EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho
NZ ACCOUNTING STANDARDS BOARD

PUBLIC BENEFIT ENTITY FINANCIAL REPORTING STANDARD 42 PROSPECTIVE FINANCIAL STATEMENTS (PBE FRS 42)

Issued September 2014 and incorporates amendments up to 31 January 2018 other than consequential amendments resulting from early adoption of PBE FRS 48 *Service Performance Reporting*

This Standard was issued on 11 September 2014 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 9 October 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in paragraphs 72 to 73.2.

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 Tier 1 and Tier 2 PBE Standard has been issued as part of a revised full set of PBE Standards that incorporate enhancements for not-for-profit public benefit entities.

This Standard, when applied, supersedes PBE FRS 42 *Prospective Financial Statements* issued in May 2013.

PBE FRS 42 PROSPECTIVE FINANCIAL STATEMENTS

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Public Benefit Entity Financial Reporting Standard 42 *Prospective Financial Statements* is set out in paragraphs 1–74. All the paragraphs have equal authority. PBE FRS 42 should be read in the context of its objective, the NZASB's Basis for Conclusions on PBE FRS 42, the *Public Benefit Entities' Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

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

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

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

Main Features of the Standard

PBE FRS 42 applies where an entity is required, or chooses, to present general purpose prospective financial information. Entities applying the Standard are required to present a complete set of general purpose prospective financial statements for the reporting period for which interim or annual historical general purpose financial statements will subsequently be presented.

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

The assumptions used must:

(a) Be based on the best information that could be reasonably expected to be available at the time prospective financial statements are prepared;

(b) Be internally consistent among themselves;

(c) Be consistent with the current plans of the entity to the extent that this is relevant;

(d) Be applied consistently; and

(e) Have a reasonable and supportable basis.

The Standard requires disclosure of:

(a) The entity's operations and activities;

(b) The purpose for which the prospective financial statements have been prepared;

(c) Significant assumptions;

(d) Any changes to the entity's existing operations;

(e) The bases on which the significant assumptions have been prepared, including the principal sources of information from which they have been derived;

(f) The extent to which actual events and transactions have been reflected in the prospective financial statements;

(g) The factors that may lead to a material difference between the prospective financial statements and the actual financial results presented in historical financial statements in future reporting periods;

(h) The assumptions made in relation to those sources of uncertainty and the potential financial effect of the uncertainty on the prospective financial statements;

(i) Significant accounting policies; and

(j) A cautionary note regarding possible variations in reported results.

PBE FRS 42 forms part of the suite of PBE Standards. For-profit entities continue to apply FRS-42 *Prospective Financial Statements.*

Objective

1. The objective of this Standard is to establish principles and specify minimum disclosures for entities that present general purpose prospective financial statements (hereafter referred to as "prospective financial statements" except where otherwise stated). To provide users with high quality general purpose prospective financial information, this Standard requires that an entity presenting general purpose prospective financial information present a complete set of prospective financial statements using the best information that could reasonably be expected to be available and which meet certain qualitative characteristics.

Scope

2. **This Standard applies to Tier 1 and Tier 2 public benefit entities.**

2A. **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**

3. An entity shall apply this Standard where it is required, or chooses, to present general purpose prospective financial information.

4. General purpose prospective financial information includes, but is not limited to:

   (a) Prospective financial statements required to be published by public sector entities (for example, forecast financial statements of the Crown, forecast financial statements of government departments and Crown entities, and forecast financial statements in annual plans and long-term plans of local authorities);

   (b) Prospective financial statements published in a product disclosure statement, a disclosure document and/or an advertisement for an offer of financial products or other similar documents, including prospective financial statements published in order to satisfy the requirements of financial markets conduct legislation or regulations; and

   (c) Prospective financial statements published by not-for-profit entities (for example, forecast financial statements of registered charities).

5. An entity shall apply the principles in this Standard to any prospective financial information published in conjunction with prospective financial statements.

6. Examples of prospective information to which this Standard does not apply include:

   (a) Special purpose prospective financial information;

   (b) Prospective information expressed solely in general terms; and

   (c) Prospective non-financial information.

