the line item 'other operating income (expense)'.

continued...

38 See paragraph 41 of IAS 8.

...continued

Application

In assessing whether these errors are material to its financial statements, the entity did not identify the presence of any qualitative factors and thus made its materiality judgement solely from a quantitative perspective. The entity concluded that both errors were individually material because of their impact on its profit.

In these circumstances, it would be inappropriate to consider the quantitative effect of the errors on a net basis, ie as a CU20 overstatement of expenses, thereby concluding that the identified errors do not need to be corrected. If an error is individually assessed as material to the entity's financial statements, the existence of other errors that affect the entity's financial position, financial performance or cash flows in an opposite way, does not eliminate the need to correct it, or make the error immaterial.

(a) In this example, currency amounts are denominated in 'currency units' (CU).

Cumulative errors

77 An entity may, over a number of reporting periods, accumulate errors that were immaterial, both in individual prior periods and cumulatively over all prior periods. Uncorrected errors that have accumulated over more than one period are sometimes called 'cumulative errors'.

78 Materiality judgements about cumulative errors in prior-period financial statements that an entity made at the time those statements were authorised for issue need not be revisited in subsequent periods unless the entity failed to use, or misused, information that:

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation of those financial statements.[39]

79 To assess whether a cumulative error has become material to the current-period financial statements, an entity considers whether, in the current period:

(a) the entity's circumstances have changed, leading to a different materiality assessment for the current period; or

(b) further accumulation of a current-period error onto the cumulative error has occurred.

80 An entity must correct cumulative errors if they have become material to the current-period financial statements.

39 See paragraph 5 of IAS 8.

Example O—current-period assessment of cumulative errors

Background

An entity, three years ago, purchased a plant. The plant has a useful life of 50 years and a residual value amounting to 20 per cent of the plant cost. The entity started to use the plant three years ago, but has not recognised any depreciation for it (cumulative error). In each prior period, the entity assessed the error of not depreciating its plant as being individually and cumulatively immaterial to the financial statements for that period. There is no indication that the materiality judgements of prior periods were wrong.

In the current period, the entity started depreciating the plant.

In the same period, the entity experienced a significant reduction in profitability (the type of circumstance referred to in paragraph 79(a) of the Practice Statement).

Application

When making its materiality judgements in the preparation of the current-period financial statements, the entity concluded that the cumulative error was material to the current-period financial statements.

In this scenario, the entity does not need to revisit the materiality assessments it made in prior periods. However, because in the current period the cumulative error has become material to the current-period financial statements, the entity must apply the requirements in IAS 8 to correct it.

Information about covenants

81 An entity assesses the materiality of information about the existence and terms of a loan agreement clause (covenant), or of a covenant breach, to decide whether to provide information related to the covenant in the financial statements. This assessment is made in the same way as for other information, that is, by considering whether that information could reasonably be expected to influence decisions that its primary users make on the basis of the entity's financial statements (see 'A four-step materiality process', from paragraph 33).

82 In particular, when a covenant exists, an entity considers both:

(a) the consequences of a breach occurring, that is, the impact a covenant breach would have on the entity's financial position, financial performance and cash flows. If those consequences would affect the entity's financial position, financial performance or cash flows in a way that could reasonably be expected to influence primary users' decisions, then the information about the existence of the covenant and its terms is likely to be material. Conversely, if the consequences of a covenant breach would not affect the entity's financial position, financial performance or cash flows in such a way, then disclosures about the covenant might not be needed.

(b) the likelihood of a covenant breach occurring. The more likely it is that a covenant breach would occur, the more likely it is that information about the existence and terms of the covenant would be material.

83 In assessing whether information about a covenant is material, a combination of the considerations in paragraph 82(a)–82(b) applies. Information about a covenant for which the consequences of a breach would affect an entity's financial position, financial performance or cash flows in a way that could reasonably be expected to influence primary users' decisions, but for which there is only a remote likelihood of the breach occurring, is not material.

Example P—assessing whether information about covenants is material

Background

An entity has rapidly grown over the past five years and recently suffered some liquidity problems. A long-term loan was granted to the entity in the current reporting period. The loan agreement includes a clause that requires the entity to maintain a ratio of debt to equity below a specified threshold, to be measured at each reporting date (the covenant). According to the loan agreement, the debt-to-equity ratio has to be calculated on the basis of debt and equity figures as presented in the entity's IFRS financial statements. If the entity breaches the covenant, the entire loan becomes payable on demand. The disclosure of covenant terms in an entity's financial statements is not required by any local laws or regulations.

Application

Paragraph 31 of IFRS 7 *Financial Instruments: Disclosures* requires an entity to disclose information that enables users of its financial statements to evaluate the nature and extent of risk arising from financial instruments to which the entity is exposed at the end of the reporting period.

In the preparation of its financial statements, the entity assesses whether information about the existence of the covenant and its terms is material information, considering both the consequences and the likelihood of a breach occurring.

In these circumstances, the entity concluded that, considering its recent liquidity problem, any acceleration of the long-term loan repayment plan (the consequence of the covenant breach occurring) would affect the entity's financial position and cash flows in a way that could reasonably be expected to influence primary users' decisions.

The entity also considered the likelihood of a breach occurring.

continued...

...continued

Scenario 1—the lender defined the covenant threshold on the basis of the three-year business plan prepared by the entity, adding a 10 per cent tolerance to the forecast figures
In this scenario, even though the entity has historically met its past business plans, it assessed the likelihood of a breach occurring as higher than remote. Therefore, information about the existence of the covenant and its terms was assessed as material and disclosed in the entity's financial statements.
Scenario 2—the lender defined the covenant threshold on the basis of the three-year business plan prepared by the entity, adding a 200 per cent tolerance to the forecast figures
In this scenario, the entity assessed the likelihood of a breach occurring as remote, on the basis of its historical track record of meeting its past business plans and the magnitude of the tolerance included in the covenant threshold. Therefore, although the consequences of the covenant breach would affect the entity's financial position and cash flows in a way that could reasonably be expected to influence primary users' decisions, the entity concluded that information about the existence of the covenant and its terms was not material.

Materiality judgements for interim reporting

84 An entity makes materiality judgements in preparing both annual financial statements and interim financial reports prepared in accordance with IAS 34 *Interim Financial Reporting*. In either case, the entity could apply the materiality process described in paragraphs 29–65. For its interim financial report, the entity considers the same materiality factors as in its annual assessment. However, it takes into consideration that the time period and the purpose of an interim financial report differ from those of the annual financial statements.

85 In making materiality judgements on its interim financial report, an entity focuses on the period covered by that report, that is:

(a) it assesses whether information in the interim financial report is material in relation to the interim period financial data, not annual data.[40]

(b) it applies the materiality factors on the basis of both the current interim period data and also, whenever there is more than one interim period (eg in the case of quarterly reporting), the data for the current financial year to date.[41]

40 See paragraphs 23 and 25 of IAS 34 *Interim Financial Reporting*.

41 Paragraph 20 of IAS 34 requires an entity to include in the interim financial report the statements of profit or loss and other comprehensive income for both periods, the current interim period and the current financial year to date.

(c) it may consider whether to provide in the interim financial report information that is expected to be material to the annual financial statements. However, information that is expected to be material to the annual financial statements need not be provided in the interim financial report if it is not material to the interim financial report.

Example Q—information that is expected to be material to the annual financial statements

Background

An entity sells mainly standardised products to private customers in its home market. In the first half of the reporting period, 98 per cent of the entity's revenue was generated by sales of Product X. The remaining revenue was principally derived from a pilot sale of a new product line—Product Y—that the entity planned to launch in the third quarter of the year. The entity expects revenue from Product Y to increase significantly by the end of the annual reporting period, so that Product Y will provide approximately 20 per cent of the entity's revenue for the full annual period.

Application

Paragraph 114 of IFRS 15 *Revenue from Contracts with Customers* requires an entity to disaggregate revenue recognised from contracts into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The entity did not identify any qualitative factors that made the amount of revenues from Product Y material to the interim period.

In these circumstances, the entity concluded that the information about disaggregation of revenue by product lines was not material to the interim financial report and did not disclose it. In the preparation of the interim financial report, the entity is not required to disaggregate its revenue by product lines even if a greater level of disaggregation is expected to be required for the subsequent annual financial statements. In other words, although the entity expects that revenue by product lines will be material information for the annual financial statements, that fact does not influence the materiality assessment in the preparation of the entity's interim financial report.

86 Similarly, an entity may consider whether to provide information in the annual financial statements that is only material to the interim financial report. However, if information is material to the interim financial report, it need not be presented or disclosed subsequently in the annual financial statements if it is not material to those statements.

Example R—information that is only material to the interim financial report
Background An entity has identified measures of its profitability and cash flows as the measures of great interest to the primary users of its financial statements. During the interim period, the entity constructed a new chemical handling process to enable it to comply with environmental requirements for the production and storage of dangerous chemicals. Such an item of property, plant and equipment (PP&E) qualifies for recognition as an asset in accordance with paragraph 11 of IAS 16 *Property, Plant and Equipment*. **Application** Paragraph 74(b) of IAS 16 requires the disclosure of the expenditure recognised in the carrying amount of an item of PP&E in the course of its construction. In the preparation of the interim financial report, the entity assessed, both from a quantitative and qualitative perspective, the information about expenditure recognised in the carrying amount of the chemical handling process, concluded that information was material to the interim financial report and disclosed it. The entity incurred no further expenditure related to the chemical handling process in the second half of the annual reporting period. In the preparation of its annual financial statements, the entity assessed the expenditure recognised in the carrying amount of the chemical handling process against its annual profitability and cash flow measures and concluded that this information was not material to the annual financial statements. In reaching that conclusion, the entity did not identify any qualitative factors leading to a different assessment. The entity is not required to disclose information about the expenditure recognised in the carrying amount of its chemical handling process in its annual financial statements.

