

## Board Meeting Agenda

Wednesday 27 June 2018

External Reporting Board, Level 7, 50 Manners Street, Wellington

Est Time	Item	Topic	Objective		Page
<b>B: PUBLIC SESSION</b>					
<b><u>PBE Items for Approval</u></b>					
11.05 am	<b>5</b>	<b><u>2018 Omnibus Amendments to PBE Standards</u></b>	(TC)		
	5.1	Cover memo	Note	Paper	
	5.2	Draft ITC and ED	Consider	Paper	
11.35 am	<b>6</b>	<b><u>IPSASB ED 64 Leases</u></b>	(VSF)		
	6.1	Cover memo	Note	Paper	
	6.2	Draft comment letter	Consider	Paper	
	6.3	Submissions received			
	6.3.1	BDO	Note	Paper	
	6.3.2	Cornwall Park Trust Board	Note	Paper	
	6.3.3	Emerge Aotearoa Group	Note	Paper	
12.35 pm		<i>Lunch</i>			
1.05 pm	<b>7</b>	<b><u>IPSASB ED 65 Improvements to IPSAS, 2018</u></b>	(ALH)		
	7.1	Cover memo	Note	Paper	
	7.2	Draft comment letter	Consider	Paper	
	7.3	ED 65 Improvements to IPSAS, 2018	Note	Supp paper	
<b><u>PBE Items for Consideration</u></b>					
1.20 pm	<b>8</b>	<b><u>PBE IPSAS 40 PBE Combinations</u></b>	(ALH)		
	8.1	Cover memo	Consider	Paper	
	8.2	Draft ITC	Consider	Paper	
	8.3	Draft ED PBE IPSAS 40 – marked-up	Consider	Paper	
2.20 pm	<b>9</b>	<b><u>Service Performance Reporting Guidance</u></b>	(JS)		
	9.1	Cover memo	Consider	Paper	
	9.2	Draft guidance	Consider	Paper	
	9.3	A guide for prescribers of assurance engagements	Note	Supp paper	

Est Time	Item	Topic	Objective		Page
	9.4	Small charities' assurance needs	Note	Supp paper	
2.55 pm		Afternoon tea			
<b>PBE Standard for Approval</b>					
3.10 pm	<b>10</b>	<b><u>Limited Scope Amendments to Tier 3 and Tier 4 Standards</u></b>	(LK)		
	10.1	Cover memo	Consider	Paper	
	10.2	Submissions received	Note	Paper	
	10.2.1	BDO	Note	Paper	
	10.2.2	Carolyn Cordery	Note	Paper	
	10.2.3	Methodist Church of NZ	Note	Paper	
	10.3	Draft amending standard	Approve	Paper	
	10.4	Draft signing memo	Approve	Paper	
	10.5	Draft amendments to explanatory guides	Approve	Paper	
<b>For-profit Standard for Approval</b>					
3.40 pm	<b>11</b>	<b><u>RDR NZ IFRS 16 and NZ IAS 7</u></b>	(VSF)		
	11.1	Cover memo	Consider	Paper	
	11.2	Draft <i>RDR NZ IFRS 16 and NZ IAS 7</i>	Approve	Paper	
	11.3	Draft signing memo	Approve	Paper	
	11.4	Submission received BDO	Note	Paper	
<b>IASB Editorial Corrections</b>					
3.55 pm	<b>12</b>	<b><u>IASB editorial corrections to IFRS 17 Insurance Contracts</u></b>	(VSF)		
	12.1	Cover memo	Consider	Paper	
<b>Standards for Noting</b>					
4.00 pm	<b>13</b>	<b><u>Standards Approved</u></b>	(VSF)		
	13.1	Approval 97 2018 <i>NZ Conceptual Framework</i>	Note	Paper	
	13.2	Approval 98 <i>References to the Conceptual Framework in NZ IFRS</i>	Note	Paper	
	13.3	Approval 99 <i>Amendments to the Scope of FRS-42</i>	Note	Paper	

Next NZASB meeting: Wednesday 1 August 2018



NZ ACCOUNTING  
STANDARDS  
BOARD

## Memorandum

**Date:** 15 June 2018  
**To:** NZASB Members  
**From:** Tracey Crookston  
**Subject:** ***2018 Omnibus Amendments to PBE Standards***

### Recommendations<sup>1</sup>

1. We recommend that the Board:
  - (a) APPROVES for issue ED NZASB 2018-3 *2018 Omnibus Amendments to PBE Standards* (the ED); and
  - (b) AGREES to propose an effective date of 1 January 2019 for the amendments.

### Background

2. The ED and the Invitation to Comment (ITC) contain proposals to amend the accounting standards applicable to Tier 1 and Tier 2 Public Benefit Entities (PBEs).
3. The amendments within ED 2018-3 comprise:
  - (a) Part C: amendments arising from *Improvements to IPSAS, 2018* as set out in IPSAB's ED 65. ED 65 has two parts: Part I – General Improvements to IPSAS and Part II – IFRS Convergence Amendments;
  - (b) Part D: amendments arising from IASB amendments. These amendments are relevant to PBE Standards but not IPSAS Standards;
  - (c) Part E: other New Zealand amendments; and
  - (d) Part F: editorial corrections.
4. We have considered the amendments made by the IPSASB in ED 65 and, in nearly all cases, propose to incorporate equivalent amendments in the PBE Standards. We usually wait for the IPSASB to finalise amendments before proposing equivalent amendments to PBE Standards. This year we are proposing to seek feedback on the proposals concurrently with the IPSASB. This will allow us to finalise a number of amendments in a more timely manner.
5. Where relevant, we have included RDR concessions that align with the RDR concessions in NZ IFRS.

<sup>1</sup> 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).

6. Most of the issues being addressed by the ED reflect amendments that have already been made or proposed by an international board. They are therefore self-explanatory. In this memo we have focused on a few matters where we are seeking feedback from the Board or want to highlight something.

#### **PBE IPSAS 16 *Investment Property***

7. ED 65 proposes to delete paragraph 76 of IPSAS 16 *Investment Property*. Paragraph 76 requires that when an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in surplus or deficit.
8. ED 65 notes that, as a result of amendments made by *Improvements to IPSASs*, issued January 2010, investment property under construction is now within the scope of IPSAS 16. ED 65 proposes to delete paragraph 76 on the grounds that it is no longer required; it argues that as investment property is now within the scope of IPSAS 16 it is no longer transferred from another class of asset on completion of the construction.
9. As noted in the draft comment letter on ED 65 *Improvements to IPSAS, 2018* (refer agenda item 7.2) we think there may be circumstances in which this guidance is still required, although there might be a better location for that guidance. For example, it could be relocated to follow the section on *Inability to determine fair value reliably* (which is paragraph 63 in IPSAS 16). We have not proposed to delete paragraph 76 and have highlighted this matter for constituents.

<h4><b>Question for the Board</b></h4>
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|---|
| <ol style="list-style-type: none"> <li>1. Does the Board agree NOT to propose the deletion of PBE IPSAS 16 paragraph 76?</li> </ol> |
|---|

#### **PBE IPSAS 34 *Separate Financial Statements***

10. The IPSASB is proposing to amend three aspects of IPSAS 34 *Separate Financial Statements*. Specifically, the IPSASB is proposing to:
  - (a) address incorrect references, in paragraphs 14 and 30, to the consolidation of certain balances of a controlled investment entity in separate financial statements. These paragraphs need to be corrected because a controlling entity does not consolidate items in its separate financial statements;
  - (b) correct cross-references to paragraph 58 of IPSAS 35 (the reference should be to paragraph 56 of IPSAS 35).
  - (c) require disclosure of the accounting policy choice for measuring the investment in the investment entity in the separate financial statements (that is, at fair value, cost or using the equity method). We note that this is a new requirement. Up until now an entity applying IPSAS 34 would have been required to disclose that accounting policy choice only if it were significant.



11. We are proposing to amend PBE IPSAS 34 so that it aligns with the IPSASB's proposed amendments to IPSAS 34. There are two things we want to bring to the Board's attention.
  - (a) The IPSASB is proposing to add a new accounting policy disclosure requirement – there is a note to the Board in the ED to highlight this disclosure requirement.
  - (b) We had already addressed one of the issues being addressed by the IPSASB when PBE IPSAS 34 was first issued. The proposed amendments to PBE IPSAS 34 therefore look slightly different to the proposals in ED 65 but the end effect is the same.

**Question for the Board**

2. Does the Board agree with the proposed amendments to PBE IPSAS 34?

**New Zealand-specific amendments**

12. The Board has previously looked at some, but not all, of the proposed New Zealand-specific amendments set out in Part E of ED 2018-3. They are all relatively minor. The background to each of these amendments is explained in Table 1 below.

**Table 1**

Standard	New Zealand-specific amendments
PBE IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	<p>The proposed amendment to paragraph 31 is to make it more relevant to the PBE context.</p> <p>31. A component of an entity comprises operations or cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of equity <del>will</del><u>may</u> have been a cash-generating unit.</p>
PBE IAS 34 <i>Interim Financial Statements</i>	<p>The proposed amendments to paragraph 33 are to remove an incorrect quote and replace it with a description of the recognition criteria in the PBE Conceptual Framework.</p> <p>33. An essential characteristic of revenue and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised; otherwise they are not recognised. <del>The PBE Conceptual Framework says that "expenses are recognised in the financial statements when there is a decrease in the net financial position of the entity, other than decreases arising from ownership distributions and this decrease can be measured in a way that achieves the qualitative characteristics</del> <u>The recognition criteria in the PBE Conceptual Framework are that an item satisfies the definition of an element and can be measured in a way that achieves the qualitative characteristics</u> and takes account of constraints on information in GPFs. <del>...The</del> PBE Conceptual Framework generally<sup>2</sup> does not allow the recognition of items which do not meet the definition of assets or liabilities."</p> <p><sup>2</sup> <u>Footnote 2 not shown</u></p>

Standard	New Zealand-specific amendments
PBE FRS 46 <i>First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS</i>	The proposed amendments to PBE FRS 46 are to remove references to suites of standards that have been withdrawn (for example, NZ IFRS PBE and NZ IFRS RDR). The Board agreed to propose these amendments at its May 2018 meeting.

#### Question for the Board

3. Does the Board agree with the New Zealand-specific amendments?

#### Effective date

13. As noted above, we are seeking feedback on a number of proposals concurrently with the IPSASB. Comments on ED 65 are due to the IPSASB by 15 July 2018. We expect the IPSASB to finalise an amending standard in September this year. The IPSASB has not publicly indicated what the effective date for the amendments would be but, based on prior amending standards, we expect that the amendments would be effective from 1 January 2019 (with early application permitted in most cases).
14. We will continue to monitor the IPSASB's project. Subject to the consideration of the comments received on this ED, and the finalisation of the IPSASB's amending standard, we would also expect to issue an amending standard later this year. We plan to seek feedback on a proposed effective date of 1 January 2019. As indicated in the relevant effective date paragraphs within standards, earlier application is permitted in most instances.

#### Attachments

Agenda item 5.2: ITC and ED NZASB 2018-3 *2018 Omnibus Amendments to PBE Standards*

## **NZASB Exposure Draft 2018-3**

### **2018 Omnibus Amendments to PBE Standards**

**(NZASB ED 2018-3)**

**Invitation to Comment**

**July 2018**

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New Zealand  
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## Information for respondents

### Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)<sup>1</sup> is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the *2018 Omnibus Amendments to PBE Standards*.

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](mailto:submissions@xrb.govt.nz)  
(please refer to *2018 Omnibus Amendments to PBE Standards* 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 **28 September 2018**.

### Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website ([xrb.govt.nz](http://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).

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<sup>1</sup> 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
IAS <sup>®</sup>	International Accounting Standard
IASB	International Accounting Standards Board
IFRS <sup>®</sup> Standards	International Financial Reporting Standard
IPSASB	International Public Sector Accounting Standards Board
IPSAS	International Public Sector Accounting Standard
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public benefit entity
PBE IAS	Public Benefit Entity International Accounting Standard
PBE IFRS	Public Benefit Entity International Financial Reporting Standard
PBE IPSAS	Public Benefit Entity International Public Sector Accounting Standard

## Questions for respondents

- |   |  |  |
|---|--|--|
| 1 | <p>Do you agree with the proposed amendments to PBE Standards in Part C of ED 2018-3? If you disagree, please provide reasons.<br/>Part C proposes to amend the following standards.</p> <p style="margin-left: 20px;">PBE IPSAS 2 <i>Cash Flow Statements</i><br/> PBE IPSAS 4 <i>The Effects of Changes in Foreign Currency Exchange Rates</i> and<br/> PBE FRS 47 <i>First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS</i><br/> PBE IPSAS 5 <i>Borrowing Costs</i><br/> PBE IPSAS 10 <i>Financial Reporting in Hyperinflationary Economies</i><br/> PBE IPSAS 16 <i>Investment Property</i><br/> PBE IPSAS 22 <i>Disclosure of Financial Information about the General Government Sector</i><br/> PBE IPSAS 34 <i>Separate Financial Statements</i><br/> PBE IPSAS 36 <i>Investments in Associates and Joint Ventures</i><br/> PBE IPSAS 37 <i>Joint Arrangements</i><br/> PBE IPSAS 39 <i>Employee Benefits</i><br/> PBE IFRS 3 <i>Business Combinations</i></p> | <p>Page 11<br/>Table 1 and<br/>Table 2</p> |
| 2 | <p>Do you agree that paragraph 76 of PBE IPSAS 16 should be retained? If you disagree, please provide reasons.</p>   | <p>Page 11</p>                             |
| 3 | <p>Do you agree with the proposed amendments to PBE Standards in Part D of ED 2018-3? If you disagree, please provide reasons.<br/>Part D proposes to amend the following standards.</p> <p style="margin-left: 20px;">PBE IAS 12 <i>Income Taxes</i><br/> PBE IPSAS 38 <i>Disclosure of Interests in Other Entities</i></p>   | <p>Page 12<br/>Table 3</p>                 |
| 4 | <p>Do you agree with the proposed amendments to PBE Standards in Part E of ED 2018-3? If you disagree, please provide reasons.<br/>Part E proposes to amend the following standards.</p> <p style="margin-left: 20px;">PBE IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i><br/> PBE IAS 34 <i>Interim Financial Statements</i><br/> PBE FRS 46 <i>First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS</i></p>  | <p>Page 13<br/>Table 4</p>                 |
| 5 | <p>Do you agree with the proposed effective date of 1 January 2019? If you disagree, please provide reasons.</p>   | <p>Page 13</p>                             |
| 6 | <p>Do you have any other comments on ED 2018-3?</p>  | <p>Page 13</p>                             |



## 1. Introduction

### 1.1 Background

1. NZASB Exposure Draft 2018-3 *2018 Omnibus Amendments to PBE Standards* (subsequently referred to as ED 2018-3 or the ED) contains proposals to amend PBE Standards.
2. The NZASB regularly considers the improvements and narrow scope amendments made by the IASB and IPSASB to their standards and forms a view on whether those amendments should be incorporated in PBE Standards. In cases where amendments made by the IASB will subsequently be considered by the IPSASB, the NZASB generally waits until the IPSASB has completed its consideration of those amendments.
3. In this ED the NZASB is taking the opportunity to seek feedback on the IPSASB's proposals concurrently with the IPSASB. This would allow the NZASB to finalise amendments equivalent to those made by the IPSASB soon after the IPSASB issues an amending standard.
4. The NZASB also periodically considers other non-urgent matters for which amendments to standards are required.

### 1.2 Purpose of this Invitation to Comment

5. The purpose of this Invitation to Comment is to seek comments on the proposed amendments set out in the ED.
6. The ED also identifies some editorial corrections. We are not specifically seeking comments on the editorial corrections, but you may comment on them if you wish.

### 1.3 Timeline and next steps

7. Submissions on ED 2018-3 are due by **28 September 2018**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.
8. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, and the finalisation of the IPSASB's amendments, we expect to finalise these amendments soon afterwards.

## 2. Overview of ED 2018-3

### 2.1 Summary of the amendments

9. The proposed amendments to PBE Standards have been grouped as follows:

- (a) amendments arising from *Improvements to IPSAS, 2018*;
- (b) amendments arising from IASB amendments;
- (c) other New Zealand amendments; and
- (d) editorial corrections.

### 2.2 Amendments arising from *Improvements to IPSAS, 2018*

- 10. The IPSASB periodically issues improvements to IPSAS Standards, the standards on which many PBE Standards are based. The IPSASB's improvements include amendments based on the IASB's annual improvements and narrow scope amendments projects, and other amendments identified by the IPSASB.
- 11. In accordance with the NZASB's *Policy Approach to Developing the Suite of PBE Standards* the NZASB generally proposes to incorporate the IPSASB's improvements in PBE Standards. The NZASB seeks feedback on such amendments through its normal due process.
- 12. In April 2018, the IPSASB issued Exposure Draft 65 *Improvements to IPSAS, 2018* (ED 65) for comment.
- 13. The NZASB has considered the proposals in ED 65 and, in nearly all cases, is proposing equivalent amendments to PBE Standards. Tables 1 and 2 below explain how the proposals in ED 65 have been incorporated in this ED. There are two tables because ED 65 has two parts: Part I – *General Improvements to IPSAS* and Part II – *IFRS Convergence Amendments*. The equivalent proposed amendments to PBE Standards are in Part C of ED 2018-3.
- 14. Unless otherwise indicated, the proposals in Tables 1 and 2 of ED 65 are incorporated in ED 2018-3.

**Table 1: Amendments arising from IPSASB ED 65 Part 1 – General improvements to IPSAS**

PBE Standard	Nature of the amendments
PBE IPSAS 10 <i>Financial Reporting in Hyperinflationary Economies</i>  PBE IPSAS 22 <i>Disclosure of Financial Information about the General Government Sector</i>	The term “primary financial statements” (which is not defined in IPSAS) is being replaced with the term “financial statements” (which is a defined term) for consistency within standards.
PBE IPSAS 16 <i>Investment Property</i>	ED 65 proposes to delete paragraph 76 of IPSAS 16 on the grounds that it is no longer required.  Paragraph 76 requires that when an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in surplus or deficit.