   Nonetheless application of the principles and requirements of this Standard to prospective financial information outside the scope of this Standard is encouraged to the extent applicable.

7. Special purpose prospective financial information is prepared for external users who are able to require, or contract for, the preparation of special reports to meet their specific information needs. It may be prepared in a form agreed to by the parties.

8. Prospective information which is expressed solely in general terms includes qualitative statements about future prospects. Such statements are commonly found in:

   (a) Narrative commentary within an entity's financial report; and

   (b) Commentary in statements of intent provided by government departments and Crown entities and in long-term plans provided by local authorities.

   However, the above information, where presented, should be consistent with any current published prospective financial statements.

9. Prospective non-financial information includes forward-looking disclosures about an entity's objectives, activities and performance targets. Non-financial information is often provided because financial information alone is unlikely to meet all the needs of users. In the case of public sector entities, legislation may require the publication of prospective non-financial information such as objectives, nature and scope

of activities and performance targets in relation to objectives, outputs or outcomes. Where non-financial and financial information is published together they should be consistent.

10. **A public benefit entity whose prospective financial statements comply with PBE FRS 42 shall make an explicit and unreserved statement of such compliance in the notes. Prospective financial statements shall not be described as complying with PBE FRS 42 unless they comply with all the requirements of PBE FRS 42.**

11. [Not used]

Definitions

11.1 **The following terms are used in this Standard with the meanings specified:**

<u>**General purpose prospective financial information**</u> **means one or more future-oriented financial statements prepared for external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs.**

<u>**General purpose prospective financial statements**</u> **means future-oriented financial statements prepared for external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs.**

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately.

General Principles

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

Best Information

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

Reasonable and Supportable

14. **The information in prospective financial statements shall be reasonable and supportable and faithfully represent the assumptions and information on which the statements are based.**

15. The information in prospective financial statements is, by definition, uncertain and its preparation requires the exercise of judgement. Events and circumstances may not occur as expected or may not have been predicted. In addition, the entity may subsequently take actions which differ from the proposed courses of action on which the prospective financial statements are based. In seeking to demonstrate that the information in the prospective financial statements is reasonable and supportable, an entity considers whether:

    (a) The course of action reflected in the prospective financial statements represents the entity's proposed course of action, or, where alternative scenarios are presented, that those scenarios are feasible;

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

    (c) It has used appropriate information.

Qualitative Characteristics

16. **In order to meet the needs of users, prospective financial statements shall meet the qualitative characteristics outlined in the *Public Benefit Entities' Conceptual Framework*. Accordingly, the statements shall be relevant, faithfully representative, understandable, timely, comparable and verifiable.**

17. In giving effect to the principle in paragraph 16, for prospective financial statements to be:

    (a) **Relevant**—the information in the statements should be capable of assisting users to make economic or other decisions by helping them evaluate present or future events or correct their past evaluations. For prospective financial statements to be relevant they must have predictive value and be able to be confirmed, or otherwise, in future periods.

    (b) **Faithfully Representative**—the information in the statements should be complete, neutral, and free from material error. The extent to which prospective financial statements can be described as faithfully representative is affected by the appropriateness of the assumptions and the sources of uncertainty. Users should be able to assess the extent to which prospective financial statements are faithfully representative and identify the factors that make the statements more or less faithfully representative.

    (c) **Understandable**—the information in the statements should be described, aggregated, classified and presented in a format and style that is able to be clearly understood by users. For prospective financial statements to be understandable, users will need sufficient information to be able to make judgements about the assumptions employed and the risks associated with those assumptions.

    (d) **Timely**—the information should be reported to users before it loses its capacity to be useful for accountability and decision-making purposes.

    (e) **Comparable**—the statements should measure and display like items, transactions and events in a consistent manner. Prospective financial statements should be capable of comparison with current and subsequent information about the actual financial performance of an entity based on consistent application of accounting policies, reporting periods and presentation.

    (f) **Verifiable—**the statements should be transparent about the assumptions that underlie the information disclosed, the methodologies adopted in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made.