87 In assessing materiality, an entity also considers the purpose of interim financial reports, which differs from the purpose of annual financial statements. An interim financial report is intended to provide an update on the latest complete set of annual financial statements.[42] Information that is material to the interim period, but was already provided in the latest annual financial statements, does not need to be reproduced in the interim financial report, unless something new occurs or an update is needed.[43]

Interim reporting estimates

88 When an entity concludes that information about estimation uncertainty is material, the entity needs to disclose that information. Measurements included

42 See paragraph 6 of IAS 34.
43 See paragraphs 15–15A of IAS 34.

in interim financial reports often rely more on estimates than measurements included in the annual financial statements.[44] That fact does not, in itself, make the estimated measurements material. Nevertheless, relying on estimates for interim financial data to a greater extent than for annual financial data might result in more disclosures about such uncertainties being material, and thus being provided in the interim financial report, compared with the annual financial statements.

Application date

89 This Practice Statement does not change any requirements in IFRS Standards or introduce any new requirements. An entity that chooses to apply the guidance in the Practice Statement is permitted to apply it to financial statements prepared from 14 September 2017.

44 See paragraph 41 of IAS 34.

Appendix
References to the *Conceptual Framework for Financial Reporting* and IFRS Standards

Extracts from the *Conceptual Framework for Financial Reporting*[45]

Paragraph OB2

Referred to in paragraphs 7 and 17 of the Practice Statement

> The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.

Paragraph OB3

Referred to in paragraph 18 of the Practice Statement

> Decisions by existing and potential investors about buying, selling or holding equity and debt instruments depend on the returns that they expect from an investment in those instruments, for example dividends, principal and interest payments or market price increases. Similarly, decisions by existing and potential lenders and other creditors about providing or settling loans and other forms of credit depend on the principal and interest payments or other returns that they expect. Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity. Consequently, existing and potential investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity.

Paragraph OB4

Referred to in paragraphs 19 and 38 of the Practice Statement

> To assess an entity's prospects for future net cash inflows, existing and potential investors, lenders and other creditors need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. Examples of such responsibilities include protecting the entity's resources from unfavourable effects of economic factors such as price and technological changes and ensuring that the entity complies with applicable laws, regulations and contractual provisions. Information about management's discharge of its responsibilities is also useful for decisions by existing investors, lenders and other creditors who have the right to vote on or otherwise influence management's actions.

45 References to the *Conceptual Framework for Financial Reporting* in this Practice Statement will be updated once the revised *Conceptual Framework* is issued.

Paragraph OB5

Referred to in paragraph 13 of the Practice Statement

> Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.

Paragraph OB6

Referred to in paragraph 21 of the Practice Statement

> However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks.

Paragraph OB8

Referred to in paragraph 36 of the Practice Statement

> Individual primary users have different, and possibly conflicting, information needs and desires. The Board, in developing financial reporting standards, will seek to provide the information set that will meet the needs of the maximum number of primary users. However, focusing on common information needs does not prevent the reporting entity from including additional information that is most useful to a particular subset of primary users.

Paragraph OB9

Referred to in paragraph 13 of the Practice Statement

> The management of a reporting entity is also interested in financial information about the entity. However, management need not rely on general purpose financial reports because it is able to obtain the financial information it needs internally.

Paragraph OB10

Referred to in paragraph 13 of the Practice Statement

> Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups.

Paragraph QC7

Referred to in paragraph 20 of the Practice Statement

> Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

Paragraph QC11

Referred to in paragraph 5 of the Practice Statement

> Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Paragraph QC30

Referred to in paragraph 56 of the Practice Statement

> Classifying, characterising and presenting information clearly and concisely makes it *understandable*.

Paragraph QC32

Referred to in paragraph 15 of the Practice Statement

> Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

Extracts from IAS 1 *Presentation of Financial Statements*

Paragraph 7 (and paragraph 5 of IAS 8)

Referred to in paragraphs 5, 41 and 60 of the Practice Statement

> ***Material*** **Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.**

Paragraph 7

Referred to in paragraph 6 of the Practice Statement

> Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. [...] Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

Paragraph 15

Referred to in paragraph 62 of the Practice Statement

> **Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.**

Paragraph 17

Referred to in paragraph 10 of the Practice Statement

> In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:
>
> (a) to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an IFRS that specifically applies to an item.
>
> (b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
>
> (c) to provide additional disclosures when compliance with the specific requirements in IFRSs 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.

Paragraph 29

Referred to in paragraph 43 of the Practice Statement

> **An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.**

Paragraph 30A

Referred to in paragraphs 28, 57 and 69 of the Practice Statement

> When applying this and other IFRSs an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

Paragraph 31

Referred to in paragraph 10 of the Practice Statement

> Some IFRSs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Paragraph 38

Referred to in paragraphs 67 and 70 of the Practice Statement

> **Except when IFRSs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.**

Paragraph 38A

Referred to in paragraph 67 of the Practice Statement

> **An entity shall present, as a minimum, two statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity, and related notes.**

Paragraph 38C

Referred to in paragraph 69 of the Practice Statement

> An entity may present comparative information in addition to the minimum comparative financial statements required by IFRSs, as long as that information is prepared in accordance with IFRSs. This comparative information may consist of one or more statements referred to in paragraph 10, but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements.

Paragraph BC30F of the Basis for Conclusions

Referred to in paragraphs 28 and 69 of the Practice Statement

> Paragraph 30A was added to IAS 1 to highlight that when an entity decides how it aggregates information in the financial statements, it should take into consideration all relevant facts and circumstances. Paragraph 30A emphasises that an entity should not reduce the understandability of its financial statements by providing immaterial information that obscures the material information in financial statements or by aggregating material items that have different natures or functions. Obscuring material information with immaterial information in financial statements makes the material information less visible and therefore makes the financial statements less understandable. The amendments do not actually prohibit entities from disclosing immaterial information, because the Board thinks that such a requirement would not be operational; however, the amendments emphasise that disclosure should not result in material information being obscured.

Extracts from IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph 5 (and paragraph 7 of IAS 1)

Referred to in paragraphs 5, 41 and 60 of the Practice Statement

> ***Material*** **Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.**

Paragraph 5

Referred to in paragraphs 72 and 78 of the Practice Statement

> ***Prior period errors*** **are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:**
>
> **(a) was available when financial statements for those periods were authorised for issue; and**
>
> **(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.**
>
> **Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.**

Paragraph 8

Referred to in paragraph 8 of the Practice Statement

> IFRSs set out accounting policies that the IASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IFRSs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

Paragraph 41

Referred to in paragraph 73 of the Practice Statement

> Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with IFRSs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered

until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42–47).

Extracts from IAS 34 *Interim Financial Reporting*

Paragraph 6

Referred to in paragraph 87 of the Practice Statement

> In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an entity may be required to or may elect to provide less information at interim dates as compared with its annual financial statements. This Standard defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes. The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported.

Paragraph 15

Referred to in paragraph 87 of the Practice Statement

> An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.

Paragraph 15A

Referred to in paragraph 87 of the Practice Statement

> A user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report.

Paragraph 20

Referred to in paragraph 85 of the Practice Statement

> **Interim reports shall include interim financial statements (condensed or complete) for periods as follows:**
>
> **(a)** **statement of financial position as of the end of the current interim period and a comparative statement of financial position as of the end of the immediately preceding financial year.**
>
> **(b)** **statements of profit or loss and other comprehensive income for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit or loss and other comprehensive income for the comparable interim periods (current and year-to-date) of the immediately preceding financial year. As permitted by IAS 1 (as amended in 2011), an**

interim report may present for each period a statement or statements of profit or loss and other comprehensive income.

(c) **statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.**

(d) **statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.**

Paragraph 23

Referred to in paragraph 85 of the Practice Statement

In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

Paragraph 25

Referred to in paragraph 85 of the Practice Statement

While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.

Paragraph 41

Referred to in paragraph 88 of the Practice Statement

The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed. While measurements in both annual and interim financial reports are often based on reasonable estimates, the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.

Approval by the Board of the IFRS Practice Statement 2 *Making Materiality Judgements* issued in September 2017

The IFRS Practice Statement 2 *Making Materiality Judgements* was approved for issue by 12 of 12 members of the International Accounting Standards Board.[46]

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Stephen Cooper	
Martin Edelmann	
Françoise Flores	
Amaro Luiz De Oliveira Gomes	
Gary Kabureck	
Takatsugu Ochi	
Darrel Scott	
Thomas Scott	
Chungwoo Suh	
Mary Tokar	

46 Stephen Cooper was a member of the Board when the IFRS Practice Statement 2 *Making Materiality Judgements* was balloted.

Basis for Conclusions on the IFRS Practice Statement 2 *Making Materiality Judgements*

This Basis for Conclusions accompanies, but is not part of, the IFRS Practice Statement 2 Making Materiality Judgements *(Practice Statement). It summarises the considerations of the International Accounting Standards Board (Board) when developing the Practice Statement. Individual Board members gave greater weight to some factors than to others.*

Background

BC1 The Board was informed at the Discussion Forum on Financial Reporting Disclosure in January 2013, through feedback on the 2014 Exposure Draft of proposed amendments to IAS 1 *Presentation of Financial Statements* and from other sources, that entities experience difficulties making materiality judgements when preparing financial statements. Some entities are unsure how to make materiality judgements and tend to use disclosure requirements in IFRS Standards as if they were items on a checklist, rather than using judgement when deciding what information to provide in financial statements. Some stakeholders stated that these difficulties and practices contribute to a disclosure problem—namely, entities provide too much irrelevant information and not enough relevant information in their financial statements.

BC2 Some stakeholders suggested that one of the factors contributing to these difficulties was the lack of guidance on materiality in IFRS Standards, particularly on how entities should make materiality judgements about information disclosed in the notes to the financial statements. In the light of this feedback, the Board decided to provide further guidance. The aim of the Board is to promote a behavioural change in the way entities prepare their financial statements, encouraging a greater exercise of judgement when determining what information to include or not to include in those statements.