PBE Standard	Nature of the amendments
	<p>As a result of the amendments made by <i>Improvements to IPSASs</i> (January 2010), investment property under construction is now within the scope of IPSAS 16.<sup>2</sup> The IPSASB is suggesting that, as investment property under construction is now within the scope of IPSAS 16, there is no need to explain how to deal with such differences in carrying amounts.</p> <p>The NZASB's view is that there may still be circumstances in which this guidance is required (although the guidance might be more appropriately located elsewhere in the standard). The NZASB is commenting on this matter to the IPSASB.</p> <p><b>This ED 65 amendment is NOT included in ED 2018-3.</b></p> <p>The NZASB is seeking confirmation from New Zealand constituents that paragraph 76 of PBE IPSAS 16 should not be deleted.</p>
PBE IPSAS 31 <i>Intangible Assets</i>	<p>Paragraph 109 of IPSAS 31 requires an entity to test an intangible asset for impairment when reassessing its useful life. When IPSAS 31 was issued, such a test was required only for intangible assets measured under the cost model. Following the issue of <i>Impairment of Revalued Assets</i> (Amendments to IPSASs 21 and 26) in July 2016, this test is required for all intangible assets. The IPSASB is therefore amending paragraph 109 to reflect the revised requirements.</p> <p><b>This ED 65 amendment is NOT included in ED 2018-3.</b></p> <p>This matter was addressed when <i>Impairment of Revalued Assets</i> (Amendments to PBE IPSASs 21 and 26) was issued in April 2017.</p>
PBE IPSAS 34 <i>Separate Financial Statements</i>	<p>ED 65 proposes to address three matters in IPSAS 34.</p> <p><u>Issue 1:</u> The IPSASB is proposing to address incorrect references (in paragraphs 14 and 30 of IPSAS 34) to the <i>consolidation</i> of certain balances of a controlled investment entity in separate financial statements. These paragraphs need to be corrected as a controlling entity does not consolidate items in its separate financial statements.</p> <p><u>Issue 2:</u> The IPSASB is proposing to correct cross-references to paragraph 58 of IPSAS 35 (the references should be to paragraph 56 of IPSAS 35).</p> <p><u>Issue 3:</u> The IPSASB is proposing to require disclosure of the accounting policy choice for measuring the investment in the investment entity in the separate financial statements.</p> <p>The NZASB is proposing to incorporate the proposed amendments to IPSAS 34 in PBE IPSAS 34 to maintain alignment between the standards, but had already addressed Issue 1 (in a manner broadly consistent with the IPSASB's proposals) when PBE IPSAS 34 was first issued. There are therefore fewer changes proposed to PBE IPSAS 34 than to IPSAS 34.</p>

<sup>2</sup> These amendments were incorporated in PBE IPSAS 16 when it was first issued.

**Table 2: Amendments arising from IPSAS ED 65 Part 2 – IFRS convergence amendments**

PBE Standard	Nature of the amendments
<b>Annual Improvements to IFRSs 2011–2013 Cycle (issued December 2013)</b>	
PBE IPSAS 16 <i>Investment Property</i>	ED 65 is proposing to update some headings in IPSAS 16 <i>Investment Property</i> .  <b>The ED 65 amendments are NOT included in ED 2018-3.</b> The equivalent headings in PBE IPSAS 16 have already been amended by 2015 <i>Omnibus Amendments to PBE Standards</i> (July 2015).
<b>Disclosure Initiative (Amendments to IAS 7) (issued January 2016)</b>	
PBE IPSAS 2 <i>Cash Flow Statements</i>	ED 65 is proposing to add disclosures to enable users of financial statements to evaluate changes in liabilities arising from financing activities.
<b>Transfers of Investment Property (Amendments to IAS 40) (issued December 2016)</b>	
PBE IPSAS 16 <i>Investment Property</i>	ED 65 is proposing to amend the requirements relating to transfers of investment property to reflect the principle that a change in use would involve:  (a) an assessment of whether a property meets, or has ceased to meet, the definition of an investment property; and  (b) supporting evidence that a change in use has occurred.  The list of circumstances in which a transfer occurs is re-characterised as a non-exhaustive list of examples to be consistent with this principle.
<b>IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued December 2016)</b>	
PBE IPSAS 4 <i>The Effects of Changes in Foreign Currency Exchange Rates</i>	ED 65 proposes to incorporate the requirements of IFRIC 22 in IPSAS 4.  IFRIC 22 clarifies how to account for a transaction when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income.
PBE FRS 47 <i>First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS</i>	As a consequence of incorporating IFRIC 22 in IPSAS 4, ED 65 proposes to amend IPSAS 33 <i>First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)</i> .  As a consequence of incorporating IFRIC 22 in PBE IPSAS 4, ED 2018-3 proposes to amend PBE FRS 47.
<b>Annual Improvements to IFRS® Standards 2015–2017 Cycle (issued December 2017)</b>	
PBE IPSAS 37 <i>Joint Arrangements</i>	The amendments clarify the accounting for a previously held interest in a joint operation.
PBE IFRS 3 <i>Business Combinations</i>	ED 65 proposes to amend IPSAS 40 <i>Public Sector Combinations</i> to clarify the accounting for a previously held interest in a joint operation.  ED 2018-3 proposes to amend PBE IFRS 3.
PBE IPSAS 5 <i>Borrowing Costs</i>	The amendments clarify that an entity includes borrowings made specifically to obtain a qualifying asset in general borrowings when that qualifying asset is ready for its intended use or sale.

PBE Standard	Nature of the amendments
<b><i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (issued February 2018)</i></b>	
PBE IPSAS 39 <i>Employee Benefits</i>	<p>The amendments require an entity to use the updated assumptions from the remeasurement associated with a change to a plan (an amendment, curtailment or settlement) to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.</p> <p>IPSAS 39 and PBE IPSAS 39 do not currently specify how to determine these expenses for the period after the change to the plan.</p>

15. Although ED 65 incorporates many of the recent amendments to IFRS Standards, it does not incorporate *Long-Term Interests in Associates and Joint Ventures (Amendments to IAS 28)* (issued October 2017) or *Prepayment Features with Negative Compensation (Amendments to IFRS 9)* (issued October 2017). The IPSASB plans to issue a separate ED to address these amendments once it has issued a new standard based on IFRS 9 *Financial Instruments*. The NZASB will then look to incorporate equivalent amendments in PBE Standards.
16. Nor does ED 65 include an amendment to IAS 28 *Investments in Associates and Joint Ventures* that was set out in *Annual Improvements to IFRS Standards 2014–2016 Cycle* (issued December 2016). This amendment clarified that an entity applying IFRS Standards is able to choose between the equity method or fair value for each investment in an associate or joint venture. This clarification is not relevant for IPSAS Standards or PBE Standards because IPSAS 36, and PBE IPSAS 36, require fair value measurement for such investments.

#### Questions for respondents

1. Do you agree with the proposed amendments to PBE Standards in Part C of ED 2018-3? If you disagree, please provide reasons.
2. Do you agree that paragraph 76 of PBE IPSAS 16 should be retained? If you disagree, please provide reasons.

### 2.3 Amendments arising from IASB amendments

17. Other proposed amendments to PBE Standards arising from recent IASB improvements and narrow scope amendment projects are set out in Table 3 below and in Part D of the ED. These amendments are relevant for PBE Standards, but not for IPSAS Standards.

**Table 3: Amendments arising from IASB amendments (where no equivalent IPSAS)**

PBE Standard	Nature of the amendments
<b><i>Annual Improvements to IFRS Standards 2014–2016 Cycle (issued December 2016)</i></b>	
PBE IPSAS 38 <i>Disclosure of Interests in Other Entities</i>	<p>The amendments clarify the scope of PBE IPSAS 38 with respect to interests in entities within the scope of PBE IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>.</p> <p>Specifically, the amendments clarify that the disclosure requirements in PBE IPSAS 38 (other than those in paragraphs B10–B16) apply to all interests in other entities regardless of whether or not they are classified as held-for-sale, as held for distribution to owners or as discontinued operations.</p>
<b><i>Annual Improvements to IFRS® Standards 2015–2017 Cycle (issued December 2017)</i></b>	
PBE IAS 12 <i>Income Taxes</i>	The amendments clarify the income tax consequences of payments on financial instruments classified as equity.

#### Question for respondents

3. Do you agree with the proposed amendments to PBE Standards in Part D of ED 2018-3? If you disagree, please provide reasons.

## 2.4 Other New Zealand amendments

18. The ED also proposes amendments to domestic PBE Standards. These are set out in Table 4 below and in Part E of the ED.

**Table 4: Other New Zealand amendments**

PBE Standard	Nature of the amendments
PBE IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Amends paragraph 31 so that it is more relevant to the PBE context.
PBE IAS 34 <i>Interim Financial Statements</i>	Amends paragraph 33 to remove an incorrect quote and replace it with a description of the recognition criteria in the PBE Conceptual Framework.
PBE FRS 46 <i>First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS</i>	Removes references to suites of standards that have been withdrawn (for example, NZ IFRS PBE and NZ IFRS Diff Rep).

### Question for respondents

4. Do you agree with the proposed amendments to PBE Standards in Part E of ED 2018-3? If you disagree, please provide reasons.

## 2.5 Editorial corrections

16. The proposed amendments also include editorial corrections. These are set out in Part F of ED 2018-3.

## 2.6 Effective date and other comments

17. A number of the amendments in the ED are equivalent to amendments in IPSASB ED 65 *Improvements to IPSAS, 2018*. The NZASB expects the IPSASB to finalise an amending standard later this year with an effective date of 1 January 2019.
18. The NZASB will continue to monitor the IPSASB's project. Subject to consideration of the comments received on this ED, and the finalisation of the IPSASB's amending standard, the NZASB also intends to finalise its amending standard later this year with an effective date of 1 January 2019.

### Questions for respondents

5. Do you agree with the proposed effective date of 1 January 2019? If you disagree, please explain why.
6. Do you have any other comments on ED 2018-3?



## EXPOSURE DRAFT

### 2018 OMNIBUS AMENDMENTS TO PBE STANDARDS

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 G.

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 relevant Tier 1 and Tier 2 PBE Standards as a result of:

- (a) amendments arising from *Improvements to IPSAS, 2018*;
- (b) amendments arising from IASB® amendments;
- (c) other New Zealand amendments; and
- (d) editorial corrections.



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## Part A: Introduction

This [draft] Standard includes amendments for the following:

- (a) Amendments arising from *Improvements to IPSAS, 2018*;
  - (i) PBE IPSAS 2 *Cash Flow Statements*
  - (ii) PBE IPSAS 4 *The Effects of Changes in Foreign Currency Exchange Rates* (and PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*)
  - (iii) PBE IPSAS 5 *Borrowing Costs*;
  - (iv) PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*;
  - (v) PBE IPSAS 16 *Investment Property*;
  - (vi) PBE IPSAS 22 *Disclosure of Financial Information about the General Government Sector*;
  - (vii) PBE IPSAS 34 *Separate Financial Statements*;
  - (viii) PBE IPSAS 36 *Investments in Associates and Joint Ventures*;
  - (ix) PBE IPSAS 37 *Joint Arrangements*;
  - (x) PBE IPSAS 39 *Employee Benefits*; and
  - (xi) PBE IFRS 3 *Business Combinations*.
- (b) Amendments arising from IASB<sup>®</sup> amendments;
  - (i) PBE IAS 12 *Income Taxes*;
  - (ii) PBE IPSAS 38 *Disclosure of Interests in Other Entities*
- (c) Other New Zealand amendments;
  - (i) PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
  - (ii) PBE IAS 34 *Interim Financial Statements*;
  - (iii) PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*; and
- (d) Editorial corrections.

## Part B: Scope

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

## Part C: Amendments arising from *Improvements to IPSAS, 2018*

### PBE IPSAS 2 *Cash Flow Statements*

Paragraphs 55A–55E and the related heading are added. Paragraph 63.3 is also added.  
New text is underlined.

#### Changes in Liabilities Arising from Financing Activities

- \*55A. An entity shall provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.
- \*55B. To the extent necessary to satisfy the requirement in paragraph 55A, an entity shall disclose the following changes in liabilities arising from financing activities:
  - (a) Changes from financing cash flows;
  - (b) Changes arising from obtaining or losing control of controlled entities or other operations;
  - (c) The effect of changes in foreign exchange rates;
  - (d) Changes in fair values; and
  - (e) Other changes.
- \*55C. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities. In addition, the disclosure requirement in paragraph 55A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.
- \*55D. One way to fulfil the disclosure requirement in paragraph 55A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in paragraph 55B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the cash flow statement.
- \*55E. If an entity provides the disclosure required by paragraph 55A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

...

#### Effective Date

...

- 63.3 2018 Omnibus Amendments to PBE Standards, issued in [Date], added paragraphs 55A–55E. An entity shall apply those amendments for annual financial statements covering periods beginning on or after [Date]. Earlier application is permitted. When the entity first applies those amendments, it is not required to provide comparative information for preceding periods.

...

Paragraph BC3 and the related heading are added. New text is underlined.

## Basis for Conclusions

...

### 2018 Omnibus Amendments to PBE Standards

BC3. *Disclosure Initiative* (Amendments to IAS 7), issued by the IASB in January 2016, amended IAS 7 *Statement of Cash Flows* to require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial assets. The IPSASB subsequently amended IPSAS 2 *Cash Flow Statements* in *Improvements to IPSAS, 2018* and the NZASB amended PBE IPSAS 2 in *2018 Omnibus Amendments to PBE Standards*.

Illustrative Examples have been added. New text is underlined.

## Illustrative Examples

*These examples accompany, but are not part of, PBE IPSAS 2.*

...

### A. Public Sector Entity

#### Cash Flow Statement (For an Entity Other Than a Financial Institution)

##### Direct Method Cash Flow Statement (paragraph 27(a))

...

##### Notes to the Cash Flow Statement

...

##### (d) Reconciliation of Liabilities Arising from Financing Activities

	<u>20X1</u>	<u>Cash flows</u>	<u>Non-cash changes</u>		<u>20X2</u>
			<u>Acquisition</u>	<u>New leases</u>	
<u>Long-term borrowings</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Lease liabilities</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Long-term debt</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

...

##### Indirect Method Cash Flow Statement (paragraph 27(b))

#### Consolidated Cash Flow Statement for Year Ended June 30, 20X2

(in thousands of currency units)

...

##### Notes to the Cash Flow Statement

...

##### (c) Reconciliation of Liabilities Arising from Financing Activities

	<u>20X1</u>	<u>Cash flows</u>	<u>Non-cash changes</u>		<u>20X2</u>
			<u>Acquisition</u>	<u>New leases</u>	
<u>Long-term borrowings</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Lease liabilities</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Long-term debt</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

...

### **Reconciliation of Liabilities Arising from Financing Activities**

1 This example illustrates one possible way of providing the disclosures required by paragraphs 55A–55E.

2 The example shows only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with PBE IPSAS 1 *Presentation of Financial Statements*.<sup>3</sup>

	<u>20X1</u>	<u>Cash flows</u>	<u>Non-cash changes</u>			<u>20X2</u>
			<u>Acquisition</u>	<u>Foreign Exchange Movement</u>	<u>Fair value changes</u>	
<u>Long term borrowings</u>	<u>X</u>	<u>X</u>	=	=	=	<u>X</u>
<u>Short-term borrowings</u>	<u>X</u>	<u>X</u>	=	<u>X</u>	=	<u>X</u>
<u>Lease liabilities</u>	<u>X</u>	<u>X</u>	<u>X</u>	=	=	<u>X</u>
<u>Assets held to hedge long-term borrowings</u>	<u>X</u>	<u>X</u>			<u>X</u>	<u>X</u>
<u>Total liabilities from financing activities</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

## **B. Not-for-Profit Entity**

### **Cash Flow Statement (For an Entity Other Than a Financial Institution)**

#### **Direct Method Cash Flow Statement (paragraph 27(a))**

...

#### **Notes to the Cash Flow Statement**

...

#### **(d) Reconciliation of Liabilities Arising from Financing Activities**

	<u>20X1</u>	<u>Cash flows</u>	<u>Non-cash changes</u>		<u>20X2</u>
			<u>Acquisition</u>	<u>New leases</u>	
<u>Long-term borrowings</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Lease liabilities</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Long-term debt</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

...

<sup>3</sup> PBE FRS 48 *Service Performance Reporting*, which is effective for annual financial reports covering periods beginning on or after 1 January 2021, changes the title of PBE IPSAS 1 *Presentation of Financial Statements* to *Presentation of Financial Reports*. This reference to the title of PBE IPSAS 1 is added to the list of Generic amendments to PBE Standards in Appendix A of PBE FRS 48.

**Indirect Method Cash Flow Statement (paragraph 27(b))**

**Consolidated Cash Flow Statement for Year Ended June 30, 20X2**

(in thousands of currency units)

...

**Notes to the Cash Flow Statement**

...

(c) Reconciliation of Liabilities Arising from Financing Activities

	<u>20X1</u>	<u>Cash flows</u>	<u>Non-cash changes</u>		<u>20X2</u>
			<u>Acquisition</u>	<u>New leases</u>	
<u>Long-term borrowings</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Lease liabilities</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Long-term debt</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

...

**Reconciliation of Liabilities Arising from Financing Activities**

- 1 This example illustrates one possible way of providing the disclosures required by paragraphs 55A–55E.
- 2 The example shows only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with PBE IPSAS 1 *Presentation of Financial Statements*.<sup>4</sup>

	<u>20X1</u>	<u>Cash flows</u>	<u>Non-cash changes</u>			<u>20X2</u>
			<u>Acquisition</u>	<u>Foreign Exchange Movement</u>	<u>Fair value changes</u>	
<u>Long term borrowings</u>	<u>X</u>	<u>X</u>	=	=	=	<u>X</u>
<u>Short-term borrowings</u>	<u>X</u>	<u>X</u>	=	<u>X</u>	=	<u>X</u>
<u>Lease liabilities</u>	<u>X</u>	<u>X</u>	<u>X</u>	=	=	<u>X</u>
<u>Assets held to hedge long-term borrowings</u>	<u>X</u>	<u>X</u>			<u>X</u>	<u>X</u>
<u>Total liabilities from financing activities</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

<sup>4</sup> This reference to the title of PBE IPSAS 1 is added to the list of Generic amendments to PBE Standards in Appendix A of PBE FRS 48.



## **PBE IPSAS 4 *The Effects of Changes in Foreign Currency Exchange Rates***

Paragraphs 70A, 70B and 72.4 are added. New text is underlined.

### **Transitional Provisions**

...