Assumptions

18. **Assumptions shall be based on the best information that can reasonably be expected to be available to the entity, be consistent among themselves, be consistent with the current plans of the entity to the extent that this is relevant, and be applied consistently. An entity shall have a reasonable and supportable basis for the determination of assumptions underlying prospective financial statements.**

19. An assumption is a view taken about the future for the purpose of preparing prospective financial statements. Assumptions are taken as being true for the purpose of preparing prospective financial statements but could change later. An assumption is made where some facts are not yet known or decided. In preparing prospective financial statements an entity generally needs to make assumptions regarding economic and business conditions and proposed courses of action. For example, an entity may assume that the nature of its operations and principal activities for the period of the prospective financial statements will be consistent with the operations and activities outlined in certain plans and strategies of the entity. Information used in the preparation of prospective financial statements may include the current plans and strategies of the entity, some of which may be published, market surveys, industry statistics, economic and other indicators or specialised studies.

20. A reasonable and supportable basis for an assumption may be the past performance of the entity itself, the performance of similar entities, feasibility or other studies that provide objective corroboration, and the prevailing economic or operating environment. The extent of detailed information supporting each assumption and an assessment of the degree of certainty associated with each assumption will vary according to circumstances, and will be influenced by factors such as the significance of the assumption and the availability and quality of the supporting information. The degree of reliability of assumptions is enhanced by the following:

    (a) The robustness of the process to develop assumptions;

    (b) Use of an independent third party to review assumptions;

    (c) Use of specialist skills to develop assumptions;

    (d) Consistency with an entity's documented strategies and plans;

(e) Documented analysis of related risks in relation to future actions and events;

(f) Ensuring that information is complete and free from material calculation error;

(g) Comparability with past performance of the entity and other similar entities; and

(h) Basing assumptions on information presented in market surveys, industry statistics, economic and other indicators or specialised studies.

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

(a) Thorough research of the market opportunities and pilot testing;

(b) Use of a model that has been used for similar entities or activities and which is reviewed and updated;

(c) Detailed analysis by area of activity (for example, goods and services by market, product line or geography and cost by function);

(d) Management plans that are consistent with the estimates;

(e) Non-financial indicators of future financial results;

(f) External market surveys, general economic indicators and views of people knowledgeable in the field of activity that are consistent with the estimates; and

(g) Involvement of people with appropriate experience and expertise across the full range of the entity's activities.

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

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

(a) To the extent that an entity intends to continue its current operations and activities for the period of the prospective financial statements, application of the best information principle requires that the assumptions and information used in the preparation of the prospective financial statements be based on and consistent with the assumptions in the entity's current plans and strategies, updated as appropriate for more recent information forecasts of economic and business conditions.

(b) Where the nature of an entity's operations and its principal activities are expected to change significantly over the period of the prospective financial statements, the assumptions will need to reflect these changes. Application of the best information principle in these circumstances requires that the assumptions and information used in the preparation of the prospective financial statements reflect the entity's proposed course(s) of action, including any alternative scenarios, and the risks and uncertainties that inevitably surround many of the events and circumstances associated with those actions or scenarios. In such circumstances the assumptions and information used in the prospective financial statements may be consistent with those in the entity's current plans and strategies, but only to the extent that those assumptions and information are relevant to the entity's planned actions or alternative scenarios. The quality of such prospective financial statements is enhanced if they are supported by an analysis of the entity's current operations and the way in which those operations are expected to change under the proposed course of action, including any alternative scenarios.

24. Assumptions can range from being reasonably certain to very uncertain. The degree of certainty relating to a particular assumption depends on many things, including the following:

    (a) The time period the assumption relates to – the degree of uncertainty normally increases with the length of the future period covered;

    (b) The complexity of the entity and the degree to which it is affected by external conditions;

    (c) The stability of the entity and the ability of the entity to predict future events. For example, an entity commencing operations or venturing into a new direction is likely to have more difficulty predicting future events than an entity which has been operating in the same way for a number of years in the same environment;

    (d) The degree of control the entity has over its future operating environment;

    (e) The nature and length of the entity's operating cycle; and

    (f) The number of variables associated with the assumption.