BC3 In October 2015, the Board published the Exposure Draft IFRS Practice Statement *Application of Materiality to Financial Statements* (Practice Statement ED). The Board developed the Practice Statement ED after considering the input obtained from outreach and consultations with the IFRS Advisory Council; the Accounting Standards Advisory Forum (ASAF); the World Standard-Setters; the Global Preparers Forum (GPF); the Capital Markets Advisory Committee (CMAC); representatives of the International Auditing and Assurance Standards Board and the International Organization of Securities Commissions; and a number of other accounting professionals, academics and representatives of other regulatory bodies.[47]

BC4 The Board received 95 comment letters in response to the Practice Statement ED. The Board also conducted outreach on the proposals in the Practice Statement ED, including consultation with the ASAF, the CMAC and the GPF. Responses to the Practice Statement ED indicated widespread support for the Board to issue

47 The IFRS Advisory Council, the Accounting Standards Advisory Forum (ASAF), the Global Preparers Forum (GPF) and the Capital Markets Advisory Committee (CMAC) are the Board's advisory bodies. The World Standard-Setters is a meeting of accounting standard-setters organised by the Board.

practical guidance on making materiality judgements in the preparation of financial statements. The Board considered the input it received on the Practice Statement ED when developing this Practice Statement.

Form of the guidance

BC5 The Practice Statement sets out non-mandatory guidance with the aim of assisting entities in making materiality judgements when preparing general purpose financial statements. Entities applying IFRS Standards are not required to comply with the Practice Statement to state compliance with those Standards. Nevertheless, the Board expects the Practice Statement to help promote a greater understanding of the role of materiality in applying IFRS Standards and of how judgement should be exercised to assess materiality in preparing financial statements. The Board expects that better understanding of the role of materiality will ultimately make financial statements more useful and easier to understand.

BC6 The Board decided to provide guidance on how to make materiality judgements in the form of a non-mandatory Practice Statement because:

(a) issuing mandatory requirements in a Standard could risk appearing prescriptive, which could undermine the emphasis on entities applying their judgement in the assessment of materiality; and

(b) issuing guidance as a separate non-mandatory document, rather than as non-mandatory implementation guidance supporting a specific Standard, such as IAS 1, would help to emphasise that the concept of materiality is pervasive throughout IFRS Standards.

BC7 Moreover, the Board was told that adding mandatory requirements in a Standard could risk creating conflicts with local legal or regulatory frameworks. Nevertheless, the Board observed that even though some jurisdictions might have legal or regulatory requirements that interact with IFRS materiality requirements, this should not result in a conflict with the guidance in the Practice Statement, provided that those local requirements do not prevent an entity from applying the requirements in IFRS Standards. No respondents to the Practice Statement ED and no participants in the outreach organised by the Board reported such a circumstance.

BC8 Furthermore, this Practice Statement does not change any requirements in IFRS Standards or introduce any new requirements. The Board decided that non-mandatory status was more appropriate.

BC9 Finally, the Board issued a Practice Statement rather than asking the IFRS Foundation staff to develop educational material because a Practice Statement is subject to full due process, including public consultation, and is more accessible than educational material.

BC10 Responses to the Practice Statement ED indicated widespread agreement with the considerations that led the Board to include its guidance in a non-mandatory Practice Statement.

Scope

BC11 The objective of this Practice Statement is to provide entities with guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Standards. The Board discussed whether to broaden the audience of the Practice Statement by also addressing it to other parties involved in financial reporting, but concluded that the Practice Statement should only be addressed to those involved in the preparation of the financial statements. The Board noted, however, that the Practice Statement is also likely to help other parties, such as auditors, users of financial statements, regulators and enforcers, understand the approach an entity follows in making materiality judgements when preparing its financial statements.

BC12 The Board discussed whether the Practice Statement should also be addressed to entities applying the *IFRS for SMEs®* Standard. However, the *IFRS for SMEs* Standard is a separate and stand-alone accounting framework based on full IFRS Standards with modifications to reflect cost-benefit considerations specific to small and medium sized entities and the need of users of the financial statements of such entities. The *IFRS for SMEs* Standard does not refer to the concept of primary users as included in the *Conceptual Framework for Financial Reporting (Conceptual Framework)* and does not include recent changes to full IFRS Standards (eg that an entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information). Therefore, the Board decided that the Practice Statement is not intended for entities applying the *IFRS for SMEs* Standard. The *IFRS for SMEs* Standard permits, but does not require, entities to refer to guidance available in full IFRS Standards. Those entities may therefore refer to the guidance in the Practice Statement in the same way they consider the requirements and guidance in full IFRS Standards dealing with similar and related issues in developing and applying accounting policies when the *IFRS for SMEs* Standard does not specifically address a transaction, other event or condition.

BC13 Materiality is a general concept widely used for financial reporting and other purposes. For example, auditors usually assess materiality when making judgements about the nature, timing and extent of the work to be done to express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. Some respondents to the Practice Statement ED noted that preparers and auditors of financial statements assess materiality using a comparable approach—they both focus on information that could reasonably be expected to influence decisions of the users of an entity's financial statements. The Board discussed whether to include in the Practice Statement a reference to the assessment of materiality for auditing or other purposes, but decided to focus its guidance on the preparation of financial statements only. Assessing materiality for purposes other than the preparation of financial statements is beyond the scope of this Practice Statement. Moreover, referring to different applications of the concept of materiality might cause confusion.

General characteristics of materiality

Definition of material

BC14 The Board has discussed the definition of 'material' and whether to change or clarify that definition in its Principles of Disclosure project. In September 2017, on the basis of those discussions, the Board published the Exposure Draft *Definition of Material (Proposed amendments to IAS 1 and IAS 8)* (Definition of Material ED). The Definition of Material ED proposes refining the definition of material by incorporating the existing description of material information in paragraph 7 of IAS 1[48] and emphasising the need to ensure material information is not obscured, as described in paragraph 30A of IAS 1. IFRS Standards already include both concepts; consequently, the Practice Statement includes these notions. The Board considered whether to postpone issuing this Practice Statement until the completion of the Definition of Material project. However, the Board concluded that providing guidance on making materiality judgements as quickly as possible would be useful and responded to requests for guidance.

BC15 Moreover, the Board observed that, since the proposed amendments in the Definition of Material ED do not constitute substantive changes to the existing requirements in IFRS Standards, they are unlikely to result in a change in practice for most entities or to significantly affect entities' financial statements. Therefore, the guidance in this Practice Statement would not be affected by the proposed amendments, other than by the possible need to update the definition of material quoted in the document.

Materiality judgements are pervasive

BC16 The Board discussed whether to focus the guidance in the Practice Statement on IFRS presentation and disclosure requirements only, but concluded that the need for materiality judgements is pervasive in the preparation of financial statements, also encompassing recognition and measurement requirements. Consequently, the Board provided, throughout the Practice Statement, guidance on how to make materiality judgements in the context of recognition and measurement as well as of presentation and disclosure.

Primary users and their information needs

BC17 The Practice Statement explains that, when making its materiality assessments, an entity should consider the primary users of its financial statements—its primary users—as defined by the *Conceptual Framework*, that is, existing and potential investors, lenders and other creditors. The Board discussed whether it would be appropriate to emphasise the existence, among those primary users, of different subsets of users whose information needs might differ. However, the Board concluded that requiring an entity to identify different subsets of primary users, or focusing on any special information needs and expectations those users might have, could create a tension with the definition of general purpose financial statements, which focuses on the common information needs of a wide

48 '... the assessment needs to take into account how users [...] could *reasonably* be expected to be influenced in making economic decisions' [emphasis added].

range of users. Consequently, the Practice Statement refers to the three categories of primary users identified in the *Conceptual Framework*—existing and potential investors, lenders and other creditors.

BC18 Furthermore, the Board decided to emphasise in the Practice Statement that the primary users of an entity's financial statements include potential investors, lenders and other creditors, as well as existing ones. The Board concluded this would address concerns some stakeholders expressed about an inappropriate focus on specific existing users; the Board decided to make clear that an entity cannot narrow the information provided in its financial statements by focusing only on its existing users' information needs.

BC19 An entity considers decisions its primary users make on the basis of the financial statements when deciding what information to include in those statements. Consequently, the Board decided the Practice Statement should describe primary users' decisions and related information needs as set out in the *Conceptual Framework*. Primary users' decisions depend on the returns they expect from the resources they provide to an entity. Expectations about returns, in turn, depend on primary users' assessment of the amount, timing and uncertainty of the future cash inflows to the entity, as well as on the assessment of management's stewardship of the entity's resources.

BC20 The Board further considered the *Conceptual Framework* when developing its guidance on the information needs of primary users an entity should consider when making materiality judgements. Providing all the information existing and potential investors, lenders and other creditors need is not the objective of general purpose financial statements. The Board clarified that an entity is not required to address information needs that respond to unique or individual information requests. An entity should aim to meet primary users' common information needs. In developing its guidance, the Board clarified that, to avoid losing information relevant to one category of primary users (among the three identified in the *Conceptual Framework*), the common information needs are not limited to the information needs simultaneously shared across all categories of primary users. An entity separately identifies the common information needs for each of the three categories, and meets the total of these needs.

Interaction with local laws and regulations

BC21 The Board discussed the interaction of materiality requirements in IFRS Standards with local laws and regulations in the light of stakeholders' comments relating to potential conflicts between the guidance in the Practice Statement ED and local legal or regulatory requirements. The Board noted that the Practice Statement provides guidance on making materiality judgements when preparing financial statements in accordance with IFRS Standards; it does not provide guidance on how to apply local legal or regulatory requirements.

BC22 Nevertheless, the Board acknowledged that local requirements might affect information provided in the financial statements. In these circumstances, an entity must comply with the materiality requirements in IFRS Standards, but the Standards do not prohibit the disclosure of additional information required by local laws or regulations, even if that information is not material according to

IFRS Standards. A conflict would only occur if local laws or regulations prohibit the inclusion of information that is material for the purpose of IFRS Standards. No respondents to the Practice Statement ED and no participants in the outreach organised by the Board reported such a circumstance.