#### **Foreign Currency Transactions and Advance Consideration** **(Amendments made by 2018 Omnibus Amendments to PBE Standards)**

70A. On initial application, an entity shall apply the requirements of Appendix A either:

- (a) Retrospectively applying PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- (b) Prospectively to all assets, expenses and revenue in the scope of Appendix A initially recognised on or after:
  - (i) The beginning of the reporting period in which the entity first applies Appendix A; or
  - (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies Appendix A.

70B. An entity that applies paragraph 70A(b), shall, on initial application, apply Appendix A to assets, expenses and revenue initially recognised on or after the beginning of the reporting period in paragraph 70A(b)(i) or (ii) for which the entity has recognised non-monetary assets or non-monetary liabilities arising from advance consideration before that date.

### **Effective Date**

...

72.4 2018 Omnibus Amendments to PBE Standards, issued in [Date], added paragraphs 70A and 70B and Appendix A. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Date]. Earlier application is permitted. If an entity applies these amendments for a period beginning before [Date] it shall disclose that fact.

...

Appendix A is added.

## **Appendix A**

### **Foreign Currency Transactions and Advance Consideration**

*This Appendix is an integral part of PBE IPSAS 4.*

#### **Introduction**

- A1. Paragraph 24 of PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*, requires an entity to record a foreign currency transaction, on initial recognition in its functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency (the exchange rate) at the date of the transaction. Paragraph 25 of PBE IPSAS 4 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with PBE Standards.
- A2. When an entity pays or receives consideration in advance in a foreign currency, it generally recognises a non-monetary asset or a non-monetary liability before the recognition of the related asset, expense or revenue. The related asset, expense or revenue (or part of it) is the amount recognised applying relevant Standards, which results in the derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration.

- A3. This Appendix clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue when an entity has received or paid advance consideration in a foreign currency.

#### Scope

- A4. This Appendix applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or revenue (or part of it).
- A5. This Appendix does not apply when an entity measures the related asset, expense or revenue on initial recognition:
- (a) At fair value; or
  - (b) At the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying PBE IFRS 3 *Business Combinations*).
- A6. An entity is not required to apply this Appendix to:
- (a) Income taxes; or
  - (b) Insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

#### Application of PBE IPSAS 4 to Foreign Currency Transactions and Advance Consideration

- A7. This Appendix addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.
- A8. Applying paragraphs 24–25 of PBE IPSAS 4, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.
- A9. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

Paragraph BC2 and the related heading are added. New text is underlined.

#### Basis for Conclusions

...

#### **2018 Omnibus Amendments to PBE Standards**

- BC2. In December 2016 the IASB issued IFRIC 22 *Foreign Currency Transactions and Advance Consideration*. The IPSASB subsequently issued *Improvements to IPSAS, 2018* which incorporated the requirements of IFRIC 22 in IPSAS 4 *The Effects of Changes in Foreign Currency Exchange Rates*. The NZASB amended PBE IPSAS 4 in *2018 Omnibus Amendments to PBE Standards*.

Illustrative Examples IE1–IE19 and the related headings are added.

## Illustrative Examples

*These Illustrative Examples accompany, but are not part of, PBE IPSAS 4*

### Foreign Currency Transactions and Advance Consideration

*In these Illustrative Examples, foreign currency amounts are 'Foreign Currency' (FC) and functional currency amounts are 'Local Currency' (LC).*

IE1. The objective of these examples is to illustrate how an entity determines the date of the transaction when it recognises a non-monetary asset or a non-monetary liability arising from advance consideration in a foreign currency before it recognises the related asset, expense or revenue (or part of it) applying relevant PBE Standards.

*Example 1—A single advance payment for the purchase of a single item of property, plant and equipment*

IE2. On March 1, 20X1, Entity A entered into a contract with a supplier to purchase a machine for use in its operations. Under the terms of the contract, Entity A pays the supplier a fixed purchase price of FC1,000 on April 1, 20X1. On April 15, 20X1, Entity A takes delivery of the machine.

IE3. Entity A initially recognises a non-monetary asset translating FC1,000 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on April 1, 20X1. Applying paragraph 27(b) of PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*, Entity A does not update the translated amount of that non-monetary asset.

IE4. On April 15, 20X1, Entity A takes delivery of the machine. Entity A derecognises the non-monetary asset and recognises the machine as property, plant and equipment applying PBE IPSAS 17 *Property, Plant and Equipment*. On initial recognition of the machine, Entity A recognises the cost of the machine using the exchange rate at the date of the transaction, which is April 1, 20X1 (the date of initial recognition of the non-monetary asset).

*Example 2—Multiple receipts for revenue recognised at a single point in time*

IE5. On June 1, 20X2, Entity B entered into a contract with a customer to deliver goods on September 1, 20X2. The total fixed contract price is an amount of FC100, of which FC40 is due and received on August 1, 20X2 and the balance receivable on September 30, 20X2.

IE6. Entity B initially recognises a non-monetary contract liability translating FC40 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on August 1, 20X2. Applying paragraph 27(b) of PBE IPSAS 4, Entity B does not update the translated amount of that non-monetary liability.

IE7. Applying paragraph 28 of PBE IPSAS 9 *Revenue from Exchange Transactions*, Entity B recognises revenue on September 1, 20X2, the date on which it transfers the goods to the customer.

IE8. Entity B determines that the date of the transaction for the revenue relating to the advance consideration of FC40 is August 1, 20X2. Applying paragraph 25 of PBE IPSAS 4, Entity B determines that the date of the transaction for the remainder of the revenue is September 1, 20X2.

IE9. On September 1, 20X2, Entity B:

- (a) Derecognises the contract liability for FC40 and recognises revenue using the exchange rate on August 1, 20X2; and
- (b) Recognises revenue of FC60 and a corresponding receivable using the exchange rate on that date (September 1, 20X2).

IE10. The receivable of FC60 recognised on September 1, 20X2 is a monetary item. Entity B updates the translated amount of the receivable until the receivable is settled.

*Example 3—Multiple payments for purchases of services over a period of time*

IE11. On May 1, 20X3, Entity C entered into a contract with a supplier for services. The supplier will provide the services to Entity C evenly over the period from July 1, 20X3 to December 31, 20X3. The contract requires Entity C to pay the supplier FC200 on June 15, 20X3 and FC400 on December 31, 20X3. Entity C

has determined that, for this contract, the payment of FC200 on June 15, 20X3 relates to the services to be received in the period July 1–August 31, 20X3, and the payment of FC400 on December 31, 20X3 relates to the services to be received in the period September 1–December 31, 20X3.

- IE12. Entity C recognises a non-monetary asset translating FC200 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on June 15, 20X3.
- IE13. In the period July 1–August 31, 20X3, Entity C derecognises a non-monetary asset and recognises an expense of FC200 in surplus or deficit as it receives the services from the supplier. Entity C determines that the date of the transaction for the expense related to the advance consideration of FC200 is June 15, 20X3 (the date of initial recognition of the non-monetary asset).
- IE14. In the period September 1–December 31, 20X3, Entity C initially recognises the expense in surplus or deficit as it receives the services from the supplier. In principle, the dates of the transaction are each day in the period September 1–December 31, 20X3. However, if exchange rates do not fluctuate significantly, Entity C may use a rate that approximates the actual rates as permitted by paragraph 25 of PBE IPSAS 4. If that is the case, Entity C, may for example, translate each month's expense of FC100 ( $FC400 \div 4$ ) into its functional currency using the average exchange rate for each month for the period September 1–December 31, 20X3.
- IE15. As Entity C recognises the expense in the period September 1–December 31, 20X3, it recognises a corresponding liability in respect of its obligation to pay the supplier. The liability is a monetary item. Entity C updates the translated amount of the liability until the liability is settled.

*Example 4—Multiple receipts for revenue recognised at multiple points in time*

- IE16. On January 1, 20X4, Entity D enters into a contract to sell two products to a customer. Entity D transfers one product on March 1, 20X4 and the second on June 1, 20X4. As required by the contract, the customer pays a fixed purchase price of FC1,000, of which FC200 is due and received in advance on January 31, 20X4 and the balance is due and received on June 1, 20X4.
- IE17. The following facts are relevant:
- The price of the first product is FC450 and the price of the second product is FC550.
  - Entity D has determined that, for this contract, the consideration of FC200 received on January 31, 20X4 relates to the first product transferred on March 1, 20X4. On transfer of that product to the customer, Entity D has an unconditional right to FC250 of the remaining consideration.
- IE18. The spot exchange rates are:

Date	Spot exchange rate FC:LC
31 January 20X4	1:1.5
1 March 20X4	1:1.7
1 June 20X4	1:1.9

- IE19. The following journal entries illustrate how Entity D accounts for the foreign currency aspects of the contract:
- Entity D receives the advance payment of FC200 on January 31, 20X4, which it translates into its functional currency using the exchange rate at January 31, 20X4.
 

DR Cash (FC200)	LC300
CR Contract Liability (FC200)	LC300
  - Applying paragraph 27(b) of PBE IPSAS 4, Entity D does not update the translated amount of the non-monetary contract liability.
  - Entity D transfers the first product with a price of FC450 on March 1, 20X4. Entity D derecognises the contract liability and recognises revenue of LC300. Entity D recognises the remaining revenue of FC250 relating to the first product and a corresponding receivable, both of which it translates at the exchange rate at the date that it initially recognises the remaining revenue of FC250 i.e., March 1, 20X4.

DR Contract liability (FC200)	LC300
DR Receivable (FC250)	LC425
CR Revenue (FC450)	LC725

- (d) The receivable of FC250 is a monetary item. Entity D updates the translated amount of the receivable until the receivable is settled (June 1, 20X4). At June 1, 20X4, the receivable of FC250 is equivalent to LC475. As required by paragraph 32 of PBE IPSAS 4, Entity D recognises an exchange gain of LC50 in surplus or deficit.

DR Receivable	LC50
CR Revenue	LC50

- (e) Entity D transfers the second product with a price of FC550 on June 1, 20X4. Entity D recognizes revenue of FC550 using the exchange rate at the date of the transaction, which is the date that Entity D first recognises this part of the transaction in its financial statements, i.e. June 1, 20X4.
- (f) Entity D receives the remaining consideration of FC800 on June 1, 20X4. FC250 of the consideration received settles the receivable of FC250 arising on the transfer of the first product. Entity D translates the cash at the exchange rate at June 1, 20X4.

DR Cash (FC800)	LC1,520
CR Receivable (FC250)	LC475
CR Revenue (FC550)	LC1,045

#### Note for the Board

As a consequence of amending IPSAS 4, ED 65 also amends IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*. ED 65 adds an exemption in relation to the new requirements in IPSAS 4. We have not shown this amendment as there is no PBE Standard based on IPSAS 33. Instead, ED 2018-3 also amends PBE FRS 47 (see below). We have located the additional exemption immediately following the amendments to PBE IPSAS 4.

## **PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS***

Paragraph 42.7 is added. New text is underlined.

### **Effective Date**

...

**42.7** 2018 Omnibus Amendments to PBE Standards, issued in [Date], amended paragraph C1 and added paragraph C32. An entity shall apply those amendments when it applies Appendix A of PBE IPSAS 4.

Paragraph C1(r) is added. Paragraph C32 and the related heading are also added. New text is underlined and deleted text is struck through.

## **Appendix C**

### **Exemptions from other PBE Standards**

*This Appendix is an integral part of PBE FRS 47.*

C1. An entity may elect to use one or more of the following exemptions:

...

- (p) Intangible assets (paragraph C30); ~~and~~
- (q) Joint arrangements (paragraph C31); ~~and~~
- (r) Foreign currency transactions and advance consideration (paragraph C32).

...

### **Foreign Currency Transactions and Advance Consideration**

**C32.** A first-time adopter need not apply Appendix A of PBE IPSAS 4 to assets, expenses and revenue in the scope of Appendix A initially recognised before the date of transition to PBE Standards.

Paragraph BC10 and the related heading are added. New text is underlined.

### **Basis for Conclusions**

...

### **2018 Omnibus Amendments to PBE Standards**

**BC10.** In December 2016 the IASB issued IFRIC 22 *Foreign Currency Transactions and Advance Consideration* and amended IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The IPSASB subsequently issued *Improvements to IPSAS, 2018* which incorporated the requirements of IFRIC 22 in IPSAS 4 *The Effects of Changes in Foreign Currency Exchange Rates* and amended IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*. The NZASB amended PBE IPSAS 4 *The Effects of Changes in Foreign Currency Exchange Rates* and PBE FRS 47 in *2018 Omnibus Amendments to PBE Standards*.

## PBE IPSAS 5 *Borrowing Costs*

Paragraph 25 is amended and paragraphs 41A and 43.4 are added. New text is underlined and deleted text is struck through.

### Borrowing Costs Eligible for Capitalisation

...

25. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation shall be determined by applying a capitalisation rate to the outlays on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the all borrowings of the entity that are outstanding during the period, ~~other than borrowings~~. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs capitalised during a period shall not exceed the amount of borrowing costs incurred during that period.

...

### Transitional Provisions

...

- 41A. 2018 Omnibus Amendments PBE Standards, issued in [Date], amended paragraph 25. 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.

...

### Effective Date

...

- 43.4 2018 Omnibus Amendments to PBE Standards, issued in [Date], amended paragraph 25 and added paragraph 41A. An entity shall apply those amendments for annual financial statements covering periods beginning on or after [Date]. Earlier application is permitted. If an entity applies those amendments for a period beginning before [Date] it shall disclose that fact.

Paragraph BC2 and the related heading are added. New text is underlined.

### Basis for Conclusions

...

#### 2018 Omnibus Amendments to PBE Standards

- BC2. In December 2017 the IASB issued *Annual Improvements to IFRS® Standards 2015–2017 Cycle* which amended IAS 23 *Borrowing Costs*. The amendments clarified that that an entity includes borrowings made specifically to obtain a qualifying asset in general borrowings when that qualifying asset is ready for its intended use or sale. The IPSASB subsequently issued *Improvements to IPSAS, 2018* which incorporated equivalent amendments in IPSAS 5 *Borrowing Costs*. The NZASB amended PBE IPSAS 5 in *2018 Omnibus Amendments to PBE Standards*.

## **PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies***

Paragraph 9 is amended and paragraph 39.2 is added. New text is underlined and deleted text is struck through.

### **The Restatement of Financial Statements**

9. In a hyperinflationary economy, financial statements are useful only if they are expressed in terms of the measuring unit current at the reporting date. As a result, this Standard applies to the ~~primary~~ financial statements of entities reporting in the currency of a hyperinflationary economy. Presentation of the information required by this Standard as a supplement to unrestated financial statements is not permitted. Furthermore, separate presentation of the financial statements before restatement is discouraged.

...

### **Effective Date**

...

- 39.2 2018 Omnibus Amendments to PBE Standards, issued in [Date] amended paragraph 9. An entity shall apply that amendment for annual financial statements covering periods beginning on or after [Date]. Earlier application is permitted.

Paragraph BC2 and the related heading are added. New text is underlined.

### **Basis for Conclusions**

...

#### **2018 Omnibus Amendments to PBE Standards**

- BC2. In [Month] 2018 the IPSASB issued *Improvements to IPSAS, 2018* which amended IPSAS 10 *Financial Reporting in Hyperinflationary Economies* and replaced the term “primary financial statements” (which is not defined in IPSAS) with the term “financial statements” (which is a defined term). The NZASB amended PBE IPSAS 10 in *2018 Omnibus Amendments to PBE Standards*.



## PBE IPSAS 16 *Investment Property*

Paragraphs 66 and 68 are amended and paragraphs 100A–100C and 102.5 are added.  
New text is underlined and deleted text is struck through.

### Transfers

66. ~~Transfers~~ An entity shall transfer a property to or from investment property ~~shall be made when, and only when, there is a change in use, evidenced by. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of property does not provide evidence of a change in use. Examples of evidence of a change in use include:~~
- (a) Commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;
  - (b) Commencement of development with a view to sale, for a transfer from investment property to inventories;
  - (c) End of owner-occupation, for a transfer from owner-occupied property to investment property; or~~and~~
  - (d) ~~Commencement~~ Inception of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.
  - (e) [Deleted by IPSASB]
- ...
68. ~~Paragraph 66(b) requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the statement of financial position) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.~~
- ...

### Transitional Provisions

...

#### Transfers of Investment Property

- 100A. 2018 Omnibus Amendments to PBE Standards, issued in [Date], amended paragraphs 66 and 68. An entity shall apply those amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application). At the date of initial application, an entity shall reassess the classification of property held at that date and, if applicable, reclassify property applying paragraphs 9–18 to reflect the conditions that exist at that date.
- 100B. Notwithstanding the requirements in paragraph 100A, an entity is permitted to apply the amendments to paragraphs 66 and 68 retrospectively in accordance with PBE IPSAS 3 if, and only if, that is possible without the use of hindsight.
- 100C. If, in accordance with paragraph 100A, an entity reclassifies property at the date of initial application, the entity shall:
- (a) Account for the reclassification applying the requirements in paragraphs 70–75. In applying paragraphs 70–75, an entity shall:
    - (i) Read any reference to the date of change in use as the date of initial application; and
    - (ii) Recognise any amount that, in accordance with paragraphs 70–75, would have been recognised in surplus or deficit as an adjustment to the opening balance of accumulated surplus or deficit at the date of initial application.
  - (b) Disclose the amounts reclassified to, or from, investment property in accordance with paragraph 100A. The entity shall disclose those amounts reclassified as part of the reconciliation of

the carrying amount of investment property at the beginning and end of the period as required by paragraphs 87 and 90.

...

## Effective Date

...

102.5 2018 Omnibus Amendments to PBE Standards, issued in [Date], amended paragraphs 66 and 68 and added paragraphs 100A–100C. An entity shall apply those amendments for annual financial statements covering periods beginning on or after [Date]. Earlier application is permitted. If an entity applies this amendment for a period beginning before [Date] it shall disclose that fact.

Paragraph BC9 and the related heading are added. New text is underlined.
--

## Basis for Conclusions

...

### 2018 Omnibus Amendments to PBE Standards

BC9. In December 2016 the IASB issued *Transfers of Investment Property* (Amendments to IAS 40). The IPSASB subsequently issued *Improvements to IPSAS, 2018* which incorporated equivalent amendments in IPSAS 16 *Investment Property*. The NZASB amended PBE IPSAS 16 in *2018 Omnibus Amendments to PBE Standards*.

## **PBE IPSAS 22 *Disclosure of Financial Information about the General Government Sector***

Paragraph 37 is amended and paragraph 47.4 is added. New text is underlined and deleted text is struck through.