25. Full disclosure of significant assumptions is essential in order for users to determine the extent to which they wish to rely on the information in prospective financial statements. Users require information about the assumptions used so they can make an informed judgement on the degree of reliability of the information in the prospective financial statements. Users also require information which assists them in assessing the sensitivity of information in prospective financial statements to changes in assumptions and the extent to which they are subject to a high degree of uncertainty.

Prospective Financial Reporting

Presentation of Prospective Financial Statements

26. **An entity that presents prospective financial statements shall present and disclose information that enables users of those statements to evaluate the entity's financial prospects and to assess actual financial results prepared in future reporting periods against the prospective financial statements.**

27. Information presented on the face of prospective financial statements is usually presented as a line item. However, additional disclosures may be used to present information on the possible range for an individual item. When a range is used the band shall not be so broad as to render the information meaningless to users and the assumptions used shall be clearly linked to the upper and lower limits of the range. Where prospective financial information has a high level of uncertainty associated with it, a range is more likely to present useful information.

28. **An entity shall present a complete set of prospective financial statements, which shall include the following:**

    (a) **A prospective statement of financial position;**

    (b) **A prospective statement of comprehensive revenue and expense;**

    (c) **A prospective statement of changes in net assets/equity;**

    (d) **A prospective cash flow statement; and**

    (e) **Notes, comprising a summary of significant accounting policies, significant assumptions and any other relevant information underlying (a) to (d).**

29. Except as provided in paragraph 30, the prospective statement of financial position shall separately disclose:

    (a) Current assets;

    (b) Non-current assets;

    (c) Current liabilities;

    (d) Non-current liabilities; and

    (e) Net assets/equity, including separate disclosure of non-controlling interests.

30. All assets and liabilities shall be presented broadly in order of liquidity when a presentation based on liquidity provides information that is faithfully representative and is more relevant and when the entity intends to present its assets and liabilities in order of liquidity in its historical financial statements.

31. As a minimum, the prospective statement of comprehensive revenue and expense shall separately disclose:

    (a) Revenue;

    (b) Finance costs;

    (c) Depreciation and amortisation expense;

    (d) Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;

    (e) Tax expense;

    (f) A single amount comprising the total of (i) the post-tax surplus or deficit of discontinued operations and (ii) the post-tax surplus or deficit recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;

    (g) Surplus or deficit;

    (h) Each component of other comprehensive revenue and expense classified by nature (excluding amounts in (i));

    (i) Share of the other comprehensive revenue and expense of associates and joint ventures accounted for using the equity method; and

    (j) Total comprehensive revenue and expense.

32. In addition to the information required by paragraph 31, an entity shall present, either on the face of the statement of comprehensive revenue and expense or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant.

33. The following items shall be disclosed on the face of the prospective statement of comprehensive revenue and expense as allocations of surplus or deficit for the period:

    (a) Surplus or deficit for the period attributable to:

        (i) Non-controlling interest; and

        (ii) Owners of the controlling entity.

    (b) Total comprehensive revenue and expense for the period attributable to:

        (i) Non-controlling interest; and

        (ii) Owners of the controlling entity.

34. As a minimum the prospective statement of changes in net assets/equity shall separately disclose:

    (a) Total comprehensive revenue and expense for the period, showing separately the total amounts attributable to owners of the controlling entity and to non-controlling interest;

    (b) The amounts of transactions with owners acting in their capacity as owners, showing separately contributions by and distributions to owners; and

    (c) Total net assets/equity and each component of net assets/equity.

35–36. [Not used]

37. The prospective cash flow statement shall separately disclose major classes of gross cash receipts and gross cash payments arising from each of the following categories of cash flows, except to the extent that such cash flows are reported on a net basis, as permitted by the relevant standard:

    (a) Cash flows from or used in operating activities;

    (b) Cash flows from or used in investing activities; and

    (c) Cash flows from or used in financing activities.

38. In the prospective cash flow statement:

(a) Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities in accordance with PBE IPSAS 2 *Cash Flow Statements*;

(b) Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities;

(c) The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units shall be presented separately and classified as investing activities; and

(d) (i) The net increase or decrease in cash and cash equivalents.