BC23 When information in addition to that required by IFRS Standards is provided in the financial statements, paragraph 30A of IAS 1 requires an entity to ensure that material information required by the Standards is not obscured. The Board observed that the appropriate organisation of information in the financial statements would allow an entity to meet that requirement.

Making materiality judgements

BC24 Respondents commenting on the Practice Statement ED welcomed the fact it gathered guidance on materiality from multiple IFRS Standards. However, some respondents suggested it would be useful to also describe the practical steps an entity follows when making materiality judgements in the preparation of its financial statements. The Board developed a four-step process (materiality process) in consultation with the ASAF, the CMAC and the GPF. The description of the materiality process illustrates the role materiality plays in the preparation of financial statements and clarifies how a materiality judgement is made. The materiality process also identifies the factors an entity should consider when making materiality judgements.

BC25 Consistent with the non-mandatory status of the Practice Statement, the Board developed the materiality process as an example of the approach an entity may follow in making materiality judgements, but clarified that the materiality process includes the materiality requirements an entity must apply to state compliance with IFRS Standards.

BC26 The Board considered whether to focus its guidance on the application of judgement or to illustrate the overall process of which materiality judgements are a part. However, as some respondents to the Practice Statement ED noted, describing the overall process helps an entity understand how materiality judgements can influence the preparation of its financial statements, as well as how the various materiality decisions are connected with each other.

BC27 The Board included Step 1 (identify) to provide an entity with a clear starting point for its assessments. Stakeholders largely agreed that an entity should use the requirements in IFRS Standards to identify information that primary users might need to make decisions about providing resources to the entity. When using the requirements in IFRS Standards, an entity benefits from the assessment the Board makes when developing IFRS Standards—when developing a Standard the Board identifies information it expects will meet the needs of a broad range of primary users. The Board also considered that some information not specified in IFRS Standards might be necessary to enable primary users to understand the impact of an entity's transactions, other events and conditions on the entity's financial position, financial performance and cash flows. Therefore, the Board decided that the entity's knowledge about its primary users' common information needs should be an additional input to Step 1. On the basis of that knowledge, an entity should consider whether to include additional information not specified by IFRS Standards in its financial statements.

BC28 Step 2 (assess) describes factors an entity should consider in identifying whether an item of information is material. The Board concluded that the application of judgement in assessing whether information is material involves both quantitative and qualitative considerations. Respondents to the Practice Statement ED also agreed that, in making materiality judgements, an entity should consider both quantitative and qualitative factors. The Practice Statement includes some examples of materiality factors. However, the Board decided to describe a limited number of factors rather than provide an exhaustive list of considerations to be taken into account.

BC29 The Board decided to include some guidance in the materiality process on the way an entity should reflect its materiality judgements. Step 3 (organise) deals with the output of an entity's materiality judgements and provides guidance the entity might want to consider to make its financial statements easier to understand. The Board recommends that an entity considers the different roles of the primary financial statements and the notes in deciding whether to present an item of information separately in the primary financial statements, to aggregate it with other information and/or to disclose the information in the notes. However, the Board decided not to provide further guidance on those topics in the Practice Statement. A discussion of the roles of the different components of the financial statements, as well as of the implications of those roles, has been included in the *Principles of Disclosure* Discussion Paper, which the Board published in March 2017.

BC30 Step 4 (review) gives an entity the opportunity to 'step back', once it has prepared its draft financial statements, and consider the information from an aggregated perspective. The Board discussed whether this step duplicates the assessment performed in Step 2 and clarified that an entity makes its materiality judgements in Step 2, but then reviews these judgements once a draft of the financial statements is available. In Step 2, an entity based its assessment on the expected financial statements as a whole, while it was still preparing its draft. In Step 4, an entity checks its assessment against the actual draft financial statements—this review may lead the entity to revisit the assessment performed in Step 2, provide additional information in the financial statements, remove immaterial information or reorganise existing information.

Specific topics

Prior-period information

BC31 When discussing materiality judgements about prior-period information included in financial statements, the Board acknowledged some legal or regulatory requirements might set out the amount of prior-period information to include in the financial statements. However, the Board decided that providing guidance on making materiality judgements about prior-period information in the Practice Statement would be necessary to promote behavioural change consistently across all parts of the financial statements and to encourage entities to exercise greater judgement when determining what information to include or not to include in financial statements.

BC32 The Board developed the guidance in the Practice Statement in the light of the minimum comparative information required by IAS 1. However, the Board acknowledged that an entity needs to consider any legal or regulatory requirements when making materiality judgements about prior-period information. Consequently, the Board decided to explain that, in its current-period financial statements, an entity may summarise prior-period information, compared to the way it was included in prior-period financial statements, except when local laws or regulations demand otherwise. The Board also clarified that an entity that wishes to state compliance with IFRS Standards cannot provide less information than the information required by the Standards, even if local laws and regulations permit otherwise.

BC33 The Board also emphasised that, when providing prior-period information in addition to the minimum comparative information required by IFRS Standards, information has to be provided in accordance with those Standards and should not obscure material information. Some stakeholders asked whether providing prior-period information at the same level of detail as current-period information could be seen as obscuring material information in the current-period financial statements. The Board does not expect that such prior-period information would obscure current-period material information.

Errors

BC34 The Board discussed whether to include in the Practice Statement guidance to help entities determine whether an error is material. The Board noted that the assessment of whether an error could reasonably be expected to influence primary users' decisions is an integral part of the preparation of the financial statements, and therefore concluded that the Practice Statement should address this topic. The Board noted that the materiality factors an entity would apply to conclude whether an error is material are the same as those described in the materiality process. Consequently, there is no need to provide any specific additional guidance. In the 'Errors' section, the Practice Statement suggests that an entity refer to the considerations described in the materiality process.

BC35 Respondents to the Practice Statement ED asked the Board to also address the situation in which an entity faces errors generated by the accumulation over several periods of errors that were immaterial both in individual prior periods and cumulatively over all prior periods (sometimes called 'cumulative errors'). The Board concluded it would be helpful to clarify that, in such circumstances:

(a) materiality judgements about cumulative errors that an entity made at the time the prior-period financial statements were authorised for issue need not be revisited in the current period, provided those judgements were reasonable at the time they were made and the entity considered information that was available, or was reasonably expected to be available, at that time; however

(b) an entity needs to assess whether cumulative errors have become material to the current-period financial statements.

BC36 The Board decided to include a statement in the Practice Statement to remind an entity that a cumulative error must be corrected if it becomes material to the current-period financial statements. The Board discussed whether to provide further guidance on how to correct such an error, but concluded that the Practice Statement should focus on how to make materiality judgements, instead of dealing with the consequences of these judgements. IAS 8 contains the requirements on the correction of errors.

BC37 The Practice Statement ED included some wording implying that if an entity intentionally misstates or omits information to achieve a particular presentation or result, such an error is always material. Respondents to the Practice Statement ED commented that the wording appears inconsistent with paragraph 41 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Paragraph 41 of IAS 8 does not characterise such errors as material, however, it requires the correction of all errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. The Board decided to align the wording in the Practice Statement with the wording of paragraph 41 of IAS 8.

Information about covenants

BC38 When discussing whether the existence of a covenant, or similar contractual terms, could influence materiality judgements, the Board identified two concerns:

(a) do any specific considerations apply in making materiality judgements on information about the existence and terms of a covenant, or a covenant breach?

(b) does the existence of a covenant influence materiality judgements about information other than about the existence of the covenant, or a covenant breach, included in the financial statements?

BC39 In respect of the first concern, the Board concluded that, in addition to the materiality factors described in the materiality process, materiality judgements are specifically influenced by the consequences of a breach occurring and the likelihood of that breach occurring. In particular, the Board clarified that, regardless of the significance of the consequences of a breach occurring, information about the covenant is not material if the likelihood of the breach occurring is remote. In providing this clarification, the Board applied the disclosure threshold set in paragraph 28 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* regarding the disclosure of contingent liabilities.

BC40 In respect of the second concern, the Board discussed including in the Practice Statement guidance stating that the existence of a covenant should not influence an entity's assessment of the materiality of other information in the financial statements. In other words, an entity is not required to reperform its materiality assessments the closer it gets to breaching a covenant. However, some stakeholders observed that such guidance would conflict with existing guidance developed by other parties on the assessment of the materiality of errors. To avoid creating any confusion among preparers and others involved in financial reporting, the Board decided not to include in the Practice Statement guidance on the impact of covenants on materiality assessments.

Materiality judgements for interim reporting

BC41 The Board discussed whether to provide guidance on how to make materiality judgements when preparing an interim financial report. The Board concluded that, when preparing an interim financial report, an entity should consider the same materiality factors it considers in preparing its annual financial statements. However, the Board also noted that it would be helpful to explain any additional considerations relevant to making a materiality judgement in the preparation of an interim financial report. In particular, the Board noted that it would be helpful to explain how the different time period and purposes of an interim financial report, compared to the annual financial statements, affect materiality judgements, as well as to address some practical concerns raised by respondents to the Practice Statement ED.

Likely effects of this Practice Statement

BC42 The Board is committed to assessing and sharing knowledge about the likely costs of implementing proposed new requirements and guidance—the costs and benefits are collectively referred to as 'effects'. The Practice Statement is designed to provide guidance on how to make materiality judgements in the preparation of financial statements. The Practice Statement does not change any requirements in IFRS Standards or introduce any new requirements. With no changes in existing requirements and given that the application of the Practice Statement is not required to state compliance with IFRS Standards, the Board concluded that a separate effects analysis was not necessary.

BC43 The expected effects of the Practice Statement have been considered as part of the Board's discussions. The Board expects the Practice Statement will:

(a) enhance awareness of the role of materiality in helping to promote positive changes in behaviour (such as to discourage rigid adherence to checklists by an entity preparing financial statements);

(b) encourage an entity to exercise judgement to a greater extent when preparing financial statements, which should lead to a reduction in boilerplate disclosures and redundant information and provide a framework for assessing the need in the financial statements for information that is additional to disclosure requirements specified by IFRS Standards; and

(c) provide a useful reference point for discussions between an entity, its auditors and regulators on the assessment of materiality, which could help facilitate agreement.