### **Disclosures**

...

37. This Standard requires disclosure of the major classes of assets, liabilities, revenues, expenses, and cash flows reflected in the financial statements. This Standard does not specify the manner in which the GGS disclosures shall be made. Governments electing to make GGS disclosures in accordance with this Standard may make such disclosures by way of (a) note disclosure, (b) separate columns in the ~~primary~~ financial statements, or (c) otherwise, as considered appropriate in their jurisdiction. However, the manner of presentation of the GGS disclosures will be no more prominent than the consolidated financial statements prepared in accordance with PBE Standards.

...

### **Effective Date**

...

- 47.4 2018 Omnibus Amendments to PBE Standards, issued in [Date], amended paragraph 37. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Date]. Earlier application is permitted.

Paragraph BC4 and the related heading are added. New text is underlined.

### **Basis for Conclusions**

...

#### **2018 Omnibus Amendments to PBE Standards**

- BC4. In [Month] 2018 the IPSASB issued *Improvements to IPSAS, 2018* which amended *IPSAS 22 Disclosure of Financial Information about the General Government Sector* and replaced the term “primary financial statements” (which is not defined in IPSAS) with the term “financial statements” (which is a defined term). The NZASB amended PBE IPSAS 22 in *2018 Omnibus Amendments to PBE Standards*

## PBE IPSAS 34 *Separate Financial Statements*

Paragraphs 22 and 30 are amended and paragraph 32.3 is added. New text is underlined and deleted text is struck through.

### Disclosure

...

22. If a controlling entity that is not itself an investment entity is required to apply the requirements of ~~in accordance with paragraph 5658 of PBE IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with PBE IPSAS 29 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it shall disclose that fact. The entity shall also~~ it shall disclose its accounting policy choice for measuring its investment in the investment entity in its separate financial statements, and present the disclosures relating to investment entities required by PBE IPSAS 38.

### Note for the Board

The requirement for an entity to disclose its accounting policy choice for measuring its investment in the investment entity in its separate financial statements would be a new requirement.  
Does the Board agree to propose this additional disclosure requirement in PBE IPSAS 34?

...

### Transitional Provisions

...

30. At the date of initial application, a controlling entity that is not itself an investment entity but which is required, in accordance with paragraph ~~1458 of this Standard~~ PBE IPSAS 35, to measure its investment in a controlled investment entity at fair value through surplus or deficit in accordance with PBE IPSAS 29, shall use the transitional provisions in paragraphs 24–29 in accounting for its investment in the controlled investment entity in its separate financial statements.

...

### Effective Date

...

- 32.3 2018 Omnibus Amendments to PBE Standards, issued in [Date], amended paragraphs 22 and 30. An entity shall apply those amendments for annual financial statements covering periods beginning on or after [Date]. Earlier application is permitted. If an entity applies these amendments for a period beginning before [Date] it shall disclose that fact.

Paragraph BC6 and the related heading are added. New text is underlined.

### Basis for Conclusions

...

#### 2018 Omnibus Amendments to PBE Standards

BC6. In [Month] 2018 the IPSASB issued *Improvements to IPSAS, 2018* which corrected some of the requirements in IPSAS 34 *Separate Financial Statements* in relation to a controlling entity with controlled investment entities but which is not itself an investment entity. The NZASB had already addressed some of these issues when it first issued PBE IPSAS 34 (see paragraph BC3 above). In 2018 the NZASB aligned the requirements in PBE IPSAS 34 with the corrected requirements in IPSAS 34.

## PBE IPSAS 36 *Investments in Associates and Joint Ventures*

Paragraph 24 is amended and paragraph 51.3 is added. New text is underlined and deleted text is struck through.

### Exemptions from Applying the Equity Method

...

24. When an investment in an associate or joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that ~~investments in those associates and joint ventures~~ at fair value through surplus or deficit in accordance with PBE IPSAS 29. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. An investment entity will, by definition, have made this election for its investments.

...

### Effective Date

...

- 51.3 2018 Omnibus Amendments to PBE Standards, issued in [Date], amended paragraph 24. An entity shall apply that amendment retrospectively in accordance with PBE IPSAS 3 for annual financial statements covering periods beginning on or after [Date]. Earlier application is permitted. If an entity applies this amendment for a period beginning before [Date] it shall disclose that fact.

Paragraph BC4 and the related heading are added. New text is underlined.

### Basis for Conclusions

...

#### 2018 Omnibus Amendments to PBE Standards

- BC4. In December 2016 the IASB issued *Annual Improvements to IFRS Standards 2014–2016 Cycle* which amended IAS 28 *Investments in Associates and Joint Ventures*. These amendments clarified that an entity is able to choose between applying the equity method or measuring the investment at fair value for each investment in an associate or joint venture. The IPSASB subsequently issued *Improvements to IPSAS, 2018* which incorporated equivalent amendments in IPSAS 36 *Investments in Associates and Joint Ventures*. The NZASB amended PBE IPSAS 36 in *2018 Omnibus Amendments to PBE Standards*.

## PBE IPSAS 37 *Joint Arrangements*

Paragraph 42.3 is added. New text is underlined.

### Effective Date

...

42.3 2018 Omnibus Amendments to PBE Standards, issued in [Date], added paragraph AG33.3A. 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 [Date]. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Paragraph AG33.3A is added. New text is underlined.

### Application Guidance

*This Appendix is an integral part of PBE IPSAS 37.*

...

### Financial Statements of Parties to a Joint Arrangement (paragraphs 23–28)

#### Accounting for Acquisitions of Interests in Joint Operations

...

AG33.3A 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 an operation as defined in PBE IFRS 3. In such cases, previously held interests in the joint operation are not remeasured.

...

Paragraph BC4 and the related heading are added. New text is underlined.

### Basis for Conclusions

...

#### 2018 Omnibus Amendments to PBE Standards

BC4. In December 2017 the IASB issued *Annual Improvements to IFRS® Standards 2015–2017 Cycle* which amended IFRS 11 *Joint Arrangements*. These amendments clarified that when an entity obtains control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. The IPSASB subsequently issued *Improvements to IPSAS, 2018* which incorporated equivalent amendments in IPSAS 37 *Joint Arrangements*. The NZASB amended PBE IPSAS 37 in *2018 Omnibus Amendments to PBE Standards*.

## PBE IPSAS 39 *Employee Benefits*

Paragraphs 59, 101, 122, 125, 127, 128 and 159 are amended and paragraphs 103A, 124A, 125A and 177.1 and a new heading before paragraph 124A are added. New text is underlined and deleted text is struck through.

### Post-employment Benefits—Defined Benefit Plans

...

#### Recognition and Measurement

...

59. Accounting by an entity for a defined benefit plan involves the following steps:

...

(c) Determining amounts to be recognised in surplus or deficit:

(i) Current service cost (see paragraphs 72–76 and paragraph 124A).

...

#### Past Service Cost and Gains and Losses on Settlement

101. ~~Before~~ When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices), reflecting:

(a) ~~†The benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement; and~~

(b) The benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.

...

103A. When a plan amendment, curtailment or settlement occurs, an entity shall recognise and measure any past service cost, or a gain or loss on settlement, in accordance with paragraphs 101–103 and paragraphs 104–114. In doing so, an entity shall not consider the effect of the asset ceiling. An entity shall then determine the effect of the asset ceiling after the plan amendment, curtailment or settlement and shall recognise any change in that effect in accordance with paragraph 59(d).

...

#### Components of Defined Benefit Cost

122. An entity shall recognise the components of defined benefit cost, except to the extent that another Standard requires or permits their inclusion in the cost of an asset, as follows:

(a) Service cost (see paragraphs 68–114 and paragraph 1214A) in surplus or deficit;

...

#### Current Service Cost

124A. An entity shall determine current service cost using actuarial assumptions determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 101, it shall determine the current service cost for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) in accordance with paragraph 101(b).

#### *Net Interest on the Net Defined Benefit Liability (Asset)*

125. An entity shall determine ~~Net~~ interest on the net defined benefit liability (asset) ~~shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in in paragraph 85, both as determined at the start of the reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.~~

- 125A. To determine net interest in accordance with paragraph 125, an entity shall use the net defined benefit liability (asset) and the discount rate determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 101, the entity shall determine net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using:

- (a) The net defined benefit liability (asset) determined in accordance with paragraph 101(b); and
- (b) The discount rate used to remeasure the net defined benefit liability (asset) in accordance with paragraph 101(b).

In applying paragraph 125A, the entity shall also take into account any changes in the net defined benefit liability (asset) during the period resulting from contributions or benefit payments.

...

127. Interest revenue on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 125A. ~~85, both as determined~~ An entity shall determine the fair value of the plan assets at the start of the reporting period, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 101, the entity shall determine interest revenue for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the plan assets used to remeasure the net defined benefit liability (asset) in accordance with paragraph 101(b). In applying paragraph 127, the entity shall take into account any changes in the plan assets held during the period resulting from contributions or benefit payments. The difference between the interest revenue on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

128. Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 125A. ~~85, both as determined at the start of the reporting period.~~ An entity shall determine the effect of the asset ceiling at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 101, the entity shall determine interest on the effect of the asset ceiling for the remainder of the annual reporting period after the plan amendment, curtailment or settlement taking into account any change in the effect of the asset ceiling determined in accordance with paragraph 103A. The difference between that amount interest on the effect of the asset ceiling and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

...

## Other Long-Term Employee Benefits

...

### Recognition and Measurement

...

159. For other long-term employee benefits, an entity shall recognise the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- (a) Service cost (see paragraphs 68–114 and paragraph 124A);

...

### Effective Date

- 177.1 2018 Omnibus Amendments to PBE Standards, issued in [Date], amended paragraphs 59, 101, 122, 125, 127, 128 and 159 and added paragraphs 103A, 124A and 125A. An entity shall apply those amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after [Date]. Earlier application is permitted. If an entity applies these amendments earlier it shall disclose that fact.



Paragraph BC4 and the related heading are added. New text is underlined.

## **Basis for Conclusions**

...

### **2018 Omnibus Amendments to PBE Standards**

BC4. In February 2018 the IASB issued *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19). These amendments required that an entity use the updated assumptions from the remeasurement associated with a change to a plan (an amendment, curtailment or settlement) to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The IPSASB subsequently issued *Improvements to IPSAS, 2018* which incorporated equivalent amendments in IPSAS 39 *Employee Benefits*. The NZASB amended PBE IPSAS 39 in *2018 Omnibus Amendments to PBE Standards*.

## PBE IFRS 3 *Business Combinations*

Paragraphs 42A and 64.7 are added. New text is underlined.

### 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 PBE IPSAS 37 *Joint Arrangements*) obtains control of an operation that is a joint operation (as defined in PBE IPSAS 37), 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

...

64.7 2018 Omnibus Amendments to PBE Standards, issued in [Date], 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 [Date]. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

...

Paragraph BC6 and the related heading are added. New text is underlined.

### Basis for Conclusions

...

#### 2018 Omnibus Amendments to PBE Standards

BC6. In December 2017 the IASB issued *Annual Improvements to IFRS® Standards 2015–2017 Cycle* which amended IFRS 3 *Business Combinations*. The amendments clarified that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The IPSASB subsequently issued *Improvements to IPSAS, 2018* which incorporated equivalent amendments in IPSAS 40 *Public Sector Combinations*. The NZASB incorporated equivalent amendments in PBE IFRS 3, pending the development of a PBE Standard based on IPSAS 40.

## Part D: Amendments arising from IASB® amendments

### PBE IAS 12 *Income Taxes*

Paragraphs 57A and 98.7 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 surplus or deficit 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 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 surplus or deficit, other comprehensive revenue and expense or net assets/equity according to where the entity originally recognised those past transactions or events.

#### Note for the Board

The equivalent paragraph in NZ IAS 12 is shown below for the Board's information.

- 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.

The term 'dividends' is not defined in PBE Standards – 'distributions to owners' is defined in PBE IPSAS 1.7. A number of PBE Standards refer to 'dividends or similar distributions'.

PBE IAS 12 refers to 'dividends' in several places. This term has a specific meaning for tax purposes and changing terminology in PBE IAS 12 could create uncertainty for preparers.

In drafting the amendment to PBE IAS 12 we have (i) deleted the reference to the definition of a dividend; and (ii) kept the references to dividends.

...

#### Effective Date

...

- 98.7 2018 Omnibus Amendments to PBE Standards, issued in [Date], added paragraph 57A and deleted paragraph 52B. An entity shall apply those amendments for annual financial statements covering periods beginning on or after [Date]. 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.

Paragraph BC5 and the related heading are added. New text is underlined.

## **Basis for Conclusions**

...

### **2018 Omnibus Amendments to PBE Standards**

BC5. In December 2017 the IASB issued *Annual Improvements to IFRS® Standards 2015–2017 Cycle* which amended IAS 12 *Income Taxes*. The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits. The NZASB subsequently issued *2018 Omnibus Amendments to PBE Standards* which incorporated equivalent amendments in PBE IAS 12.

## PBE IPSAS 38 *Disclosure of Interests in Other Entities*

Paragraphs 5A and 61.4 are added. New text is underlined.

### Scope

...

- 5A. Except as described in paragraph AG16.1, the requirements in this Standard apply to an entity's interest listed in paragraph 5 that are classified (or included in a disposal group that is classified) as held for sale or discontinued operations in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

...

### Effective Date

...

- 61.4 2018 Omnibus Amendments to PBE Standards, issued in [Date], added paragraph 5A and amended paragraph AG16.1. An entity shall apply those amendments retrospectively in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after [Date].

In Appendix A, paragraph AG16.1 is amended. Deleted text is struck through and new text is underlined.

### Summarised Financial Information for Controlled Entities, Joint Ventures and Associates (paragraphs 19 and 36)

...

- \*AG16.1 When an entity's interest in a controlled entity, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the entity is not required to disclose summarised financial information for that controlled entity, joint venture or associate in accordance with paragraphs AG10–AG16.

Paragraph BC5 and the related heading are added. New text is underlined.

### Basis for Conclusions

...

#### 2018 Omnibus Amendments to PBE Standards

- BC5. In December 2016 the IASB issued *Annual Improvements to IFRS Standards 2014–2016 Cycle* which amended IFRS 12 *Disclosure of Interests in Other Entities*. The amendments clarified the scope of IFRS 12 by specifying which disclosure requirements in the Standard apply to an entity's interests in other entities that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The NZASB subsequently issued *2018 Omnibus Amendments to PBE Standards* which incorporated equivalent amendments in PBE IPSAS 38.

## Part E: Other New Zealand amendments

### **PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***

Paragraph 31 is amended and paragraph 44.7 is added. New text is underlined and deleted text is struck through.

#### **Presenting Discontinued Operations**

31. A component of an entity comprises operations or cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity may~~will~~ have been a cash-generating unit or a group of cash-generating units while being held for use.

#### **Note for the Board**

The amendment to paragraph 31 has been made because cash-generating units or groups of cash-generating units are largely irrelevant in the PBE context.

...

#### **Effective Date**

...

44.7 2018 Omnibus Amendments to PBE Standards, issued in [Date], amended paragraph 31.

## PBE IAS 34 *Interim Financial Statements*

Paragraph 33 is amended and paragraph 49.10 is added. New text is underlined and deleted text is struck through.

33. An essential characteristic of revenue and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows and outflows have taken place, the related revenue and expenses are recognised; otherwise they are not recognised. ~~The PBE Conceptual Framework says that “expenses are recognised in the financial statements when there is a decrease in the net financial position of the entity, other than decreases arising from ownership distributions” and this decrease can be measured in a way that achieves the qualitative characteristics~~The recognition criteria in the PBE Conceptual Framework are that an item satisfies the definition of an element and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs....~~[The]~~ PBE Conceptual Framework generally<sup>2</sup> does not allow the recognition of items which do not meet the definition of assets or liabilities.<sup>2</sup>

<sup>2</sup> Footnote 2 not shown

...

### Effective Date

...

49.10 *2018 Omnibus Amendments to PBE Standards*, issued in [Date], amended paragraph 33.

## **PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS***

Paragraphs 1, 3, 5 and the definitions in paragraph 9 are amended. Paragraph 43.2 is added. Paragraphs 30–39 (and their associated headings) are deleted. New text is underlined and deleted text is struck through.

### **Objective**

1. The objective of this Standard is to set out the transitional provisions for the first-time application of Public Benefit Entity Standards (PBE Standards) by a Tier 1 or Tier 2 public benefit entity that previously applied ~~NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep~~ or NZ IFRS RDR.

### **Scope**

...

3. This Standard applies where an entity previously presented general purpose financial statements that complied with ~~NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep~~ or NZ IFRS RDR in the immediately preceding period.

...

5. An entity that previously applied this Standard or previously presented general purpose financial statements that complied with ~~NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep~~ or NZ IFRS RDR but not in the immediately preceding period and is transitioning again to Tier 1 PBE Standards or Tier 2 PBE Standards shall apply PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*.

...

### **Definitions**

9. The following terms are used in this Standard with the meanings specified:

...

~~NZ IFRS Diff Rep comprises NZ IFRS with differential reporting recognition, measurement and disclosure concessions.~~

NZ IFRS PBE comprises NZ IFRS with PBE modifications.

...