(ii) [Not used]

39. This Standard specifies minimum disclosures in respect of prospective financial statements. Additional disclosures are required of any item that is of such incidence and size, or of such nature, that its disclosure is necessary to explain the prospective performance, position or cash flows of the entity. An adequate description of each item shall be given to enable its nature to be understood.

40. Where an entity presents prospective financial information in addition to the information reported in the prospective financial statements, the relationship of that additional information to the information reported in the prospective financial statements shall be explained. For example, where an entity presents a prospective amount for surplus before interest, tax, depreciation and revaluation movements in addition to the minimum disclosures in paragraphs 31 to 33, the relationship of prospective surplus before interest, tax, depreciation and revaluation movements to the prospective surplus or deficit shall be explained. The explanation may be by way of reconciliation.

Accounting Policies

41. **Prospective financial statements shall be prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements.**

42. Where an entity presents both controlling entity and group financial statements for general purpose historical financial reporting, it should consider whether both controlling entity and group prospective financial statements should be presented. Factors to consider include the purpose and relevance of the prospective financial statements and whether, in the absence of group prospective financial statements, the statements that are presented meet the qualitative characteristics set out in paragraphs 16 and 17 of this Standard.

43. Where an entity presents prospective financial statements in respect of the reporting entity for general purpose financial reporting and/or a subset of that reporting entity:

(a) The prospective financial statements for the reporting entity for which general purpose financial reports will subsequently be prepared shall be prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements; and

(b) The prospective financial statements for the sub-entity shall be prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements except where regulations otherwise require.

Periods Covered by Prospective Financial Statements

44. **The reporting periods covered by prospective financial statements shall coincide with those for which interim or annual historical general purpose financial statements will subsequently be presented.**

45. Where legislation or regulation require prospective financial information to be prepared for a reporting period which differs from the period for which historical general purpose financial statements or information will subsequently be presented, an entity is compelled to comply with such legislation or regulation. However, in such cases the entity may be able to comply with both this Standard and the relevant legislation or regulation by presenting prospective financial information for the balance of the current reporting period and for the subsequent interim or annual reporting period. Comparative

requirements in relation to prospective financial information presented in historical financial statements are found in PBE IPSAS 1 *Presentation of Financial Statements* and PBE IAS 34 *Interim Financial Reporting*.

46. The number of reporting periods covered by prospective financial statements may vary considerably depending on the relevant legal requirements and the purpose and objective for which the prospective financial statements are prepared. In general, the greater the number of future reporting periods included in prospective financial statements, the more unreliable and uncertain the prospective financial statements become. Entities should exercise caution about publishing prospective financial statements for periods beyond that required by legislation or regulation. Entities publishing prospective financial statements, other than those required to publish prospective financial information by legislation or regulation, should exercise caution in presenting prospective financial statements for more than one reporting period.

Disclosure

Disclosure of Operations and Activities

47. **An entity shall disclose the following, if not disclosed elsewhere in information published with the prospective financial statements:**

    (a) **A description of the nature of the entity's current operations and its principal activities; and**

    (b) **A description of the nature of the entity's operations and its principal activities for the period of the prospective financial statements.**

Disclosure of the Purpose of Prospective Financial Statements

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

Disclosure of Bases for Assumptions, Risks and Uncertainties

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

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

    (a) Sources of uncertainty and the assumptions made relating to uncertainties;

    (b) The factors that will affect whether assumptions will be borne out in practice; and

    (c) Alternative results, being the consequences of assumptions not being borne out.