BC44 The Board does not expect any significant costs associated with the application of the Practice Statement because it introduces no new requirements nor is the application of the Practice Statement mandatory. However, some implementation costs might be faced by an entity that has previously relied on a checklist approach when preparing its financial statements. The Board expects such an entity would apply more judgement when deciding what information to include in the financial statements, if it follows the guidance in the Practice Statement. The Board concluded that the benefits of higher-quality disclosures and easier access to information for primary users of financial statements exceed the implementation costs required when entities apply judgement in preparing financial statements, rather than following a checklist. Conversely, an entity already applying appropriate judgement in the preparation of its financial statements would incur no additional implementation costs and could benefit from the issue of the Practice Statement in its interaction with auditors and other stakeholders.

BC45 The effects the Board expects from the Practice Statement were assessed against the comments received on the Practice Statement ED. Overall, respondents confirmed the Board's expectations and welcomed the proposal to issue the Practice Statement.

Interaction with the Board's other projects

BC46 The Board decided to issue this Practice Statement before the finalisation of the Principle of Disclosures project, for which a Discussion Paper was published in March 2017; the Definition of Material project, for which an Exposure Draft was published in September 2017; or the *Conceptual Framework* project—the revised *Conceptual Framework* is expected to be issued in 2018. The Board considered whether to postpone issuing this Practice Statement until the completion of one or more of those projects; however, it concluded that it would be useful to provide guidance on making materiality judgements as quickly as possible, to respond to requests for guidance. Moreover, the Board concluded that the finalisation of these projects would be unlikely to affect the guidance in the Practice Statement.

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NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	26 January 2018
To:	NZASB Members
From:	Lisa Kelsey
Subject:	**Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements and Explanatory Guides**

Purpose and introduction

1. The purpose of this agenda item is to seek approval to issue ED NZASB 2018-2 *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* (the ED) and its accompanying Invitation to Comment (ITC) (attached at agenda item 8.2).

Recommendations

2. We recommend that the Board:
   (a) APPROVES for issue the ED and the accompanying ITC (see agenda item 8.2); and
   (b) AGREES a comment period of 90 days.

Structure of the memo

3. The remainder of this memo is structured as follows.
   (a) Background
   (b) Summary of changes made following the December 2017 meeting
   (c) Effective date
   (d) Comment period
   (e) Next steps

Background

4. At its December 2017 meeting the Board AGREED 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 by constituents;

(c) amendments to the Tier 4 PBE Accounting Requirements to reflect recent changes to the Tier 4 size criteria, as given effect by *2017 Amendments to XRB A1* Application of the Accounting Standards Framework (2017 Amendments to XRB A1); and

(d) minor editorial corrections.

5. The Board considered the proposed amendments at its December 2017 meeting and requested some changes. These changes are summarised in the next section.

Summary of changes made following the December 2017 meeting

6. This section provides a summary of changes made to the proposed amendments that were tabled at the December 2017 meeting.

Amendments arising from the PBE Conceptual Framework

7. When staff looked at these amendments again, they had some concerns that the proposed wording for the qualitative characteristic of verifiability was not the best overall description of the concept. The amendment tabled at the December meeting was as follows:

   (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.

8. The new wording is shown in red below.

   (vi) Verifiability: the information reported is capable of being supported by independent means. Verifiability helps assure users with different levels of knowledge that the information in the performance report is without material error or bias.

Issue 2.1: Related party requirements[1]

9. The Board requested that the word 'significant' before normal business transactions in paragraph A202 be deleted. This additional amendment is shown in red below.

   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).

10. This additional amendment will also be made to the Tier 4 NFP Standard.

Issue 4.1 Opting up to the Tier 2 PBE Accounting Requirements

11. The Board requested further amendments to paragraph 7 of the Tier 3 NFP Standard to make it clearer that an entity opts up for a class of property, plant and equipment. The Board also requested a further clarification that the whole standard is applied to that class. The additional amendments are shown in red below.

[1] The issue numbers used in this memo are the same as those used in May 2017 and December 2017.

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* for a class of assets, such as buildings, so that it can revalue ~~a~~ that 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 to that class).

[1.] PBE IPSAS 30 (paragraphs 9, AG1 and AG2) provides guidance on determining classes of financial instruments.

12. These additional amendments will also be made to the Tier 3 PS Standard.

Issue 4.2(a): Reversal of impairment charges

13. The Board requested changes to paragraph A107.1 of the Tier 3 NFP Standard to align this paragraph with the wording already used in Table 2: *Recording of Specific Types of Expenses*. The amendment to paragraph A107.1 is shown below in red.

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) 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.	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.

Reversal of Impairment Charges

A107.1 If there is any indication (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value) 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.

14. This amendment will also be made to the Tier 3 PS Standard.

Issue 4.3: Accounting for multi-year grants/donation expense

15. The Board decided to remove the amendments in respect of issue 4.3: Accounting for multi-year grants/donation expense from the ED and consider this issue as part of the post-implementation review of the Tier 3 and Tier 4 PBE Accounting Requirements.

Effective date

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

Comment period

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

Next steps

18. If the ED is issued in mid-February 2018, with comments due in mid-May 2018, we would be able to bring an analysis of submissions received to the Board meeting scheduled for 27 June 2018.

Attachments

Agenda item 8.2: Draft Invitation to Comment and ED NZASB 2018-2 *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*

EXPOSURE DRAFT NZASB 2018-2

2018 OMNIBUS AMENDMENTS TO TIER 3 AND TIER 4 PBE ACCOUNTING REQUIREMENTS

(ED NZASB 2018-2)

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.

ED	Exposure Draft	
NZASB	New Zealand Accounting Standards Board of the External Reporting Board	
PBE	Public Benefit Entity	
PBE IPSAS	Public Benefit Entity International Public Sector Accounting Standard	
Tier 3 NFP Standard	PBE SFR−A (NFP) *Public Benefit Entity Simple Format Reporting−Accrual (Not-For-Profit)*	Tier 3 standards
Tier 3 PS Standard	PBE SFR−A (PS) *Public Benefit Entity Simple Format Reporting−Accrual (Public Sector)*	
Tier 4 NFP Standard	PBE SFR−C (NFP) *Public Benefit Entity Simple Format Reporting−Cash (Not-For-Profit)*	Tier 4 standards
Tier 4 PS Standard	PBE SFR−C (PS) *Public Benefit Entity Simple Format Reporting−Cash (Public Sector)*	

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.	20–23
4.	Do you agree with the proposed amendments to the Tier 3 standards to clarify the opting up requirements? If you disagree, please provide reasons.	24–27
5.	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.	28–30
6.	Do you have any other comments on ED NZASB 2018-2?	

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.

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 which need to be addressed 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 2018-2 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 2018-2

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 amendments.

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, A182 and Table 3 after paragraph A107	Paragraphs 6, A11, A13, A184 and Table 3 after paragraph A109

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 of Specific Types of Asset* 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. The amendments are based on the wording used in the relevant Tier 2 PBE Standards.

23. These amendments are made to the following paragraphs in the Tier 3 standards.

Tier 3 NFP Standard	Tier 3 PS Standard
Table 3: *Recording of Specific Types of Asset* Paragraphs A107.1 and A107.2	Table 3: *Recording of Specific Types of Asset* Paragraphs 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.

Opting up to apply PBE Standards

24. 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 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*.

25. 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.

26. The NZASB is proposing to clarify what is meant by "to a specific type of transaction" when opting up to apply PBE IPSAS 17 and the standards that apply to financial instruments.

27. 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 and A180.	Paragraphs 7, 8, 9, A115, A116, A117 and A182.

Question for Respondents	
4.	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

28. 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.

29. 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.

30. Paragraph 2.1 has been added to the Tier 4 standards.

Question for Respondents
5. 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

31. 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) Paragraph A109 of the Tier 4 NFP Standard is amended in line with the proposed amendment to paragraph A202 of the Tier 3 NFP Standard.
    (c) 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

32. 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
6. Do you have any other comments on ED NZASB 2018-2?

2018 OMNIBUS AMENDMENTS TO TIER 3 AND TIER 4 PBE ACCOUNTING REQUIREMENTS

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 date, which is set out in Part D.

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 to the Tier 3 standards only;

(b) Clarification 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 to the Tier 4 standards only; and

(d) Minor editorial amendments.

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, A113, A114, A115, A180, A182, A202 and Table 1: *Recording of Specific Types of Revenues*, Table 2: *Recording of Specific Types of Expenses* and Table 3: *Recording of Specific Types of Asset* are amended, paragraphs 14, A107.1, A107.2, A148.1 and A148.2 are added and paragraph A12 is deleted. Paragraphs A62, A80, A107, A116 and A206 have not been amended but are shown for ease of reference. New text is underlined and deleted text is struck through.

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* for a class of assets, such as buildings, so that it can revalue ~~a~~ that 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 to that class).

   1. PBE IPSAS 30 (paragraphs 9, AG1 and AG2) provides 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, A113, A114, A115, A180, A182, A202 and Table 1: *Recording of Specific Types of Revenues*, Table 2: *Recording of Specific Types of Expenses* and Table 3: *Recording of Specific Types of Asset,* added paragraphs 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]. Earlier application is permitted.

…

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: the information reported is capable of being supported by independent means. Verifiability helps assure users with different levels of knowledge that the information in the performance report is without material error or bias.

…

[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.

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.
…		

…

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**
…		
Other 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 A107.1 and A107.2)	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

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 (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

A107.1 If there is any indication (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value) 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 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.