### ~~**Specific Transitional Provisions – Entities Previously Applying Differential Reporting Concessions**~~

~~30–39 [Deleted]~~

- ~~30. On first-time adoption of PBE Standards, an entity that previously qualified for, and applied, any of the recognition and measurement differential reporting concessions available under NZ IFRS PBE or NZ IFRS Diff Rep shall change its accounting policies to comply with PBE Standards. The entity shall disclose the accounting policy previously applied under NZ IFRS PBE or NZ IFRS Diff Rep and restate the comparative information in accordance with paragraph 18 of this Standard.~~
31. Appendix A of this Standard sets out the recognition and measurement differential reporting concessions previously available under NZ IFRS PBE and NZ IFRS Diff Rep but which are not available under PBE Standards.
32. ~~An entity previously applying recognition and measurement differential reporting concessions permitted by NZ IAS 16 (PBE) *Property, Plant and Equipment*, NZ IAS 21 (PBE) *The Effects of Changes in Foreign Exchange Rates*, NZ IAS 38 (PBE) *Intangible Assets* and NZ IAS 41 (PBE) *Agriculture* shall either:~~
  - ~~(a) Apply the requirements of the relevant Standards retrospectively in accordance with PBE IPSAS 3; or~~
  - ~~(b) Apply the transitional provisions in paragraphs 33–39 of this Standard when it first applies PBE Standards.~~



**NZ IAS 16 (PBE) *Property, Plant and Equipment***

33. ~~An entity that previously applied the differential reporting concession permitted by NZ IAS 16 (PBE) *Property, Plant and Equipment* to use income tax rates of depreciation for property, plant and equipment for financial reporting purposes shall treat the change in depreciation rate for property, plant and equipment as a change in accounting estimate as at the date of transition to PBE Standards in accordance with PBE IPSAS 3 (paragraphs 37–45).~~

**NZ IAS 21 (PBE) *The Effects of Changes in Foreign Exchange Rates***

34. ~~An entity that previously applied the differential reporting concession permitted by NZ IAS 21 (PBE) *The Effects of Changes in Foreign Exchange Rates* to translate a transaction measured in a foreign currency using an exchange rate at settlement date rather than an exchange rate at transaction date need not restate the transactions recognised in the periods prior to the date of transition to PBE Standards to comply with PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*. An entity may apply PBE IPSAS 4 prospectively from the date of transition to PBE Standards.~~

**NZ IAS 38 (PBE) *Intangible Assets***

35. ~~An entity that previously applied the differential reporting concession permitted by NZ IAS 38 (PBE) *Intangible Assets* to expense all development costs in the period in which they were incurred need not apply PBE IPSAS 31 *Intangible Assets* to those expenses recognised in the periods prior to the date of transition to PBE Standards. An entity may apply PBE IPSAS 31 prospectively from the date of transition to PBE Standards.~~
36. ~~An entity that previously applied the differential reporting concession permitted by NZ IAS 38 (PBE) in relation to the amortisation of software (that is, to amortise software using the rates adopted for income tax purposes in allocating the depreciable amount of software over its useful life) shall treat the change in amortisation rate for software as a change in accounting estimate as at the date of transition to PBE Standards in accordance with PBE IPSAS 3 (paragraphs 37–45).~~

**NZ IAS 41 (PBE) *Agriculture***

37. ~~An entity that previously applied the differential reporting concessions permitted by NZ IAS 41 *Agriculture* for the measurement of biological assets and/or the measurement of agricultural produce:~~
- ~~(a) Shall, on adoption of PBE IPSAS 27 *Agriculture*, measure biological assets in accordance with PBE IPSAS 27 at the date of transition to PBE Standards; and~~
  - ~~(b) May, on adoption of PBE IPSAS 27 and in any subsequent reporting period, measure the cost of agricultural produce harvested from the entity's biological assets prior to the date of transition to PBE Standards using the previously determined amount for the purposes of PBE IPSAS 12 *Inventories* (rather than measuring the cost of inventories at fair value less estimated point-of-sale costs at the point of harvest.~~
38. ~~The provision in paragraph 37(b) is available only in respect of agricultural produce that had been previously recognised and measured in accordance with the differential reporting concessions in NZ IAS 41 (PBE). It does not apply to agricultural produce harvested subsequent to the date of transition to PBE Standards.~~
39. ~~Where previously recognised agricultural produce is measured using cost in accordance with paragraph 37(b) of this Standard, the entity shall apply PBE IPSAS 12 (paragraphs 38–42) to that agricultural produce in each subsequent reporting period to ensure that the inventory is measured at the lower of cost and net realisable value.~~

...

**Effective Date**

...

- 43.2 2018 Omnibus Amendments to Tier 1 and Tier 2 PBE Standards, issued in [Date], amended paragraphs 1, 3, 5 and 9, and deleted paragraphs 30–39 and Appendix A.

The footnote to paragraph BC4 is amended. Paragraph BC8 and the related heading are added. New text is underlined and deleted text is struck through.

## **Basis for Conclusions**

...

BC4. The NZASB did not anticipate that the adoption of PBE Standards, by those entities previously applying standards in the NZ IFRS suites of standards<sup>1</sup> would result in many changes to accounting policies because most IPSASs are based on International Financial Reporting Standards (IFRSs).

<sup>1</sup> The NZ IFRS suites of standards at the time FRS 46 was issued included ~~the various sets of standards based on IFRS that will exist at the time of transition, including~~ NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep and NZ IFRS RDR. NZ IFRS PBE and NZ IFRS Diff Rep were subsequently withdrawn.

...

## **2018 Omnibus Amendments to PBE Standards**

BC8. 2018 Omnibus Amendments to PBE Standards amended PBE FRS 46 by removing references NZ IFRS PBE and NZ IFRS Diff Rep. These suites of standards were in use at the time that PBE FRS 46 was first issued but were subsequently withdrawn.

Appendix A is deleted.

## **Appendix A**

### **Recognition and Measurement Differential Reporting Concessions Previously Available Under NZ IFRS PBE and NZ IFRS Diff Rep**

[Deleted]

...

## Part F: Editorial Corrections

The following editorial corrections have been identified by the NZASB.

New text is underlined and deleted text is struck through.

Standard	Paragraph	Amendment								
PBE IPSAS 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	26	In the absence of a PBE Standard that specifically applies to a transaction, other event, or condition, management may, in accordance with paragraph <del>44</del> <u>15</u> , apply an accounting policy from (a) the most recent pronouncements of other standard-setting bodies, and (b) accepted practices for public benefit entities, or in the absence of such practices accepted practices for for-profit entities, but only to the extent that these are consistent with paragraph <del>44</del> <u>15</u> . Examples of such pronouncements include standards and interpretations issued by the International Accounting Standards Board. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.								
PBE IPSAS 11 <i>Construction Contracts</i>	IG24	<p>The status of three construction contracts in progress at the end of Year 1 is as follows:</p> <p>...</p> <p><del>The amounts to be disclosed in accordance with the standard are as follows:</del></p> <table><tr><td><del>Contract revenue recognised as revenue in the period (para 50(a))</del></td><td><del>575</del></td></tr><tr><td><del>Contract costs incurred to date (para 51(a))</del></td><td></td></tr><tr><td><del>(there are no recognised surpluses/less recognised deficits)</del></td><td><del>1,070</del></td></tr><tr><td><del>Gross amount due from contract customers for contract work (determined in accordance with paragraph 54 and presented as an asset in accordance with paragraph 53(a)).</del></td><td><del>150</del></td></tr></table>	<del>Contract revenue recognised as revenue in the period (para 50(a))</del>	<del>575</del>	<del>Contract costs incurred to date (para 51(a))</del>		<del>(there are no recognised surpluses/less recognised deficits)</del>	<del>1,070</del>	<del>Gross amount due from contract customers for contract work (determined in accordance with paragraph 54 and presented as an asset in accordance with paragraph 53(a)).</del>	<del>150</del>
<del>Contract revenue recognised as revenue in the period (para 50(a))</del>	<del>575</del>									
<del>Contract costs incurred to date (para 51(a))</del>										
<del>(there are no recognised surpluses/less recognised deficits)</del>	<del>1,070</del>									
<del>Gross amount due from contract customers for contract work (determined in accordance with paragraph 54 and presented as an asset in accordance with paragraph 53(a)).</del>	<del>150</del>									
PBE IPSAS 17 <i>Property, Plant and Equipment</i>	AG1	<p>PBE Standards define fair value as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. An entity that elects to measure a class of property, plant and equipment using the revaluation model, as permitted by paragraph 44 of this Standard, may need to estimate the fair value of certain assets. This Application Guidance provides guidance on the estimation of fair value using the depreciated replacement cost method<sup>2</sup> in the circumstances permitted by paragraph 48 of this Standard.</p> <p><sup>2</sup> <del>Paragraphs AG11–AG17, AG19–AG20 and AG22 are largely based upon guidance from Technical Information Paper 2 <i>The Cost Approach for Tangible Assets</i>, published by the International Valuation Standards Council in 2012.</del></p>								
PBE IPSAS 22 <i>Disclosure of Financial Information about the General Government Sector</i>	36	PBE IPSAS 1 <i>Presentation of Financial Statements</i> <sup>5</sup> identifies a complete set of financial statements...								

<sup>5</sup> This reference to the title of PBE IPSAS 1 is added to the list of Generic amendments to PBE Standards in Appendix A of PBE FRS 48.

Standard	Paragraph	Amendment
PBE IPSAS 32 <i>Service Concession Arrangements: Grantor</i>	AG49	...The grantor compensates the operator only to the extent of the usage of the service concession asset, and accounts for such payments as expenses in accordance with PBE IPSAS 1 <i>Presentation of Financial Statements</i> . <sup>6</sup>
PBE IPSAS 35 <i>Consolidated Financial Statements</i>	Example 8A	Through its appointees on the board, the housing agency has the ability to use its power to affect the nature <del>and/or</del> amount of its benefits from the association.
	Example 35	(c) The provincial government can use its power over the trust to affect the nature <del>and/or</del> amount of the trust's benefits.
	Example 37	As the Health Department also has the ability to use its power over the authority to affect the nature <del>and/or</del> amount of the Department'
PBE IFRS 3 <i>Business Combinations</i>	64.4	PBE IPSAS 35 <i>Consolidated Financial Statements</i> and PBE IPSAS 37 <del>Joint Ventures</del> , issued in January 2017...
	B67(d)(iii)	A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately: (iii) Adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period <del>in accordance with paragraph 67.</del>
	B63	Examples of other PBE Standards that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a business combination include: ... (d)-(e) [Not used] (e) <u>PBE IPSAS 35 provides guidance on accounting for changes in a controlling entity's ownership interest in a controlled entity after control is obtained.</u>
	Definitions 2.4	Definitions ... <del>Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.</del>
PBE IFRS 9 <i>Financial Instruments</i>	Appendix D	PBE IFRS 9 Appendix D <i>Amendments to other Standards</i> added paragraph 49M to PBE IPSAS 30 <i>Financial Instruments: Disclosures</i> . Paragraph 49M should read: ... *49M. When required by paragraph 49K, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost and, in the case of financial assets, that have been reclassified out of fair value through surplus <del>of or</del> deficit ...

<sup>6</sup> This reference to the title of PBE IPSAS 1 is added to the list of Generic amendments to PBE Standards in Appendix A of PBE FRS 48.

Standard	Paragraph	Amendment
PBE IAS 12 <i>Income Taxes</i>	29	<p>(i) This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences; <u>and</u></p> <p>(ii) Ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from these deductible temporary differences will itself require future taxable profit in order to be utilised; <u>or</u></p>
	81*(ab)	The amount of income tax relating to each component of other comprehensive revenue and expense (see paragraph 62 of PBE IPSAS 1 <i>Presentation of Financial Statements</i> ).
PBE FRS 47 <i>First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS</i>	RDR 8.1	<p>(c) Its first set of prospective financial statements presented in accordance with PBE FRS 42 <del><i>Prospective Financial Statements</i></del> where an entity ...</p>

## **Part G Effective date**

The amendments are effective for periods beginning on or after [Date]. As indicated in the relevant effective date paragraphs within standards, earlier application is permitted in most instances.



NZ ACCOUNTING  
STANDARDS  
BOARD

## Memorandum

**Date:** 15 June 2018  
**To:** NZASB Members  
**From:** Vanessa Sealy-Fisher  
**Subject:** **IPSASB ED 64 *Leases***

### Recommendations<sup>1</sup>

1. We recommend that the Board:
  - (a) NOTES the submissions received on IPSASB ED 64 *Leases* (ED 64);
  - (b) AGREES to include in the draft comment letter a recommendation that the International Public Sector Accounting Standard Board (IPSASB) specifically include perpetual leases within the scope of ED 64;
  - (c) AGREES not to make any other changes to the draft comment letter in response to respondents' comments; and
  - (d) APPROVES the draft comment letter to the IPSASB on ED 64 (see agenda item 6.2).

### Introduction

2. At the March meeting the Board considered the lessor accounting proposed in ED 64. The majority of the Board members agreed that the derecognition approach for lessor accounting is the best approach conceptually. However, they expressed support for the lessor accounting in IFRS 16 *Leases* rather than the proposals in ED 64.
3. At the May meeting the Board considered the proposals for accounting for concessionary leases by both the lessee and the lessor.
4. Regarding the lessee accounting for concessionary leases the Board agreed conceptually with the proposals for the recognition of the concession. However, the Board had concerns with
  - (i) the links to the revenue project and the public sector measurement project, and
  - (ii) cost-benefit issues, for example, determining the fair value of the lease, and whether the benefits of recognising the concession would exceed the costs.
5. Regarding the lessor accounting for concessionary leases, the Board did not agree that the accounting for a concessionary lease should be similar to the accounting for a concessionary loan. This is because the proposed accounting for a concessionary lease grosses up income

<sup>1</sup> 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).

with no resulting cash flow. The Board tentatively decided that the credit entry for the concession should reduce the carrying amount of the leased asset to reflect the loss of service potential given up over the term of the lease.

6. At the May meeting feedback was also provided on the draft comment letter prepared for that meeting. This feedback has been incorporated into the draft comment letter tabled at this meeting.

#### Draft comment letter

7. In summary, the draft comment letter expresses the following views on the proposals in ED 64.
  - (a) Although we agree with the accounting model proposed for lessees in ED 64, we disagree with the accounting model proposed for lessors. We also disagree with the proposed accounting for concessionary leases by both the lessee and the lessor.
  - (b) In light of our views, we recommend that the IPSASB:
    - (i) proceed with the proposals in ED 64 for lessee accounting, except for concessionary leases;
    - (ii) not proceed with the proposals in ED 64 for lessor accounting and instead develops proposals based on IFRS 16 *Leases*; and
    - (iii) not proceed at present with the proposals in ED 64 for concessionary leases. This topic should be reconsidered at a later date after the IPSASB has made further progress on related projects.

#### Submissions received

8. We have received three submissions on ED 64 as follows:

#	Respondent	Agenda item
R1	BDO	6.3.1
R2	Cornwall Park Trust Board	6.3.2
R3	Emerge Aotearoa	6.3.3

9. We have also received a copy of a comment letter submitted directly to the IPSASB (agenda item 3.3.3).
10. R1 answered the specific matters for comment (SMC) in ED 64. R2 and R3 raised concerns specific to their activities.
11. R1 agreed with all four SMCs in ED 64. This means that R1 agreed with:
  - (a) the right-of-use model proposed for lessee accounting;
  - (b) the IPSASB's decision to depart from the IFRS 16 *Leases* risks and rewards model for lessor accounting;
  - (c) the right-of-use model proposed for lessor accounting; and



- (d) the proposal to measure concessionary leases at fair value, with:
    - (i) the lessor recognising the subsidy granted as a day-one expense and revenue over the lease term consistent with concessionary loans; and
    - (ii) the lessee recognising the subsidy as revenue in accordance with IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.
12. R2 commented specifically on land leased out for residential occupation on a perpetual right-of-renewal basis with 21-year rent reviews. R2 is of the view that:
- (a) ED 64 does not explicitly deal with perpetual leases, and it should do so;
  - (b) the land is already included on the Trust Board's statement of financial position so also including the ground leases on the statement of financial position is not appropriate: increased disclosure would be more appropriate; and
  - (c) the inconsistency with IFRS 16 creates divergence and confusion in the market place: while the NFP sector may have differences, leases is an area where there needs to be harmony with the for-profit sector.
13. We agree with the R2's comments about perpetual leases and have included a short paragraph in the Board's comment letter to the IPSASB.
14. R3 commented on the proposals in ED 64 that are likely to have the most impact on their accounting and financial statements, which are as follows.
- (a) The right-of-use model for both the lessee and the lessor.
    - (i) R3 is of the opinion that for lessee accounting this model grosses-up the assets and liabilities on the balance sheet, with very little effect on net assets, and will add very little substance to the understandability of the entity's position.
    - (ii) R3 ultimately supports the right-of-use model for lessee accounting for the same reasons that this model was introduced by IFRS 16. However, R3 encourages the consideration of amending IPSAS 1 *Presentation of Financial Statements* to provide the reader with clarity regarding the right-of-use model.
    - (iii) R3 supports the specific departures from IFRS 16 as explored in ED 64. They feel that applying a right-of-use model for both lessees and lessors will add transparency and consistency across the not-for-profit sector.
  - (b) Accounting for concessionary leases.
    - (i) Some of the properties rented from Community Group Housing (CGH) (a subset of Housing New Zealand) are ring-fenced or purpose built for particular community and social housing outcomes. R3 is of the view that it is therefore arguable that the fair value for those properties would be difficult to obtain, or more costly to determine, given their specialised nature.
    - (ii) Recognising a day-one expense or revenue for the concessionary non-exchange component does not fairly reflect the underlying nature of the transaction, which is that the expense or revenue as a result of the subsidy is fundamentally tied to the length of the lease and should be recognised in this manner.

- (iii) The costs of compliance for concessionary arrangements would significantly outweigh the benefits, for example, the costs of determining the fair value of concessionary leases.

- 15. Except to add a short paragraph which recommends that perpetual leases be included in the scope of ED 64, we have not made any changes to the draft comment letter to incorporate respondents' comments.

**Next steps**

- 16. Comments to the IPSASB on ED 64 are due by 30 June 2018. We have been granted an extension of time until 5 July to submit our comment letter.
- 17. We plan to seek final sign-off on the letter by the Chair and any other Board members that wish to see the final letter.

**Attachments**

Agenda item 6.2: Draft comment letter to IPSASB

Agenda item 6.3: Submissions received

6.3.1: BDO

6.3.2: Cornwall Park Trust Board

6.3.3: Emerge Aotearoa



NZ ACCOUNTING  
STANDARDS  
BOARD

30 June 2018

Mr John Stanford  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto  
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**CANADA**

Submitted to: [www.ifac.org](http://www.ifac.org)

Dear John

**ED 64 Leases**

Thank you for the opportunity to comment on ED 64 *Leases* (ED 64). The ED has been exposed in New Zealand and some New Zealand constituents may comment directly to you.

We are pleased that the IPSASB has undertaken this project to update the accounting for leases in IPSAS. This is a significant project which is also impacted by other ongoing IPSASB projects (for example, revenue and non-exchange transactions, and public sector measurement). In addition to commenting on the proposals in ED 64 we have highlighted areas where we consider that further work on those other projects may be required before aspects of this project can be progressed further (in particular, concessionary leases).

Although we agree with the accounting model proposed for lessees in ED 64, we disagree with the accounting model proposed for lessors. We also disagree with the proposed accounting for concessionary leases by both the lessee and the lessor.