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

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

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

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

55. **An entity shall disclose:**

    (a) **The bases on which the significant assumptions have been prepared, including the principal sources of information from which they have been derived;**

    (b) **The extent to which actual events and transactions have been reflected in the prospective financial statements;**

    (c) **The factors that may lead to a material difference between information in the prospective financial statements and the actual financial results prepared in future reporting periods; and**

    (d) **The assumptions made in relation to those sources of uncertainty and the potential financial effect of the uncertainty on the prospective financial statements.**

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

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

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

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

Disclosure of Accounting Policies

60. **Significant accounting policies used as a basis for the preparation of prospective financial statements shall be disclosed in accordance with PBE IPSAS 1** *Presentation of Financial Statements***.**

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

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

63. **Where an entity publishes both controlling entity and group financial statements for historical financial reporting purposes but does not publish group prospective financial statements, it shall disclose the reasons for not presenting group prospective financial statements.**

64. **Where an entity publishes prospective financial statements in respect of a subset of a reporting entity in accordance with paragraph 43 it shall disclose:**

    (a) **The reasons for presenting prospective financial statements for the subset; and**

(b) **Whether the entity intends to publish historical financial statements for the subset of the reporting entity for the period or periods covered by the prospective financial statements.**

Other Disclosures

65. **When an entity presents prospective financial statements, it shall disclose:**

    (a) **The date when the prospective financial statements were authorised for issue and who authorised the issue of the prospective financial statements;**

    (b) **A statement that the person or body that authorised the issue of the prospective financial statements by the entity is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures;**

    (c) **The extent to which actual financial results are incorporated and the period covered by those results; and**

    (d) **Whether or not it is intended to update the prospective financial statements subsequent to presentation and, if so, when.**

66. The process involved in authorising the prospective financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the prospective financial statements. It is important for users to know when the prospective financial statements were authorised for issue because this is the date of adoption of the underlying assumptions. The prospective financial statements do not reflect events or knowledge obtained after this date.

67. The authorising body is responsible for ensuring that the entity has a robust process for developing assumptions and that the assumptions developed are appropriate in the circumstances. The responsibility of the authorising body extends beyond ensuring that individual assumptions used to prepare the prospective financial statements are appropriate in the circumstances, to ensuring that the assumptions taken as a whole are appropriate and that there is adequate disclosure of all significant risks.

68. Disclosure of the date of adoption of the underlying assumptions alerts users to the possibility that events occurring subsequent to this date may affect the usefulness of the information presented. Disclosure of the extent to which actual financial results are incorporated and the period covered by those results provides an indication of the degree of reliability that can be attached to the information in the prospective financial statements. Further disclosure of whether or not it is intended to update the prospective financial statements subsequent to presentation may alert the user to the extent of the intention to communicate such updated information.

Disclosure of Reasons for Revising Prospective Financial Statements

69. **Where revised prospective financial statements are issued, the following shall be disclosed:**

    (a) **The reasons for revising the prospective financial statements;**

    (b) **An explanation of the changes made to the prospective financial statements most recently issued, including a reconciliation of material differences between the previously reported prospective financial statements and the revised prospective financial statements; and**

    (c) **The date as at which the statements were revised.**

Subsequent Reporting

70. [Not used]

70.1 PBE IPSAS 1 specifies requirements for comparisons of actual financial results to prospective financial statements.

71. [Not used]

Effective Date

72. **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.**

73. If an entity issues prospective financial statements in accordance with this Standard prior to its adoption of PBE Standards, it shall apply PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* or PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* as appropriate.

73.1 ***2016 Omnibus Amendments to PBE Standards,* issued in January 2017, amended paragraphs 16, 17, 30 and 32. An entity shall apply those amendments for annual financial statements covering periods beginning on or after 1 January 2017.**

73.2 **PBE IPSAS 35 *Consolidated Financial Statements* issued in January 2017 amended paragraphs 29 and 33−34. An entity shall apply those amendments for annual financial statements covering periods beginning on or after 1 January 2019. An entity shall apply those amendments when it applies PBE IPSAS 35.**

Withdrawal and Replacement of PBE FRS 42 (May 2013)

74. This Standard, when applied, supersedes PBE FRS 42 *Prospective Financial Statements* issued in May 2013.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE FRS 42.

BC1. The New Zealand Accounting Standards Board (NZASB) has made no significant modifications to the requirements of FRS-42 *Prospective Financial Statements* in adopting it for application in by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities. The NZASB considered that the requirements of FRS-42 are appropriate for application by public benefit entities.