…

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, A115, A116, A117, A182 and A184 and Table 2 *Recording of Specific Types of* Expenses and Table 3: *Recording of Specific Types of Asset* are amended, Paragraphs 14, A109.1, A109.2, A150.1, A150.2 are added and paragraph A13 is deleted. Paragraphs A83, A109 and A118 have not been amended but are shown for ease of reference. New text is underlined and deleted text is struck through.

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* for a class of asset, such as buildings, so that it can revalue ~~a~~ that 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) provides 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, A115, A116, A117, A182, A184 and Table 2 *Recording of Specific Types of Expenses* and Table 3: *Recording of Specific Types of Asset,* added paragraphs A109.1, A109.2, A150.1, 150.2 and deleted paragraph A13. An entity shall apply those amendments for periods beginning on or after [Date]. Earlier application is permitted.

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: the information reported is capable of being supported by independent means. Verifiability helps assure users with different levels of knowledge that the information in the performance report is without material error or bias.

~~(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 (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value) 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~~ <u>that class of assets</u> at revalued amount<u>s</u> 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

<u>*Date of Finalisation*</u>

<u>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</u>

<u>***Required Information***</u>

<u>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.</u>

…

Specific Accounting Policies

…

A182. Where an entity has elected to apply <u>the requirements of a PBE Standard that is part</u> ~~a provision~~ of the Tier 2 PBE Accounting ~~Standards~~ <u>Requirements</u> 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~~ <u>faithfully representative</u> 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)*

Paragraphs 2.1, 7, A69.1 and A69.2 are added and paragraph A109 is amended.

…

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 and amended paragraph A109. An entity shall apply those amendments for periods beginning on or after [Date]. Earlier application is permitted.

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.

…

Related Party Transactions

Explanation

A109. 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).

PBE SFR–C (PS) *Public Benefit Entity Simple Format Reporting–Cash (Public Sector)*

Paragraphs 2.1, 7, A72.1 and A72.2 are added.

…

Scope

…

2.1 Where an entity controls one or more entities and the total combined operating payments[1] 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] 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]. Earlier application is permitted.

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 permitted.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	26 January 2018
To:	NZASB Members
From:	Joanne Scott and Vanessa Sealy-Fisher
Subject:	***Annual Improvements to NZ IFRSs 2015–2017 Cycle***

Recommendations[1]

1. We recommend that the Board:

   (a) APPROVES for issue *Annual Improvements to NZ IFRSs 2015–2017 Cycle* (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 to Developing the Suite of PBE Standards* (PBE Policy Approach) to *Annual Improvements* to *NZ IFRSs 2015–2017 Cycle* (agenda item 9.4).

Introduction

2. The International Accounting Standards Board (IASB) has issued *Annual Improvements to IFRS® Standards 2015–2017 Cycle* to make a number of minor amendments to IFRS Standards. We are therefore seeking approval of equivalent amendments to the relevant NZ IFRSs.

3. A brief description of each set of amendments follows.

   (a) The amendments to NZ IFRS 3 *Business Combinations* and NZ IFRS 11 *Joint Arrangements* clarify the accounting for previously held interests when an entity obtains control of a business that is a joint operation and when it obtains joint control of a business that is a joint operation.

   (b) The amendments to NZ IAS 12 *Income Taxes* clarify that the requirements in paragraph 52B (about recognition of the income tax consequences of dividends) apply not just in the circumstances described in paragraph 52A, but to all income tax consequences of dividends. The amending standard also moves the requirements in paragraph 52B to paragraph 58A.

[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).

(c) The amendments to NZ IAS 23 *Borrowing Costs* clarify that:

(i) when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of general borrowings; and

(ii) an entity also includes funds borrowed specifically to obtain an asset other than a qualifying asset as part of its general borrowings.

Background

4. The amendments in *Annual Improvements to IFRS® Standards 2015–2017 Cycle* were originally issued for comment in two IASB EDs, both of which were also issued for comment in New Zealand.

5. The amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* were issued for comment in July 2016 in IASB ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests* (Proposed Amendments to IFRS 3 and IFRS 11) (ED/2016/1). The IASB has chosen to finalise the proposals on accounting for previously held interests in a joint operation as part of this project. It is still in the process of finalising its amendments in relation to the definition of a business and expects to issue those amendments in 2018.

6. Comments on IASB ED/2016/1 were due to the NZASB on 30 September 2016 and to the IASB on 31 October 2016. The NZASB received one comment letter from a New Zealand constituent which was broadly supportive of the proposals (see agenda item 2.3.4).[2] The NZASB did not comment to the IASB. The IASB received 80 comment letters on this ED from its world-wide constituents, of which 67 commented on the proposals in respect of previously held interests. It did not receive any comments from New Zealand constituents.

7. The amendments to IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs* were issued for comment in January 2017 in IASB ED/2017/1 *Annual Improvements to IFRS® Standards 2015–2017 Cycle* (ED/2017/1). This ED also included proposals to amend IAS 28 *Investments in Associates and Joint Ventures*. The amendments to IAS 28 have subsequently been issued as a separate amending standard.[3] Comments on IASB ED/2017/1 were due to the NZASB on 17 March 2017 and to the IASB on 12 April 2017. The NZASB did not receive any comments from New Zealand constituents and it did not comment to the IASB. The IASB received 50 comment letters on the amendments to IAS 12 and 51 comment letters on the amendments to IAS 23. It did not receive any comments from New Zealand constituents.

8. The IASB issued *Annual Improvements to IFRS® Standards 2015–2017 Cycle* in December 2017. The amendments in the amending standard are effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The wording of the effective dates of the amendments to NZ IFRS 3 and NZ IFRS 11 is slightly more specific. Those amendments apply to business combinations for which the acquisition date, or the date of

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[2] This comment letter was also tabled at the NZASB's November 2016 meeting.

[3] *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) was issued by the Board in December 2017. The amendments 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.

transactions giving rise to joint control, are on or after the beginning of the first annual reporting period beginning on or after 1 January 2019.

Reasons for amending IFRS 3 and IFRS 11

9. The IASB was informed that there is diversity in practice in accounting for previously held interests in the assets and liabilities of a joint operation in two types of transactions: those in which an entity obtains control of a business that is a joint operation and those in which it obtains joint control of a business that is a joint operation. It therefore proposed amendments to IFRS 3 and IFRS 11 to clarify the accounting for each of these types of transactions.

10. More specifically the IASB proposed that:

    (a) when an entity obtains control of a business that is a joint operation, it should apply the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at its acquisition-date fair value; and

    (b) when an entity obtains joint control of a business that is a joint operation, it should not remeasure its previously held interests.

11. The IASB justified the difference in accounting for these two situations by arguing that the first transaction is a business combination achieved in stages. It results in a significant change in the nature of, and economic circumstances surrounding any interest in the joint operation. Although the second transaction changes the nature of an entity's interest in a joint operation, it does not result in a change in the group boundaries.

12. The ED proposed that the amendments be applied prospectively.

<u>Key issues</u>

13. With respect to both the amendments to IFRS 3 and IFRS 11, a large number of respondents agreed with the proposed amendments and a few disagreed. Some respondents queried the scope and timing of the project and whether the proposals were consistent with the requirements in various standards. Most of the issues raised by respondents had previously been considered by the IASB or the IFRS Interpretations Committee.

14. Some respondents to the exposure draft of the proposed amendments to IFRS 3 suggested that the IASB clarify whether an acquirer would be required to remeasure its entire previously held interest in a joint operation or only the assets and liabilities relating to the joint operation it had recognised before obtaining control. In response, the IASB clarified that an entity remeasures its entire previously held interest in the joint operation.

Reasons for amending IAS 12

15. The IASB issued the amendments to IAS 12 in response to a request to clarify where to recognise the income tax consequences of payments on financial instruments classified as equity—in equity or in profit or loss. The request asked whether the requirements in paragraph 52B of IAS 12 apply only in the circumstances described in paragraph 52A of IAS 12 (ie when there are different tax rates for distributed and undistributed profits), or whether

they also apply beyond those circumstances (for example, to all payments on financial instruments classified as equity if those payments are distributions of profit).

16. Prior to the amendments, IAS 12 paragraphs 52A and 52B of IAS 12 stated:

> 52A In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity. In some other jurisdictions, income taxes may be refundable or payable if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity. In these circumstances, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits.
>
> 52B In the circumstances described in paragraph 52A, the income tax consequences of dividends are recognised when a liability to pay the dividend is recognised. The income tax consequences of dividends are more directly linked to past transactions or events than to distributions to owners. Therefore, the income tax consequences of dividends are recognised in profit or loss for the period as required by paragraph 58 except to the extent that the income tax consequences of dividends arise from the circumstances described in paragraph 58(a) and (b).

17. The IASB concluded that an entity should recognise all income tax consequences of dividends applying the requirements in paragraph 52B. The IASB observed that, as written, paragraph 52B could be read to imply that it applied only in the circumstances described in paragraph 52A. Consequently, the IASB decided to clarify that the requirements in paragraph 52B of IAS 12 (now paragraph 58A) apply to all income tax consequences of dividends.

<u>Key issues</u>

18. A large number of respondents agreed with the proposed amendments to IAS 12. The main issues identified in relation to the proposals were:

    (a) how to determine whether payments are distributions of profits (ie dividends). A number of respondents suggested that as part of this project, the Board should provide requirements on how to determine whether payments on financial instruments classified as equity are distributions of profits; and

    (b) the proposed retrospective application of the amendments.

19. The IASB had already (June 2016) decided not to include requirements on how to determine whether payments on financial instruments classified as equity are distributions of profits. The main reason was that developing indicators or requirements to distinguish distributions of profits from other distributions would go beyond the scope of this, project which was merely to clarify the requirements in paragraph 52B.

20. The IASB originally proposed retrospective application of the amendments. Some respondents said that applying the proposed amendments to income tax consequences of dividends that had been distributed many years ago could be challenging and recommended that the IASB require prospective application or provide transition relief. The IASB acknowledged these concerns and required that an entity apply the amendments prospectively to income tax

consequences of dividends recognised on or after the beginning of the earliest reporting period presented (ie to the current and comparative periods).