In light of our views, we recommend that the IPSASB:

- (a) proceed with the proposals in ED 64 for lessee accounting, except for concessionary leases;
- (b) not proceed with the proposals in ED 64 for lessor accounting and instead develops proposals based on IFRS 16 *Leases*; and
- (c) not proceed at present with the proposals in ED 64 for concessionary leases. This topic should be reconsidered at a later date after the IPSASB has made further progress on related projects.

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We have received feedback that the scope of ED 64 does not appear to include perpetual leases, for example, 99-year leases on land and with rent reviews undertaken on a regular basis (such as every 21 years). We recommend that the IPSASB consider including these types of leases in the scope of an IPSAS based on ED 64.

The IPSASB initiated this project following the completion of IFRS 16 *Leases* by the International Accounting Standards Board (IASB). We support this strategy as it puts the IPSASB in a position to benefit from the detailed analysis and lengthy debates that occurred during the development of IFRS 16. The IASB's project considered a number of approaches for both lessors and lessees and involved a number of exposure drafts. The final requirements in IFRS 16 were determined after due consideration of both the conceptual and practical arguments identified by the IASB's constituents.

We acknowledge that public sector specific circumstances may lead the IPSASB to form different views about the merits of various lessor accounting approaches in contrast to the IASB. However, we do not think that the arguments for and against various lessor accounting approaches have been sufficiently explored in the Basis for Conclusions on ED 64 (BC). Where the IPSASB has departed from IFRS 16 the public sector specific reasons for doing so should be clearly articulated, including the conceptual, practical and user information considerations.

We consider that the BC is incomplete and, as a result, does not provide adequate information for constituents to make an informed decision regarding the lessor accounting proposals, particularly for those constituents that are not fully familiar with the IASB's deliberations during its project to develop IFRS 16. The BC does not include the counter-arguments against Approach 1 (right-of-use model proposed in ED 64) nor the counter-arguments in favour of Approach 2 (derecognition approach). In developing IFRS 16 the IASB proposed approaches which are similar to Approach 1 and Approach 2 considered by the IPSASB. Inclusion in the BC of the IASB's reasons for rejecting both of these approaches and instead choosing the lessor accounting approach in IFRS 16 would have provided a more balanced view of the advantages and disadvantages of both approaches.

In our view the omission of these counter-arguments from the BC may be interpreted as giving a biased view of the conceptual arguments for and against each approach, and means that constituents have not been provided with some key information that is necessary to make an informed evaluation of the lessor accounting proposals in ED 64. In our opinion, the BC is an important document for explaining the IPSASB's deliberations and should, therefore, include a comprehensive and balanced view of the proposals in ED 64.

Our recommendations and responses to the Specific Matters for Comment 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 Vanessa Sealy-Fisher ([Vanessa.Sealy-Fisher@xrb.govt.nz](mailto:Vanessa.Sealy-Fisher@xrb.govt.nz)) or me.

Yours sincerely

Kimberley Crook  
**Chair – New Zealand Accounting Standards Board**

## APPENDIX 1

### Response to Specific Matters for Comment

#### Specific Matter for Comment 1:

The IPSASB decided to adopt the IFRS 16 right-of-use model for lessee accounting (see paragraphs BC6–BC8 for IPSASB’s reasons). Do you agree with the IPSASB’s decision? If not, please explain the reasons. If you do agree, please provide any additional reasons not already discussed in the basis for conclusion.

The NZASB agrees with the IPSASB’s decision to adopt the IFRS 16 right-of-use model for lessee accounting. We agree that the right-of-use asset and the lease liability meet the definition of, and the recognition criteria for, an asset and a liability respectively in the IPSASB’s *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework).

We agree that for lease accounting it is important that IPSAS be updated to reflect the latest thinking of the IASB in IFRS 16. Where transactions are the same for the public and private sector it is important that convergence with IFRS® Standards is maintained. This process ultimately contributes to the IPSASB developing high-quality IPSAS.

From outreach activities conducted in New Zealand, we did not identify any public sector specific reasons to depart from the IFRS 16 right-of-use model for lessee accounting.

#### Specific Matter for Comment 2:

The IPSASB decided to depart from the IFRS 16 risks and rewards model for lessor accounting in this Exposure Draft (see paragraphs BC9–BC13 for IPSASB’s reasons). Do you agree with the IPSASB’s decision? If not, please explain the reasons. If you do agree, please provide any additional reasons not already discussed in the basis for conclusion.

The NZASB does not agree with the IPSASB’s decision to depart from the model for lessor accounting in IFRS 16. See also our response to SMC 3 below for further comments.

We acknowledge that the lessor accounting in IFRS 16 (based on risks and rewards incidental to ownership) is not consistent with the lessee accounting (based on control), and that a control-based approach would be more consistent with the Conceptual Framework. However, after having debated the options considered over the course of IFRS 16’s development and the matters that led the IASB to largely retain its previous lessor accounting requirements, we do not believe that the case put forward by the IPSASB for departing from IFRS 16 is strong enough. Our reasons for this are as follows.

- (a) In our view the IPSASB appears to have ignored some factors, such as user information needs, that would support the retention of the IFRS 16 approach.
- (b) The IPSASB has argued that the approach proposed in ED 64 is consistent with its Conceptual Framework and is an improvement on the IFRS 16 approach. We think that both arguments are debatable.

In preparing our response to this SMC we have carefully considered the IPSASB's reasons for departing from IFRS 16. The IPSASB's key reasons for departing from IFRS 16 appear to be those outlined in paragraph BC10. We are not convinced that the arguments in paragraph BC10(a) surrounding consolidation are sufficiently different in the public sector to warrant a departure from IFRS 16. There will always be adjustments needed for consolidation purposes, for example, to eliminate inter-entity transactions and align accounting policies.

We have some specific comments on paragraph BC10 as follows.

- (a) Paragraph BC10(a) states that if the lessor classifies the lease as a finance lease the underlying asset would not be recognised by either the lessee or the lessor, and that separate records would need to be maintained for consolidation purposes. We doubt that this situation would arise often in practice for the following reasons.
  - (i) The types of leasing arrangements discussed in paragraph BC11 (where a centralised entity undertakes the property management for a government) are unlikely to involve finance leases. Feedback from New Zealand constituents indicated that these types of leases are classified as operating leases, in which case the underlying asset remains on the lessor's statement of financial position.
  - (ii) The types of finance lease arrangements commonly seen in the corporate sector (such as manufacturers or dealers providing finance to customers, or banks providing financing to companies) are unlikely to occur between public sector entities.
- (b) Paragraph BC10(a) also states that additional records would be needed if the lessor classifies the lease as an operating lease (because the lessor will not recognise a lease receivable but the lessee will recognise a lease liability). We question this statement on the following grounds.
  - (i) From the perspective of the consolidated reporting entity there would be no lease, and therefore no lease receivable. The lease accounting would need to be eliminated, and the underlying leased asset would be accounted for in accordance with the relevant standard. The creation of a lease receivable is not necessary to report assets in the consolidated financial statements.
  - (ii) Paragraph BC10 seems to assume that the non-recognition of a lease receivable by the lessor would make it more difficult to eliminate the lease liability of the lessee during the consolidation process. However, even if the lessor recognised a lease receivable, the lease receivable and the lease liability would not necessarily be the same amount (for example, because of different discount rates). Also, for consolidation purposes, there are other ways of eliminating lease accounting by the lessee and lessor that might be more efficient, irrespective of how the lessor accounts for the lease.
- (c) According to paragraph BC10(b), using different accounting models in the financial statements of the lessee and the lessor might make leasing transactions less understandable to some

users. However, there are some counter-arguments that have not been explored in the Basis for Conclusions.

- (i) There appears to be no discussion of whether applying a different lessor accounting model in the public sector to the lessor accounting model in the private sector would make the financial statements of public sector entities less understandable to users.
- (ii) One of the key reasons for the IASB retaining the existing lessor accounting model was that users of the financial statements preferred the existing approach to other approaches considered by the IASB. Other approaches considered by the IASB included an approach similar to the lessor model proposed in ED 64. This suggests that users of the financial statements would be better served by maintaining the current approach to lessor accounting. As explained in our response to SMC 3, there are valid reasons why the IASB retained the requirement for a lessor to classify a lease as either an operating lease or a finance lease.

In addition to the concerns we have raised about the arguments in paragraph BC10, we are concerned about the impact of different accounting requirements for lessors where a public sector controlling entity prepares consolidated financial statements that include for-profit controlled entities. A significant amount of work will be required on consolidation where the controlled for-profit entity is a lessor that applies IFRS 16 and the public sector controlling entity applies the model proposed in ED 64. We are aware that New Zealand is not the only country that would be impacted by having a different accounting model under IPSAS to the lessor model under IFRS 16.

**Specific Matter for Comment 3:**

The IPSASB decided to propose a single right-of-use model for lessor accounting consistent with lessee accounting (see paragraphs BC34–BC40 for IPSASB’s reasons). Do you agree with the requirements for lessor accounting proposed in this Exposure Draft? If not, what changes would you make to those requirements?

The NZASB does not agree with the lessor accounting model proposed in ED 64.

During the development of IFRS 16 the IASB proposed a similar lessor model, the performance obligation approach, set out in IASB ED/2010/9 *Leases*. Many of the IASB’s respondents were of the view that the performance obligation approach would result in an entity double counting its assets in the statement of financial position, and questioned how one set of cash flows (those received from the lessee) could relate to both the lease receivable and the underlying asset. Many also questioned how the obligation to permit the lessee to use the asset would meet the definition of a liability. We agree with these views and consider the reasons for not supporting the performance obligation approach for lessor accounting in the private sector are also applicable to the public sector.

Our views on the two approaches discussed in the Basis for Conclusions in ED 64 are explained below.

### *Concerns with Approach 1 and the IPSASB's reasons given for supporting Approach 1*

Paragraph BC36 sets out the IPSASB's conclusions for proposing the lessor accounting model in ED 64 (Approach 1). Under Approach 1 the right-of-use asset is considered to be a separate economic phenomenon to the underlying asset. Under this approach the lessor recognises both the underlying asset (in its entirety) and a lease receivable. We have the following concerns with the conclusions reached in relation to Approach 1.

- (a) The IPSASB has concluded that the lessor has retained control of the entire underlying asset, but the Basis for Conclusions does not provide any explanation of how the IPSASB reached that conclusion. In considering whether the lessor has control of the asset, we raise the following matters.
  - (i) Paragraph 5.11 of the Conceptual Framework states that "...control of the resource entails the ability of the entity to use the resource (or direct other parties on its use)...". However, as the lessor has transferred the right to use the underlying asset to the lessee for the term of the lease, it is unclear to us how the lessor can have the ability to use the underlying asset or direct other parties on its use during the term of the lease. The lessor may still have some residual rights to the asset but, in our view, these rights are not equivalent to the lessor having control over the originally recognised resource.
  - (ii) Paragraph BC36(d) draws parallels between the thinking underlying IPSAS 32 *Service Concession Arrangements: Grantor* and the proposed lease accounting in ED 64. In our view, a comparison of the requirements in IPSAS 32 with the proposed lessor accounting is not appropriate because the control that the grantor has over the service concession asset is not the same as the control that the lessor has over the underlying asset in a lease. A grantor controls or regulates the services that the operator must provide, to whom the operator must provide them and at what price (IPSAS 32, paragraph 9(a)). A lessor grants the lessee a right to use the lease asset but has no say in how the lessee operates the asset, what services are provided and what price the lessee charges for those services. Because of the significant differences in the rights of the grantor versus the rights of the lessor relating to the use of the asset during the terms of the arrangement, it is not valid to use the conclusion in IPSAS 32 (that the grantor has control over the service concession asset in a service concession arrangement) as the basis for concluding that the lessor has control over the entire leased asset in a lease arrangement. In addition, this is an example of where the proposals in ED 64 are being based on standards-level requirements that have not yet been assessed for consistency with the Conceptual Framework.
  - (iii) The definition of an asset in the IASB's *Conceptual Framework for Financial Reporting* is similar to the definition of an asset in the IPSASB's Conceptual Framework. However, the IASB has concluded that the rights of the lessor under a lease agreement consist of two sets of rights, being (i) the lease receivable, and (ii) the rights retained in the underlying leased asset (see paragraphs BC35–BC40 of IFRS 16), rather than the underlying asset itself. Furthermore, in March 2018 the IASB published a revised *Conceptual Framework for Financial Reporting* which has a revised asset definition and more discussion of the unit of account and derecognition than the 2010 version. This



revised pronouncement explains that (i) an asset comprises several rights which are often treated as a single unit of account, and (ii) that derecognition is the removal of all or part of a recognised asset. We think that these ideas could be particularly useful when thinking about accounting for leases and encourage the IPSASB to consider these ideas when the IPSASB undertakes the limited review of its Conceptual Framework.<sup>1</sup>

- (b) We also have the following concerns with the proposals in ED 64 for the recognition of a liability (unearned revenue) by the lessor.
  - (i) Paragraph BC53 acknowledges that (i) recognising the credit entry as a liability until the revenue recognition criteria are met may not be consistent with the Conceptual Framework, and (ii) recognising revenue directly in the statement of financial position would not be consistent with existing IPSAS. We are of the view that the credit entry does not meet the definition of a liability because there is no outflow of resources by the lessor.
  - (ii) One of the IPSASB's reasons for not adopting the IFRS 16 lessor model is that the "risks and rewards incidental to ownership" model in IFRS 16 is not consistent with the lessee accounting control-based model. However, ED 64 includes several references to IPSAS 9 *Revenue from Exchange Transactions* which is also based on risks and rewards. We think it is inconsistent to argue against a risks and rewards approach and then refer a lessor to a standard that is based on that approach. We acknowledge that the IPSASB is working on proposals to update its revenue standards, but this could be one example of where another project needs to be further advanced before significant changes to lessor accounting can be fully considered.
  - (iii) We question how a lessor can continue to have a performance obligation (to make the underlying asset available) over the term of the lease when the lessee accounting model is based on the premise that the right to use the asset has been delivered to the lessee at the commencement of the lease.
- (c) We agree with the conclusion in paragraph BC9(b) that the right-of-use asset and the underlying leased asset are different economic phenomena. However, it does not follow that the economic benefits/service potential embodied in the right-of-use asset are additional to the economic benefits/service potential embodied in the underlying leased asset.

#### *Rejection of Approach 2 by the IPSASB*

The IPSASB considered and rejected Approach 2. Under Approach 2 the right of use asset is considered to be a component of the underlying asset. The lessor would derecognise the component of the underlying asset that is transferred to the lessee and would recognise a residual asset (as well as a lease receivable). Paragraph BC38 states that Approach 2 is not consistent with IPSASB literature and provides four reasons to support this statement. We disagree with those reasons as follows.

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<sup>1</sup> This project is identified as a priority project for 2019–2023 in the IPSASB's Proposed Strategy and Work Plan 2019–2023.

Paragraph BC38(a) states that Approach 2 is not consistent with the principles in other IPSAS because it requires the derecognition of a portion of the underlying asset. As explained below, we do not think that derecognition of a portion of an asset is inconsistent with the Conceptual Framework and note that partial derecognition is already required by some standards.

- (a) Paragraph 6.10 of the Conceptual Framework refers to the derecognition of an element, which in this case is an asset. An asset is defined in paragraph 5.6 of the Conceptual Framework as “A resource...”. Paragraph 5.7 of the Conceptual Framework explains that “A resource is an item with service potential or the ability to generate economic benefits. Physical form is not a necessary condition of a resource. ...”. Nowhere in the discussion of assets does it suggest that resources, once recognised as an asset, are not divisible. Simple examples such as cash and inventory are clearly divisible, and portions of the carrying amount of certain assets are derecognised when assets are consumed or sold.
- (b) A number of existing IPSAS require the derecognition of portions of recognised assets. Some examples follow.
  - IPSAS 29 *Financial Instruments: Recognition and Measurement* requires the derecognition of a portion of a financial asset when it is transferred to another party (and certain criteria are met).
  - IPSAS 17 *Property, Plant and Equipment* requires the derecognition of parts of the property, plant and equipment (PP&E), for example, when replacing parts of the PP&E item or if part of a building is demolished. Although the division of the asset, and the derecognition of those parts of the asset that have been disposed of, is based on physical components, the basic point is that parts of the asset are derecognised.
  - IPSAS 37 *Joint Arrangements* requires a party to a joint operation to recognise and derecognise parts of PP&E. For example, if a party to a joint operation transfers an item of PP&E into the joint operation, it must derecognise the share of the PP&E item now held by other parties to the joint operation while continuing to recognise the retained portion (its share of the asset now held jointly).
- (c) A similar outcome to Approach 2 could be achieved using a full derecognition approach. The execution of the lease could be regarded as resulting in the entity derecognising the underlying leased asset in its entirety and recognising two new assets – the lease receivable and the residual ownership interest in the PP&E. So, in the same way that the right-of-use asset under a lease is a different economic phenomenon to the underlying asset (the PP&E), the residual ownership interest of the lessor in the underlying asset can be viewed as a different economic phenomenon from the underlying leased asset.

We also disagree with the other reasons in paragraph BC38.

- (a) Paragraph BC38(b) states that Approach 2 is not consistent with the IPSASB literature because it is more complex and costly than Approach 1. Both Approach 1 and Approach 2 are more complex and costly than the existing lessor accounting – so complexity and cost would be an argument for retaining the existing lessor accounting, rather than for preferring one new approach over another new approach.

- (b) Paragraph BC38(c) appears to be included in error, as it is discussing the ‘risks and rewards’ lessor accounting model in which leases are classified as operating or finance leases, not Approach 2 (which is a derecognition approach).
- (c) Paragraph BC38(d) states that Approach 2 is not consistent with IPSAS 32’s requirements. We have outlined our concerns with basing lessor accounting on the grantor accounting requirements in IPSAS 32 earlier in this letter. We are also of the view that at some point the requirements in IPSAS 32 should be assessed against the Conceptual Framework for consistency, and this could result in changes to the requirements in IPSAS 32 and different conclusions than those reached when IPSAS 32 was first developed.

### **Our suggestion for lessor accounting**

We recommend that the IPSASB does not pursue the performance obligation approach (Approach 1) for lessor accounting. In our view, it is conceptually flawed and, in particular, it results in the overstatement of the lessor’s total assets, which is misleading.

Although we support the conceptual reasoning underlying the derecognition approach (Approach 2), we consider that there are strong practical reasons to support the IFRS 16 lessor accounting model.