BC2. PBE FRS 42 establishes principles and specifies minimum disclosures for entities that present general purpose prospective financial statements. PBE FRS 42 adopts the requirements in FRS-42 in relation to public benefit entities with some changes to ensure that it is suitable for application by public benefit entities. The NZASB noted that the discussion of qualitative characteristics in PBE FRS 42 will need to be reviewed once the IPSASB's conceptual framework project has been completed.[1]

BC3. In 2013 the NZASB noted that there was a conflict between the requirements of FRS-42 *Prospective Financial Statements* and the Securities Regulations 2009. In the case of an initial offering of equity securities by a public issuer, the Securities Regulations 2009 (Schedule 1, Clause 11) require the presentation of prospective financial statements for the balance of the current period, and the subsequent interim or annual accounting period. In contrast, FRS-42 (and PBE FRS 42) required the presentation of prospective financial statements for the reporting period for which annual historical general purpose financial statements would subsequently be presented.

BC4. The NZASB considered that it would be desirable for the reporting period requirements in the Regulations and standards dealing with prospective financial statements to be aligned. Having regard to the importance of comparisons between prospective and actual financial statements, the NZASB amended paragraph 44 of PBE FRS 42 to permit the presentation of prospective financial statements for an interim period when an entity is proposing to present historical financial statements for that period. The NZASB considered that this amendment was consistent with the objectives of the Financial Reporting Standards Board (FRSB) when it originally developed FRS-42. The NZASB noted that the FRSB had sought to avoid unnecessary differences between the Securities Regulations and FRS-42, whilst highlighting the importance of being able to compare prospective financial statements with subsequent historical financial statements.

2016 Omnibus Amendments to PBE Standards

BC5. The NZASB issued the *Public Benefit Entities' Conceptual Framework* (PBE Conceptual Framework) in May 2016. The PBE Conceptual Framework is based on the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the IPSASB's Conceptual Framework). The NZASB noted that following the finalisation of its Conceptual Framework the IPSASB subsequently amended a number of IPSASs. *Improvement to IPSASs 2015* amended IPSASs to reflect the first four chapters of the IPSASB's Conceptual Framework. Chapters 1–4 address the role and authority of a conceptual framework, the objectives of general purpose financial reporting, users of general purpose financial reports, the qualitative characteristics and the constraints on information in general purpose financial reports, and the key characteristics of a reporting entity. The NZASB agreed to make equivalent amendments to PBE Standards and did so in the *2016 Omnibus Amendments to PBE Standards*.

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1 The IPSASB issued *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* in October 2014 and the NZASB issued the *Public Benefit Entities' Conceptual Framework* in May 2016. PBE FRS 42 was amended following the issue of the PBE Conceptual Framework.

Comparison with FRS-42 *Prospective Financial Statements*

PBE FRS 42 *Prospective Financial Statements* is drawn from FRS-42 *Prospective Financial Statements.* There are no significant differences between PBE FRS 42 and FRS-42.

History of Amendments

PBE FRS 42 *Prospective Financial Statements* was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE FRS 42. The table is based on amendments issued as at 31 January 2018 other than consequential amendments resulting from early adoption of PBE FRS 48 *Service Performance Reporting.*

Pronouncements	**Date issued**	**Early operative date**	**Effective date (annual financial statements … on or after …)**
PBE FRS 42 *Prospective Financial Statements*	Sept 2014	Early application is permitted for not-for-profit public benefit entities	1 April 2015
2016 Omnibus Amendments to PBE Standards	Jan 2017	–	1 Jan 2017
PBE IPSAS 35 *Consolidated Financial Statements*	Jan 2017	Early application is permitted	1 Jan 2019

Table of Amended Paragraphs in PBE FRS 42		
Paragraph affected	**How affected**	**By … [date]**
Introduction	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 16	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 17	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 29	Amended	PBE IPSAS 35 [Jan 2017]
Paragraph 30	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 32	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 33–34	Amended	PBE IPSAS 35 [Jan 2017]
Paragraph 73.1	Added	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 73.2	Added	PBE IPSAS 35 [Jan 2017]