Reasons for amending IAS 23

21. The amendments were prompted by a request for clarification about how to treat borrowings made specifically to obtain a qualifying asset when the qualifying asset is ready for its intended use or sale.

22. Paragraph 14 of IAS 23 *Borrowing Costs* specifies how to determine the amount of borrowing costs eligible for capitalisation when an entity borrows funds generally and uses them to obtain a qualifying asset. The amendments clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of general borrowings. The amendments also clarify that general borrowings include funds borrowed specifically to obtain an asset other than a qualifying asset.

<u>Key issues</u>

23. IASB ED /2017/1 proposed amendments to clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of general borrowings.

24. A large number of respondents agreed with the proposed amendments and a few respondents disagreed. Those who agreed did so on the grounds that the proposed amendments would be consistent with, and improve the clarity of, the existing requirements in IAS 23, and help reduce diversity in practice.

25. The two main matters identified by respondents are outlined below.

    (a) *Consistency with, and clarification of, the existing principle in IAS 23*. One respondent was of the view that the proposed amendments would introduce an additional rule without clarifying the core principle in IAS 23. The respondent suggested that the IASB clarify the meaning of 'directly attributable'. Some respondents were of the view that the IASB had not provided a clear rationale for the proposed amendments. In response to those respondents, the IASB's Basis for Conclusions on the amendments now includes a clear rationale for those amendments.

    (b) *Borrowing made specifically to obtain an asset other than a qualifying asset*. This matter was discussed by the IFRS Interpretations Committee (the Committee) and the IASB in 2009. At that time, the IASB concluded that the requirements in IAS 23 provide an adequate basis for an entity to determine whether to include such borrowings as part of general borrowings and included its conclusions in the IASB Update from the July 2009 meeting. The decision of the Committee not to add this item to its agenda was published in November 2009.

26. Respondents also raised other matters but those matters were outside the limited scope of the proposed amendments to IAS 23.

RDR concessions

27. No RDR concessions are proposed for the amendments in this amending standard because they do not establish or amend disclosure requirements.

Consistency with Australian Accounting Standards

28. The Australian Accounting Standards Board expects to issue equivalent amendments to its standards in the near future.

Due process

29. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED 2016/1 and ED/2017/1 and concluded that the applicable due process steps for these amendments had been completed. The review of due process occurred at the IASB's meeting on 20 September 2017.[4]

30. 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.

31. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the amending standard is likely to require the disclosure of personal information. In our 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.

Draft amending standard and signing memo

32. Attached as agenda item 9.2 is a copy of *Annual Improvements to NZ IFRSs 2015–2017 Cycle*. A paragraph has been added to the amending standard to limit its application to Tier 1 and Tier 2 for-profit entities only.

33. 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.

Application of the PBE Policy Approach

34. Agenda item 9.4 sets out the application of the *Policy Approach to Developing the Suite of PBE Standards* to the amendments in this amending standard.

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4 A summary of the IASB's September 2017 meeting is available at: http://www.ifrs.org/news-and-events/updates/iasb-updates/september-2017/

Attachments

Agenda item 9.2:	Draft *Annual Improvements to NZ IFRSs 2015–2017 Cycle*
Agenda item 9.3:	Draft Certificate Signing Memorandum
Agenda item 9.4:	Application of the PBE Policy Approach to *Annual Improvements to NZ IFRSs 2015–2017 Cycle*
Agenda item 6.3:	*Policy Approach to Developing the Suite of PBE Standards* (in supporting papers)
Agenda item 2.3.4	Confidential comment letter on IASB ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests* (Proposed Amendments to IFRS 3 and IFRS 11)

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Annual Improvements to NZ IFRSs 2015–2017 Cycle

This Standard was issued on 15 February 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 15 March 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 *Annual Improvements to IFRS® Standards 2015–2017 Cycle* issued by the International Accounting Standards Board (IASB).

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CONTENTS

Introduction

This document sets out amendments made to NZ IFRSs as a consequence of *Annual Improvements to IFRS® Standards 2015–2017 Cycle*.

The following table shows the standards amended and the subject of the amendments.

Standard	**Subject of amendment**
NZ IFRS 3 *Business Combinations*	Previously held interest in a joint operation
NZ IFRS 11 *Joint Arrangements*	
NZ IAS 12 *Income Taxes*	Income tax consequences of payments on financial instruments classified as equity
NZ IAS 23 *Borrowing Costs*	Borrowing costs eligible for capitalisation

An entity shall apply each of the amendments for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

Part B – *Annual Improvements to NZ IFRSs 2015–2017 Cycle*

Scope

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

Amendments to NZ IFRS 3 *Business Combinations*

Paragraphs 42A and 64O are added.

Additional guidance for applying the acquisition method to particular types of business combinations

A business combination achieved in stages

...

42A When a party to a joint arrangement (as defined in NZ IFRS 11 *Joint Arrangements*) obtains control of a business that is a joint operation (as defined in NZ IFRS 11), and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation in the manner described in paragraph 42. In doing so, the acquirer shall remeasure its entire previously held interest in the joint operation.

Effective date and transition

Effective date

...

64O *Annual Improvements to NZ IFRSs 2015–2017 Cycle*, issued in February 2018, added paragraph 42A. An entity shall apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Amendments to NZ IFRS 11 *Joint Arrangements*

Paragraph B33CA and paragraph C1AB are added.

Accounting for acquisitions of interests in joint operations

...

B33CA A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in NZ IFRS 3. In such cases, previously held interests in the joint operation are not remeasured.

...

Effective date

...

C1AB *Annual Improvements to NZ IFRSs 2015–2017 Cycle*, issued in February 2018, added paragraph B33CA. An entity shall apply those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Amendments to NZ IAS 12 *Income Taxes*

Paragraphs 57A and 98I are added, the heading of the example below paragraph 52B is amended and paragraph 52B is deleted. New text is underlined and deleted text is struck through.

Measurement

...

52B [Deleted by IASB] ~~In the circumstances described in paragraph 52A, the income tax consequences of dividends are recognised when a liability to pay the dividend is recognised. The income tax consequences of dividends are more directly linked to past transactions or events than to distributions to owners. Therefore, the income tax consequences of dividends are recognised in profit or loss for the period as required by paragraph 58 except to the extent that the income tax consequences of dividends arise from the circumstances described in paragraph 58(a) and (b).~~

Example illustrating paragraphs 52A and ~~52B~~57A
...

...

Recognition of current and deferred tax

...

57A An entity shall recognise the income tax consequences of dividends as defined in NZ IFRS 9 when it recognises a liability to pay a dividend. The income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity shall recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

Effective date

...

98I *Annual Improvements to NZ IFRSs 2015–2017 Cycle*, issued in February 2018, added paragraph 57A and deleted paragraph 52B. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Amendments to NZ IAS 23 *Borrowing Costs*

Paragraph 14 is amended, and paragraphs 28A and 29D are added. Deleted text is struck through and new text is underlined.

Recognition

...

Borrowing costs eligible for capitalisation

...

14 **To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to ~~the~~ <u>all</u> borrowings of the entity that are outstanding during the period<u>.</u>~~, other than borrowings~~ <u>However, an entity shall exclude from this calculation borrowing costs applicable to borrowings</u> made specifically for the purpose of obtaining a qualifying asset <u>until substantially all the activities necessary to prepare that asset for its intended use or sale are complete</u>. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.**

...

Transitional provisions

...

<u>28A</u> <u>*Annual Improvements to NZ IFRSs 2015–2017 Cycle*, issued in February 2018, amended paragraph 14. An entity shall apply those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.</u>

Effective date

...

<u>29D</u> <u>*Annual Improvements to NZ IFRSs 2015–2017 Cycle*, issued in February 2018, amended paragraph 14 and added paragraph 28A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.</u>

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:	7 February 2018
To:	Graeme Mitchell, External Reporting Board
From:	Kimberley Crook, Chair NZASB
Subject:	***Annual Improvements to NZ IFRSs 2015–2017 Cycle***

Introduction[1]

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *Annual Improvements to NZ IFRSs 2015–2017 Cycle*. These amendments incorporate the amendments in *Annual Improvements to IFRS® Standards 2015–2017 Cycle.*

2. There are three sets of amendments in the amending standard. A brief description of each set of amendments follows.

   (a) The amendments to NZ IFRS 3 *Business Combinations* and NZ IFRS 11 *Joint Arrangements* clarify the accounting for previously held interests when an entity obtains control of a business that is a joint operation and when it obtains joint control of a business that is a joint operation.

   (b) The amendments to NZ IAS 12 *Income Taxes* clarify that the requirements in paragraph 52B (about recognition of the income tax consequences of dividends) apply not just in the circumstances described in paragraph 52A, but to all income tax consequences of dividends. The amending standard also moves the requirements in paragraph 52B to paragraph 58A.

   (c) The amendments to NZ IAS 23 *Borrowing Costs* clarify that:

      (i) when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of general borrowings; and

      (ii) an entity also includes funds borrowed specifically to obtain an asset other than a qualifying asset as part of its general borrowings.

3. All of the amendments were developed in response to requests for clarification and to address circumstances in which there was diversity in practice.

[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).

Due process

4. The amendments in *Annual Improvements to IFRS® Standards 2015–2017 Cycle* were originally issued for comment in two IASB EDs, both of which were also issued for comment in New Zealand.

5. The amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* were issued for comment in July 2016 in IASB ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests* (Proposed Amendments to IFRS 3 and IFRS 11) (ED/2016/1). The IASB has chosen to finalise the proposals on accounting for previously held interests in a joint operation as part of this project. It is still in the process of finalising its amendments in relation to the definition of a business and expects to issue those amendments in 2018.

6. Comments on IASB ED/2016/1 were due to the NZASB on 30 September 2016 and to the IASB on 31 October 2016. The NZASB received one comment letter from a New Zealand constituent which was broadly supportive of the proposals The NZASB did not comment to the IASB. The IASB received 80 comment letters on this ED from its world-wide constituents, of which 67 commented on the proposals in respect of previously held interests. It did not receive any comments from New Zealand constituents.