- The IFRS 16 model avoids introducing *unnecessary* differences between IFRS and IPSAS requirements by having a consistent approach to lessor accounting across the public sector and the corporate sector. This is beneficial for groups which comprise both public sector and for-profit entities and is less confusing for users of the financial statements.
- The derecognition approach is complex to apply in practice, as evidenced by responses to the IASB’s exposure draft in which this approach was proposed.

We recommend, therefore, that the IPSASB does not proceed with the proposals in ED 64 for lessor accounting and instead develops proposals based on IFRS 16.

### **Specific Matter for Comment 4:**

For lessors, the IPSASB proposes to measure concessionary leases at fair value and recognize the subsidy granted to lessees as a day-one expense and revenue over the lease term consistent with concessionary loans (see paragraphs BC77–BC96 for IPSASB’s reasons). For lessees, the IPSASB proposes to measure concessionary leases at fair value and recognize revenue in accordance with IPSAS 23 (see paragraphs BC112–BC114 for IPSASB’s reasons). Do you agree with the requirements to account for concessionary leases for lessors and lessees proposed in this Exposure Draft? If not, what changes would you make to those requirements?

We are aware that, over the years, entities applying IPSAS have requested the IPSASB to develop requirements for the accounting for concessionary leases, for example, international agencies that are provided with office space in cities around the world. The proposals in ED 64 for lessees would likely be appropriate in such circumstances because the fair value of the lease can be determined and, therefore, the assets and liabilities can be reliably measured.

However, we are of the view that there are many circumstances where the proposals in ED 64 for concessionary leases may not be appropriate for both lessees and lessors because of the challenges with measuring the fair value of the lease and other reasons, as discussed further below.

#### *Accounting for concessionary leases by lessees*

Conceptually we agree with the proposals for the recognition of the concession by the lessee, but we do have some concerns regarding the proposals.

Some of the IPSASB's decisions regarding the proposals in ED 64 are linked to other active IPSASB projects, for example, the *revenue and non-exchange expenses* project and the *public sector measurement* project. We are of the view that the IPSASB should first make progress on these projects, in particular, amendments to IPSAS 23 and developing guidance on what is meant by fair value in the public sector (especially for assets with restricted use), before progressing the proposals in ED 64. This would avoid unnecessary changes in the short to medium-term to the accounting for the concessionary portion of the lease. Although some New Zealand constituents supported the IPSASB's proposals for the recognition of the concession by the lessee, they raised questions about how to measure fair value (as discussed further below) and raised similar issues about when revenue should be recognised (e.g. on commencement of the lease or over the lease term) as have been raised in the revenue and non-exchange expenses project.

We also have concerns about whether the benefits of recognising and reporting the concession would exceed the costs of determining the fair value of the lease. For example, where the leased asset is of a specialised nature (for example, a school) or there are restrictions in the lease agreement (for example, an entity is permitted to undertake only certain activities from the leased property), the market value of the lease may be difficult to determine because of a lack of information about such leases. In some cases, the contractual lease payments could represent the fair value of the lease because of the specialised nature of the asset or the restrictions in the lease. ED 64 does not appear to cater for these types of circumstances. A further concern is that the valuation costs that lessees would incur in applying the proposals in ED 64 could be better utilised by the lessee (bearing in mind that concessionary leases are generally intended to support entities with complementary objectives to the lessor).

#### **Our recommendation for accounting for concessionary leases by lessees**

Although we agree conceptually with the proposals for lessees, at present we do not agree that lessees should be required to recognise the subsidy component of a concessionary lease for cost-benefit reasons (as explained above). We think that disclosure about the existence of the lease, the fact that it's on concessionary terms and any key conditions of the lease would provide useful information for users. Disclosure would also provide flexibility for a lessee to provide more contextual information about its concessionary leases, for example, where specialised activities are undertaken from prime properties, or the lessee undertakes activities that complement the objectives of the grantor.

We are also of the view that the IPSASB should further progress both its revenue project and its public sector measurement project and then reconsider the accounting for concessionary leases by lessees. This would avoid unnecessary changes to accounting requirements that depend on decisions

made by the IPSASB during the development of other projects that have an impact on the proposals in ED 64. In undertaking this further work, we recommend that the IPSASB also considers the guidance developed by the Australian Accounting Standards Board on accounting for concessionary leases by the lessee.

### *Accounting for concessionary leases by lessors*

We do not agree with the proposals for accounting for concessionary leases by lessors. In particular, we do not agree that the proposed accounting by the lessor for a concessionary lease is similar to the existing accounting treatment by the grantor for a concessionary loan. More generally, we do not agree with the proposed accounting for the concessionary portion by lessors.

In our view, the IPSASB has mischaracterised the current accounting treatment by the grantor for a concessionary loan. Our understanding of the accounting treatment by the grantor of a concessionary loan is illustrated by means of an example.

<b>Example</b> A loan of \$100 (principal) with zero interest is granted (the transaction is not a transaction with owners). Market interest rates are 10% and the net present value of the future cash inflows (calculated at market rates) is \$80. As per paragraphs AG88 and AG89 of IPSAS 29, the \$100 paid to the borrower is divided into two components.														
<b>New loan granted</b> <table> <tr> <td>Dr Loan</td><td>80</td><td></td></tr> <tr> <td>Dr Grant expense</td><td>20</td><td></td></tr> <tr> <td>Cr Bank</td><td></td><td>100</td></tr> </table> (Payment of the loan) The future cash flows to be received over the term of the loan (\$100 principal and zero interest per the loan documentation) are equivalent to a loan of \$80 at normal market rates. Although the loan is documented as \$100 at zero interest, in economic terms, it is the same as a loan of \$80 at 10% interest. The accounting reflects the economics, not the legal form (loan documentation) of the transaction. Over the term of the loan the \$100 cash inflows are treated as representing repayment of \$80 principal and payment of \$20 interest (under the effective interest rate method of measuring financial assets at amortised cost). Some people refer to the interest recognised under the effective interest rate method as “reversing” the original \$20 expense, but this is not reflective of the economics that the accounting is intended to show. The \$20 is the interest revenue received on the \$80 loan, and this is reflective of the actual cash flows received. The mechanics of the effective interest rate method result in the expense and the interest revenue being the same amount (that is, \$20), which is likely causing some confusion.			Dr Loan	80		Dr Grant expense	20		Cr Bank		100			
Dr Loan	80													
Dr Grant expense	20													
Cr Bank		100												
<b>Existing loan and then concession granted</b> <table> <tr> <td>Dr Loan</td><td>100</td><td></td></tr> <tr> <td>Cr Bank</td><td></td><td>100</td></tr> </table> (Loan at normal market rates) <table> <tr> <td>Dr Expense</td><td>20</td><td></td></tr> <tr> <td>Cr Loan</td><td></td><td>20</td></tr> </table> (Concession granted – no interest to be paid) In this case, the loan is granted at \$100 at normal market rates. The existing loan is subsequently written down to reflect the concession granted, that is, the loan is now interest free. The balance on the loan now represents principal of \$80 with interest at normal market rates of \$20, which is reflective of the actual cash flow subsequently received.			Dr Loan	100		Cr Bank		100	Dr Expense	20		Cr Loan		20
Dr Loan	100													
Cr Bank		100												
Dr Expense	20													
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Accounting for concessionary loans does not result in the grossing up of the interest revenue, as the interest revenue recognised for a concessionary loan is supported by cash inflows (as illustrated in

our example). In contrast, the proposals in ED 64 result in the grossing up and reporting of revenue that is not supported by cash inflows.

When accounting for a concessionary loan, the loan is reported at a reduced amount (being \$80 in our example), not the nominal amount of the loan (being \$100 in our example). This reduced amount reflects the fact that the concession reduces the future economic benefits (present value of the future cash inflows) to be derived from the loan below the nominal amount of the loan. In contrast, the proposals in ED 64 do not reduce the carrying amount of the leased asset to reflect the reduction in economic benefits/service potential to be derived from the leased asset as a consequence of transferring economic benefits/service potential to the lessee without equivalent consideration in return.

Therefore, we do not agree with either (i) the IPSASB's characterisation of the accounting treatment of concessionary loans or (ii) the accounting treatment for concessionary leases that involves the grossing up of lease revenue, resulting in the reporting of lease revenue that is not supported by cash inflows. Instead, if the concession is recognised, we consider it should result in the reduction of the carrying amount of the leased asset to reflect the concession granted.

We also have some concerns regarding the costs of the proposals where a lessor grants hundreds of concessionary leases and leases for zero or nominal consideration. For example, local governments in New Zealand grant many concessionary leases to public sector and not-for-profit entities. The concessions are a way of providing support to such entities and acknowledging the complementary nature of their objectives and the goods and services they deliver. If those entities did not provide those goods and services, local governments might have to undertake some of those activities themselves. In some circumstances the value of the concessions granted may be immaterial to the lessor, but the lessor would still incur costs in determining the value of those concessions and forming a judgement on the materiality of the concessions.

### **Our recommendation for accounting for concessionary leases by lessors**

As explained in SMC 3, we disagree with the lessor accounting proposed in ED 64. This means that we also disagree with the proposed accounting for concessionary leases by lessors and, in particular, recognition of the credit entry for the concession as revenue. And even under the lessor accounting model proposed in ED64, we are of the view that the credit entry for the concession should be against the leased asset if the lessor is to recognise the concession as an expense, as explained above. Hence, irrespective of whether the IPSASB proceeds with its proposed lessor accounting model or reverts to the IFRS 16 lessor accounting model (discussed below), we recommend that the IPSASB does not proceed with the grossing up of lease revenue when accounting for a concessionary lease.

Under the IFRS 16 lessor accounting model, if a lessor classifies a lease as a finance lease, the concession would be recognised as part of the 'sale' of the asset. This could also be further explained in the notes to the financial statements. If a lessor classifies a lease as an operating lease, the credit entry should be against the leased asset.

We also believe that further consideration should be given to measurement of the concession granted in situations in which the leased asset is measured using the cost model under IPSAS 17

*Property, Plant and Equipment*, as it is likely to be more appropriate to measure the concession as an allocation of the carrying amount of the leased asset rather than at fair value in this situation.

In addition, we also think the IPSASB should progress its non-exchange expenses project before considering the lessor accounting for concessionary leases rather than referring the lessor to the relevant international or national standard.

#### *Leases for zero or nominal consideration*

Leases for zero or nominal consideration are effectively scoped out of ED 64 per the diagrams following paragraphs 22 and 62, and paragraph AG60 of ED 64. However, proposed new paragraph 43A of IPSAS 23 requires the lessee to measure the right-of-use asset held by a lessee in accordance with ED 64. We question the reason for this scope exclusion if the fair value of a right-of-use asset acquired under a lease for zero or nominal consideration is measured in exactly the same way as a right-of-use asset acquired under a concessionary lease. Drawing an artificial boundary between concessionary leases and leases for zero or nominal consideration creates challenges for preparers of financial statements.

We would prefer that ED 64 apply to all leases. We acknowledge that the definition of a lease under both IFRS 16 and ED 64 requires “exchange for consideration” and that the IPSASB has wanted to keep this definition. We also note that paragraphs BC112 and proposed new paragraph 123A of IPSAS 23 refer to “concessionary leases for zero or nominal consideration”, and proposed new paragraph 105C of IPSAS 23 refers to “at below market terms, including leases for zero or nominal consideration.”. We recommend that the Scope section of ED 64 be amended to specifically include leases for zero or nominal consideration. This can be achieved by adding guidance to explain that if a transaction meets the definition of a lease other than “exchange for consideration”, then the transaction is within the scope of ED 64. It could be argued that leases for *nominal consideration* are within scope of ED 64 because there is some consideration paid.

If the IPSASB decides to continue with ED 64 and effectively exclude leases for zero or nominal consideration, it is not helpful to refer lessors to the “relevant international or national standard” to account for the concessionary portion of the lease (see diagram following paragraph 22, and paragraph AG06(b)). It is not clear which standard the IPSASB would expect lessors to refer to. As noted earlier, we are of the view that the non-exchange expenses project should be progressed further if the IPSASB continues with the proposals for concessionary leases in ED 64.

## APPENDIX 2

### Editorial corrections (new text is underlined and deleted text is struck through)

Reference	Correction needed
Paragraph AG53	“optional lease payments” should not be italicised.
Paragraph IG2 – should read “provide references” twice	Some diagrams below set out typical types of transactions involving identified assets and provides references to IPSASs that apply those transactions. Other diagrams identify types of leases and provides references to paragraphs in [draft] IPSAS [X] (ED 64).
Paragraph IG55	The title of IPSAS 9 should be italicised.
Example 12	...maintaining the <del>long reach</del> computed tomography machine...
Example 22C	Segment as a column heading – the ‘S’ should not be underlined.
Example 24	First journal entry: Cr Lease liability                      16,100,000

### Editorials to Amendments to Other IPSAS (new text is underlined and deleted text is struck through)

IPSAS	Paragraph	Correction needed
IPSAS 2	63E	...If an entity applies the amendments for a period ...
IPSAS 4 IPSAS 5 IPSAS 27	71C 42C 58G	...If an entity applies the amendments for a period ...
IPSAS 16	Heading above paragraph 8	Instructions (and paragraph 101F) say paragraph 8 “and its related heading” are deleted but the heading above paragraph 8 is not shown as struck through. <b>Property Interest Held by a Lessee under an Operating Lease</b>
	101F	The wording in the paragraph is not the same as the wording in other new effective date paragraphs. Other paragraphs start “Paragraphs....were amended” but this paragraph starts “[draft] IPSAS [X] (ED 64)....”
IPSAS 19	13(b)	...applies to leases at market terms that becomes onerous
	111D	...If an entity applies the amendments for a period ...
IPSAS 23	43A	...right-of-use assets held by a lessee <del>is</del> <u>are</u> measured...
	105C	<u>Concessionary leases (including concessionary leasebacks) are granted to or received by an entity at below market terms, ...</u> (the lessee receives the concessionary lease – IPSAS 23 deals with non-exchange revenue)
	123A (new)	...held by a lessee of concessionary leases <del>of</del> <u>for</u> zero or nominal amount.
	IG55 analysis	The grant of CU6,900,000 ....and capital payments, <u>is accounted for</u> in accordance with...
	IG56(a)	The title of IPSAS 9 should be italicised
IPSAS 40	Instructions and paragraph 126A	Paragraphs.....AG89 <u>and its related heading</u> are amended...



23 May 2018

Mr Warren Allen  
The Chief Executive  
External Reporting Board  
PO Box 11250  
Manners St Central  
Wellington 6142

Dear Sir

**Requests to comment on IPSASB Exposure Draft ED 64 - *Leases***

Thank you for the opportunity to comment on the above exposure draft.

We are making this submission to you to assist the New Zealand Accounting Standards Board (NZASB) with the above Consultation Paper. We are happy for you to publish our comments publically.

In responding we have addressed the specific questions for respondents in Appendix 1.

More information on BDO is provided in Appendix 2 to this letter.

We hope that our responses and comments are helpful. Should you wish to discuss any of the points we have raised please contact me (michael.rondel@bdo.co.nz) should you have any queries or require further information.

Yours faithfully,



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## Appendix 1 - Response to questions

### Specific Matter for Comment 1

The IPSASB decided to adopt the IFRS 16 right-of-use model for lessee accounting (see paragraphs BC6- BC8 for IPSASB's reasons). Do you agree with the IPSASB's decision? If not, please explain the reasons. If you do agree, please provide any additional reasons not already discussed in the basis for conclusions.

**Yes, we agree with the IPSASB's decision.**

**Moving to accounting for leases based on IFRS 16 will assist with reducing divergence in accounting treatment for lessees between public benefit entities (PBEs) and for-profits here in New Zealand.**

### Specific Matter for Comment 2

The IPSASB decided to depart from the IFRS 16 risks and rewards model for lessor accounting in this Exposure Draft (see paragraphs BC9-BC13 for IPSASB's reasons). Do you agree with the IPSASB's decision? If not, please explain the reasons. If you do agree, please provide any additional reasons not already discussed in the basis for conclusions.

**Yes, we agree with the IPSASB's decision, to depart from the IFRS 16 risks and rewards model for lessor accounting and instead require lessors to account for leases in a manner consistent with the accounting requirements of lessees.**

**However, we do note that there will likely be consolidation adjustments required in mixed groups, especially where a PBE entity has a for-profit controlled entity that is a lessor, due to the different models adopted by the IPSASB and the IASB in this area. We are uncertain as to the extent this scenario will occur, but additional guidance may be required to be included.**

**Generally, our overall preference is that PBE standards be as consistent with NZ IFRSs as much as possible. In this instance, however, we appreciate the need for and support the divergence from the NZ IFRS model. We do recommend that this issue be raised with the IASB when the post implementation review of IFRS 16 and that lessor accounting be revised at this stage.**

### Specific Matter for Comment 3

The IPSASB decided to propose a single right-of-use model for lessor accounting consistent with lessee accounting (see paragraphs BC34-BC40 for IPSASB's reasons). Do you agree with the requirements for lessor accounting proposed in this Exposure Draft? If not, what changes would you make to those requirements?

**Yes, we agree with the IPSASB's decision.**

### Specific Matter for Comment 4

For lessors, the IPSASB proposes to measure concessionary leases at fair value and recognize the subsidy granted to lessees as a day-one expense and revenue over the lease term consistent with concessionary loans (see paragraphs BC77-BC96 for IPSASB's reasons). For lessees, the IPSASB

proposes to measure concessionary leases at fair value and recognize revenue in accordance with IPSAS 23 (see paragraphs BC112-BC114 for IPSASB's reasons). Do you agree with the requirements to account for concessionary leases for lessors and lessees proposed in this Exposure Draft? If not, what changes would you make to those requirements.

Yes, we agree in principal with the proposed accounting requirements for concessionary leases.

However, in the New Zealand context we are concerned with the financial impact that this requirement will have on smaller lessor and lessee Tier 2 public benefit entities (especially not-for-profit entities and those entities that have stepped-up into Tier 2 for group reporting purposes). We question whether the cost will exceed benefits if the proposed accounting requirements for concessionary leases remain in their current form for these smaller entities.

Obtaining the fair value of the right to use assets on so-called "peppercorn leases" of premises in particular will likely be a costly exercise as, in our experience, personnel at smaller Tier 2 public benefit entities will probably not have the necessary expertise to determine fair value, and instead will need to instruct external valuers in these matters, (both lessors or lessees).