7. The amendments to IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs* were issued for comment in January 2017 in IASB ED/2017/1 *Annual Improvements to IFRS® Standards 2015–2017 Cycle* (ED/2017/1).[2]. Comments on IASB ED/2017/1 were due to the NZASB on 17 March 2017 and to the IASB on 12 April 2017. The NZASB did not receive any comments from New Zealand constituents and it did not comment to the IASB. The IASB received 50 comment letters on the amendments to IAS 12 and 51 comment letters on the amendments to IAS 23. It did not receive any comments from New Zealand constituents.

8. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED/2016/1 and ED/2017/1 and concluded that the applicable due process steps for the amendments being finalised as part of its annual improvements project had been completed. This review of due process occurred at the IASB's meeting in September 2017.[3]

9. The IASB issued *Annual Improvements to IFRS® Standards 2015–2017 Cycle* in December 2017. All of the amendments in the amending standard are effective for annual periods beginning on or after 1 January 2019 with early application permitted.

10. The NZASB has approved *Annual Improvements to NZ IFRSs 2015–2017 Cycle*. 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.

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[2] This ED also included proposals to amend IAS 28. The IASB subsequently issued the amendments to IAS 28 in a separate amending standard.

[3] An update on the IASB meeting on [month] 201X is available at: http://www.ifrs.org/news-and-events/updates/iasb-updates/september-2017/

11. 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

12. The amending standard is a standard in its own right. *Annual Improvements to NZ IFRSs 2015–2017 Cycle* is identical to *Annual Improvements to IFRS® Standards 2015–2017 Cycle* except for the New Zealand specific introduction and a scope paragraph limiting its application to Tier 1 and Tier 2 for-profit entities.

13. The amending standard does not establish or amend disclosure requirements. The Australian Accounting Standards Board (AASB) is expected to adopt an equivalent amending standard in the near future. Therefore, the Tier 1 and Tier 2 for-profit reporting requirements will continue to be aligned with those in Australia.

14. 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

15. 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.

Recommendation

16. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachment

Annual Improvements to NZ IFRSs 2015–2017 Cycle

Kimberley Crook
Chair NZASB

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	26 January 2018
To:	NZASB Members
From:	Joanne Scott and Vanessa Sealy-Fisher
Subject:	**PBE Policy Approach – Annual Improvements to NZ IFRSs 2015–2017 Cycle**

Recommendations[1]

1. We recommend that the Board WAITS for the IPSASB to consider most of the amendments in *Annual Improvements to NZ IFRSs 2015–2017 Cycle*. The exception is the amendment to NZ IAS 12 *Income Taxes*. In that case we recommend that the NZASB AGREES to amend PBE IAS 12 *Income Taxes*.

2. The recommendations are set out in Table 1.

Background

3. 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 6.3).

4. The Board is being asked to approve *Annual Improvements to NZ IFRSs 2015–2017 Cycle* at this meeting. The background to these amendments is set out in agenda item 9.1. The Board now needs to consider whether the amendments included in this amending standard should be incorporated into PBE Standards, and if so, when.

Application of the PBE Policy Approach

5. The PBE Policy Approach sets out various triggers for considering whether to change PBE Standards as a result of the IASB and IPSASB issuing new standards and amendments. In this memo we identify the relevant trigger for each of the amendments under consideration and explain the recommendations.

[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).

Table 1 Recommendations

Amended NZ IFRS and reason for amendment	**Equivalent PBE Standard**	**PBE Policy Approach Trigger(s)**	**Recommendation**
NZ IFRS 3 *Business Combinations* Previously held interest in a joint operation	PBE IFRS 3 *Business Combinations* ED PBE IPSAS 40 *PBE Combinations* – under development	Paragraphs 27–29 There is a change to an existing IFRS that was used (in part) as the basis for an IPSAS Paragraphs 35–38 There is a change to an NZ IFRS that the NZASB has included in the PBE Standards	Wait for the IPSASB to consider
NZ IFRS 11 *Joint Arrangements* Previously held interest in a joint operation	PBE IPSAS 37 *Joint Arrangements*	Paragraphs 27–29 There is a change to an existing IFRS that was used as the basis for an IPSAS	Wait for the IPSASB to consider
NZ IAS 12 *Income Taxes* Income tax consequences of payments on financial instruments classified as equity	PBE IAS 12 *Income Taxes*	Paragraphs 35–38 There is a change to an NZ IFRS that the NZASB has included in the PBE Standards	Amend PBE IAS 12 *Income Taxes*
NZ IAS 23 *Borrowing Costs* Borrowing costs eligible for capitalisation	PBE IPSAS 5 *Borrowing Costs*	Paragraphs 27–29 There is a change to an existing IFRS that was used as the basis for an IPSAS	Wait for the IPSASB to consider

6. The PBE Policy approach contains some rebuttable presumptions that the NZASB should wait for the IPSASB to consider minor amendments. We consider that these narrow scope amendments are minor and have therefore not applied the development principle in the PBE Policy Approach.

7. The IPSASB is planning to undertake an improvements project this year (an ED is expected following the March 2018 IPSASB meeting). The IPSASB is likely to consider these amendments in March but it is not a foregone conclusion that the IPSASB will incorporate the amendments.

NZ IFRS 3 *Business Combinations* and NZ IFRS 11 *Joint Arrangements*

8. PBE IFRS 3 *Business Combinations* is based on IFRS 3 *Business Combinations*. PBE IFRS 3 was included in PBE Standards because the IPSASB did not have a standard dealing with combinations until 2016. In January 2017 the IPSASB issued IPSAS 40 *Public Sector Combinations* which is based, in part, on IFRS 3. We are currently in the process of developing ED PBE IPSAS 40 *PBE Combinations* which would supersede PBE IFRS 3.

9. In the case of the amendments to NZ IFRS 3 *Business Combinations*, it could be argued that there are two relevant triggers in the PBE Policy Approach.

   (a) The first trigger (paragraphs 27–29 of the Policy) could be relevant because there is a change to IFRS 3 that was used (in part) as the basis for the development of IPSAS 40 *Public Sector Combinations*. Because we are already in the process of developing an ED based on IPSAS 40 *Public Sector Combinations* we consider that this is the most relevant trigger.

   (b) The second trigger (paragraphs 35–38 of the Policy) could be relevant because there is a change to NZ IFRS 3 *Business Combinations* which the NZASB included in PBE Standards as PBE IFRS 3 *Business Combinations*. Given that we are already working on a standard to supersede PBE IFRS 3 *Business Combinations* we have not focused on this trigger.

10. We recommend that the Board waits for the IPSASB to consider this amendment. The IPSASB has included equivalent requirements on acquisitions achieved in stages in IPSAS 40 *Public Sector Combinations*, so this clarification could be useful to entities applying IPSAS 40 *Public Sector Combinations*. The IPSASB did not include any guidance on mergers achieved in stages in IPSAS 40 *Public Sector Combinations*. If the IPSASB has not considered this amendment by the time we issue an ED based on IPSAS 40 *Public Sector Combinations* we can reconsider whether to include the additional guidance in our ED.

11. In the case of the amendments to NZ IFRS 11 *Joint Arrangements* the trigger is in paragraphs 27–29 of the PBE Policy Approach. The equivalent IPSAS is IPSAS 37 *Joint Arrangements* and the equivalent PBE Standard is PBE IPSAS 37 *Joint Arrangements.* We recommend that the Board waits for the IPSASB to consider the recent amendments to IFRS 11 *Joint Arrangements.*

12. We consider that both these amendments are minor and there is no strong rationale to rebut the presumption in paragraph 29 of the Policy.

NZ IAS 12 *Income Taxes*

13. We recommend that the Board proposes to amend PBE IAS 12 *Income Taxes* to align it with the amended NZ IAS 12 *Income Taxes*. In making this recommendation we acknowledge that it is a minor amendment, that few PBEs pay income tax, and even fewer distribute dividends. However, the Board has previously indicated its preference for keeping the two standards aligned.[2] Keeping the two standards aligned also avoids readers wondering why there is a difference between the two standards.

14. Any amendments to PBE IAS 12 *Income Taxes* could be included in the next PBE omnibus exposure draft.

[2] In March 2016, the Board agreed to incorporate amendments equivalent to *Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments to IAS 12) into PBE IAS 12.
In August 2017 the Board agreed to incorporate the requirements in NZ IFRIC 23 *Uncertainty over Income Tax Treatments* into PBE IAS 12.

PBE IPSAS 5 *Borrowing Costs*

15. IPSAS 5 *Borrowing Costs* requires borrowing costs to be recognised as an expense in the period in which they are incurred, except to the extent that they are capitalised. IAS 23 *Borrowing Costs* requires the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. Other borrowing costs are expensed in the period in which they are incurred. Despite this difference between IPSAS 5 *Borrowing Costs* and IAS 23 *Borrowing Costs*, paragraph 25 of IPSAS 5 *Borrowing Costs* is the same as paragraph 14 of IAS 23 *Borrowing Costs*, the paragraph that is amended by *Annual Improvements to NZ IFRSs 2015–2017 Cycle*.

16. We recommend that the Board agrees to wait for the IPSASB to consider this amendment. We consider that it is minor and there is no strong rationale to rebut the presumption in paragraph 29 of the Policy.

Other relevant factors and RDR

17. We will continue to monitor the development of an improvements ED by the IPSASB.

18. There are no other factors to consider that may be relevant to the Board's decision. *Annual Improvements to NZ IFRSs 2015–2017 Cycle* does not create any new disclosure requirements nor does it amend disclosure requirements. There is therefore no need to consider RDR concessions.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 94

Approval to Issue
***Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28)**

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 *Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28); 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 *Long-term Interests in Associates and Joint Ventures* (Amendments to NZ IAS 28) pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this ...18th... day of December 2017

....
Graeme R Mitchell
Chairman
External Reporting Board