For smaller Tier 2 not-for-profit public benefit entities (in particular) the information produced may not be of significant benefit to users of financial statements when compared to the valuation costs incurred and the correspondent forfeiture of money available to be spent on beneficiaries.

We therefore highly recommend that some sort of concession be included for smaller public benefit entities in New Zealand. For example, potentially average rental prices for the premises type the area could possibly be used as a proxy for market value instead (with explanative disclosures), or alternatively only disclosures of the concessionary leases could be required.

We also highly recommend that additional extensive illustrative examples be included (from both the lessee and lessor perspective) on concessionary loans, to assist prepares with implementing the requirements of the proposed standard. (In particular we would suggest examples of "pure" concessionary leases be included for illustrative purposes.)

We also highly recommended that specific worked examples on transition be included, to assist prepares with transitioning to the requirements of the proposed standard.

**Appendix 2 - Information on BDO**

1. BDO New Zealand is a network of eleven independently owned accounting practices, with sixteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency.
3. BDO in New Zealand has 89 partners and over 800 staff.
4. BDO firms throughout New Zealand have a significant number of clients in the not-for-profit sector.
5. Five BDO firms in New Zealand (BDO Auckland, BDO Christchurch, BDO Northland, BDO Waikato and BDO Wellington) are registered audit firms and thirteen audit partners are licensed auditors.
6. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 73,800 people in 1,500 offices across over 162 countries and territories.

**From:** Philip Eilenberg [<mailto:Philip.Eilenberg@cornwallpark.co.nz>]  
**Sent:** Tuesday, 29 May 2018 11:01 AM  
**To:** XRB Submissions <[submissions@xrb.govt.nz](mailto:submissions@xrb.govt.nz)>  
**Subject:** IPSASB ED 64 Submission

We wish to comment on the standard as follows:

Cornwall Park in Auckland was gifted in 1901 by Sir John Logan Campbell to NZ by placing it into a trust that would establish and manage it as a 425 acre park for future generations – it opened to the public in 1903. His gift went further - to ensure Cornwall Park would always be free for people to enjoy, he gifted in 1908 (4-years before his death) some 143 acres of surrounding land, a portion of which in the 1920's, the Trust Board leased out for residential occupation on a perpetual right of renewal basis with 21 year rent reviews, based on 5% of an independent value of the land only. Today there are still 102 residential ground rent leases – over time a number have reverted back to The Trust Board due to non-renewal by lessees.

The Trust Board is classified as a Tier 2 NFT PBE and under PBE IPSAS 16, the residential land was valued in 2015 and appeared in the Trust Board's Statement of Financial Position at over \$156 million.

One of the key points we wish to comment on is that the ground leases are perpetual and the proposed standard should be explicit on this. The Trust Board does not consider it appropriate to have the ground leases on the Statement of Financial Position for the Lessor, we consider that increased disclosure is much more appropriate. As shown above, the underlying properties are already on the Statement of Financial Position, so recording the ground leases would, in our view, result in 'double-counting'.

The other matter is that this is inconsistent with the for-profit model, NZ IFRS 16, and that this creates divergence and confusion in the market place. Whilst the NFP sector may have differences, leases is an area where there needs to be harmony with the for-profit sector.

Kind Regards,

**Philip Eilenberg**  
**Finance & Administration Manager**  
**Cornwall Park Trust Board**  
P O Box 26 072, Epsom, Auckland 1344  
Phone: (09) 531 4104 Mobile: (021) 928 041 Fax: (09) 524 6433  
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[www.cornwallpark.co.nz](http://www.cornwallpark.co.nz)



Thursday, 31<sup>st</sup> May 2018

To submissions@xrb.govt.nz

## **Comments and submissions to NZASB Exposure Draft 64 – Leases**

### **Background**

Emerge Aotearoa Group is a charitable trust and operates as a social service provider that is predominately funded through government agencies i.e. DHB's, Ministry of Social Development, Department of Corrections, Ministry of Health. Emerge Aotearoa Group has a number of leases for properties, vehicles and office equipment. The properties leased represent the most material dollar value and the majority of these are residential properties with few commercial properties for office space. While a large number of properties are rented or leased from family landlords at market rent however, a greater proportion of properties that operate residential care services and are rented/leased from Community Group Housing (CGH is a subset of Housing New Zealand). These are typically below market rents due to the social service provided from these properties. We also have a number of properties that we rent to tenants but these typically are captured under the Residential Tenancy Act as opposed to long term leasing arrangements.

Due to the large property portfolio held for residential care service and also our commitment towards social, transitional and emergency housing, Exposure Draft 64 - Leases, is likely to have a significant impact on our accounting and financial statements. On this basis, attention has been given to those areas of greatest impact and consideration for the cost versus benefit.

### **Right-of-use model**

This methodology does raise some concerns with regards to understandability for those that use, read and rely on financial statements particularly in the public sector. For Emerge Aotearoa, those that read and rely on our financial statements are our funders and also our bank. As we are more heavily geared towards the lessee arrangements, the proposed changes in recognition will mean moving away from the traditional operating leases contained in the notes towards the recognition of both a 'right-of-use asset' and also a 'lease liability'. This will essentially gross the balance sheet up as both assets and liabilities will substantially increase but ultimately with very little effect on Net Assets. It is our opinion that this will add very little substance to the understandability of our organisations position.

Although Emerge Aotearoa has very little lessor arrangements, the same underlying concerns are shared for this right-of-use model.

It is recognised that this movement towards accounting for leases on the balance sheet is specifically aimed at reflecting the substance of the underlying transaction and this change is already in motion specifically under IFRS 16 and now with ED 64. Although our concerns still remain over the understandability for readers, Emerge

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■ National Support Centre, 320 Ti Rakau Drive, Botany, 2013, Auckland. P.O. Box 259 353, Botany, 2163, Auckland. T+64 9 265 0255 ■  
www.emergeaotearoa.org.nz

Aotearoa would encourage XRB and NZASB to give consideration to changing IPSAS 1 presentation of financial statements so to provide adequate clarity around the right-of-use model. On this basis, Emerge Aotearoa support the specific departures from IFRS 16 as explored in ED 64. The suggested adoption of the right-of –use model for both lessees and lessors will add better transparency and consistency across the not for profit sector.

### **Concessionary lease arrangements**

This area of change will have significant impact across the not for profit sector. The recognition of non-exchange revenue has been in place of while now although its extension to expenses has yet to be introduced. This has not had any direct implications for Emerge Aotearoa given the nature of revenues received, however, the proposals under ED 64 Leases for below market leases will potentially have significant impacts. The properties in which we rent/lease from CGH are ring fenced or purpose built for particular community and social housing outcomes. It is therefore arguable that the fair value for such properties would difficult to obtain given their specialized nature or would be more costly to determine.

Further to this, some of the arrangements with Housing New Zealand are on a monthly rolling basis with no expressed length or term. This would imply that such arrangements would not specifically be covered by the introduction of the concessionary components therefore creating a grey area.

All that aside, ED 64 fundamentally proposes the recognition of a day one expense or revenue for the concessionary non-exchange component. Emerge Aotearoa believe that this proposal does not fairly reflect the underlying nature of the transaction which is the expense or revenue (as a result of the subsidy) is fundamentally tied into the length of lease and should be recognised in this manner. The proposed day one recognition will have significant material impacts each year to the Statement of Comprehensive Revenue and Expenses, this is likely to be misunderstood and reflect unfavourably on management as either a very strong healthy year or a poor unsustainable year. The Statement of Comprehensive Revenue and Expenses will become an unnecessary depiction of financial performance and more reliance and emphasis should be put on the Statement of Cashflow as the best source of the truth.

Another factor which should not treated lightly is the cost of compliance with concessionary arrangements. As a charity, the funding received is dedicated to achieving the charitable purpose and there is often a balancing act to ensure the future sustainability and going concern of the charity. Emerge Aotearoa is strongly of the view the costs for compliance would significant outweigh the benefit. Emerge Aotearoa's leased property portfolio with CGH and Housing NZ sits over 200 properties/units and determining whether a subsidy is being received or not would require all properties to be assessed against fair value. This exercise will be carry high administrative costs but also significant costs to contract a reputable and knowledge supplier to assess these across the length of New Zealand. Comments above have already highlighted concerns over the understandability of recognizing the non-exchange subsidy attached to a lessor or lessee arrangement.



**Nathan Barthow**  
Finance Manager  
Emerge Aotearoa Group

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NZ ACCOUNTING  
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## Memorandum

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**Date:** 15 June 2018

**To:** NZASB Members

**From:** Aimy Luu Huynh

**Subject:** ED 65 Improvements to IPSAS, 2018

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### Recommendation<sup>1</sup>

1. We recommend that the Board REVIEWS and APPROVES the draft comment letter on ED 65 *Improvements to IPSAS, 2018*.

### Background

2. The IPSASB published ED 65 *Improvements to IPSAS, 2018* (ED 65) in April 2018. Comments were due to the NZASB by 1 June 2018 and to the IPSASB by 15 July 2018. We did not receive any submissions from constituents.
3. ED 65 is made up of two parts.
  - (a) Part I: General Improvements to IPSAS. This Part deals with issues raised by stakeholders.
  - (b) Part II: IASB Convergence Amendments. These proposals are to align IPSAS with the IASB's annual improvements and narrow scope amendments, and IFRIC Interpretations.
4. At the last meeting, the Board agreed to provide a high-level comment letter to the IPSASB supporting most of the proposed amendments in ED 65 and to raise our concerns with the proposal to delete paragraph 76 in IPSAS 16 *Investment Property*.
5. The Board also agreed for staff to communicate any minor editorials directly to IPSASB staff.

### Draft comment letter

6. The draft comment letter to the IPSASB is attached as agenda item 7.2.
7. We have identified two proposed amendments, one to paragraph 42E of IPSAS 37 *Joint Arrangement* and one to paragraph 126C of IPSAS 40 *Public Sector Combinations*. Proposed paragraph 42E of IPSAS 37 is not aligned with equivalent paragraph C1AB of IFRS 11 *Joint Arrangements*, and proposed paragraph 126C of IPSAS 40 is not aligned with equivalent

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<sup>1</sup> 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).

paragraph 64O of IFRS 3 *Business Combinations*. Our proposed amendments to paragraph 42E of IPSAS 37 and paragraph 126C of IPSAS 40 are shown in the draft comment letter.

8. We have not identified any other significant editorials which should be included in the draft comment letter. The identified minor editorials will be communicated to IPSASB staff after the Board meeting.

**Attachments**

Agenda item 7.2: NZASB draft comment letter on ED 65 *Improvements to IPSAS, 2018*

Agenda item 7.3: ED 65 *Improvements to IPSAS, 2018* (in supporting papers)



NZ ACCOUNTING  
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XX July 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](http://www.ifac.org)

Dear John

**ED 65 *Improvements to IPSAS, 2018***

Thank you for the opportunity to comment on ED 65 *Improvements to IPSAS, 2018* (ED 65). ED 65 was exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.

We are particularly pleased that ED 65 is proposing to:

- (a) address issues raised by stakeholders in a timely manner; and
- (b) maintain alignment with IFRS® Standards. We have mentioned in our comment letter on IPSASB *Proposed Strategy and Work Plan 2019–2023* that when transactions are the same for the public and private sectors it is important that alignment with IFRS Standards is maintained. Maintaining alignment with IFRS Standards ensures that IPSAS incorporate the latest thinking of the International Accounting Standards Board (IASB), to the extent appropriate for the public sector. This process ultimately contributes to the IPSASB developing and maintaining high-quality IPSAS and financial reporting guidance.

We broadly support the proposed amendments in ED 65 except for the proposal to delete paragraph 76 in IPSAS 16 *Investment Property*. Our reasons for disagreeing with the proposed deletion are as follows.

- (a) IPSAS 16 would not be aligned with IAS 40 *Investment Property* and there is no public sector reason to depart from IAS 40. We would have concerns about the difference that this would create between IPSAS and IFRS Standards and would prefer that the issue be dealt with consistently in both sets of standards.
- (b) Under IPSAS 16, the rebuttable presumption is that an investment property can be measured at fair value on a continuing basis. However, if the fair value of an investment property under construction cannot be reliably measured, then it can be measured at cost until fair value becomes reliably measurable or construction is completed (whichever is earlier) (IPSAS 16.62). There could be situations where there is a difference between the carrying amount of investment property under construction and its fair value, in which case the guidance in paragraph 76 would be required. We do not agree with paragraph 76 being deleted. If the IPSASB wishes to address this issue, the paragraph could be relocated to the *Inability to determine fair value reliably* section, possibly after paragraph 63 of IPSAS 16.

We have compared the proposed amendments in Part II with the equivalent IFRS Standards for consistency. In Part II-6 of ED 65, paragraph 42E of IPSAS 37 *Joint Arrangements* is not aligned with equivalent paragraph C1AB of IFRS 11 *Joint Arrangements*. The missing text from paragraph C1AB of IFRS 11 is underlined below.

C1AB *Annual Improvements to IFRSs 2015–2017 Cycle*, issued in December 2017, 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.

The proposed amendment to paragraph 42E of IPSAS 37 is as follows.

42E. Paragraph AG33CA was amended by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply this amendment to transactions in which it obtains joint control on or after the beginning of the first ~~for~~ annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, [Year], it shall disclose that fact.

In Part II-7 of ED 65, paragraph 126C of IPSAS 40 *Public Sector Combinations* is not aligned with equivalent paragraph 64O of IFRS 3 *Business Combinations*. The missing text from paragraph 64O of IFRS 3 is underlined below.

64O *Annual Improvements to IFRSs 2015–2017 Cycle*, issued in December 2017, 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.

The proposed amendment to paragraph 126C of IPSAS 40 is as follows.

126C. Paragraph 100A was amended by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply this amendment to public sector combinations for which the acquisition date is on or after the beginning of the first ~~for~~ annual financial statements covering periods beginning on or after

January 1, [Year]. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, [Year], it shall disclose that fact.

We recommend the IPSASB includes these amendments in the final standard for ED 65.

We wish to acknowledge in the Basis for Conclusions for each amendment in Part II of ED 65 the relevant IASB® amending pronouncement referenced. These explanations are clear and useful for constituents for tracking alignment of IPSAS with IFRS Standards.

If you have any questions or require clarification of any matters in this submission, please contact Aimey Luu Huynh ([aimey.luuhyunh@xrb.govt.nz](mailto:aimey.luuhyunh@xrb.govt.nz)) or me.

Yours sincerely

Kimberley Crook  
**Chair – New Zealand Accounting Standards Board**



NZ ACCOUNTING  
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## Memorandum

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**Date:** 15 June 2018

**To:** NZASB Members

**From:** Aimy Luu Huynh

**Subject:** **Exposure Draft PBE IPSAS 40 *PBE Combinations***

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### Purpose and recommendations<sup>1</sup>

1. The purpose of this agenda item is for the Board to:
  - (a) APPROVE the proposed modifications to IPSAS 40 *Public Sector Combinations* in developing Exposure Draft PBE IPSAS 40 *PBE Combinations* (the draft ED);
  - (b) PROVIDE FEEDBACK on the draft Invitation to Comment (ITC); and
  - (c) NOTE the next steps of the project.
2. This paper includes recommendations on two detailed aspects of the ITC and draft ED. We recommend that the Board AGREES:
  - (a) that there is sufficient discussion in the ITC on the approach to classifying a combination as either an acquisition or an amalgamation (in the section dealing with indicators relating to consideration); and
  - (b) with the proposed RDR concessions and RDR paragraphs in the draft ED (as per option 1 in this memo).

### Structure of the memo

3. This memo is structured as follows:
  - (a) Background;
  - (b) ITC;
  - (c) RDR concessions;
  - (d) Impact of PBE Omnibus on this project; and
  - (e) Next steps.
4. The proposed modifications to IPSAS 40 are marked-up in the draft ED (attached as agenda item 8.3). We will prepare a clean version of the draft ED when we seek approval to issue.

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<sup>1</sup> 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).

## Background

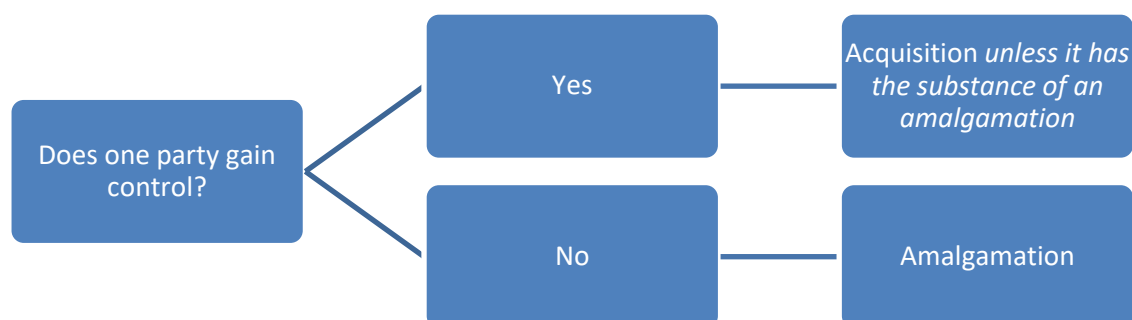
5. In February 2017, the Board agreed to develop a PBE Standard based on IPSAS 40. The Board established a sub-Board to assist staff in working through the issues. Members of the sub-Board are Kimberley Crook, Todd Beardsworth and Lyn Hunt.
6. In developing the ED, we've had to work through a number of issues. Some relate to differences between IPSAS 40 and IFRS 3 *Business Combinations* – considering why the IPSASB has diverged from IFRS 3 and whether such divergences would cause any problems for New Zealand public benefit entities (PBEs). Some relate to the distinction between amalgamations and acquisitions – whether the distinction is clear enough and would lead to sensible answers in New Zealand. Some relate to requirements which might be open to interpretation or could be clarified.
7. The development of this ED has taken longer than expected due to the number of public sector specific changes made by the IPSASB and the need to consider whether these changes would work in New Zealand. In particular, we have spent a lot of time on the sections dealing with the classification of combinations and the accounting for an amalgamation.
8. The Board last discussed this project in September 2017. Since then the Board has been focused on other higher priority projects. Staff and the sub-Board have continued to work on the project. The sub-Board has met twice this year, in March and May.
9. The sub-Board has considered the issues associated with the draft ED in detail and agreed the main modifications to IPSAS 40. As a result of the sub-Board's assistance and feedback we are now in a position to bring to the Board a draft ITC and draft ED, including a Basis for Conclusions. The ITC and Basis for Conclusions identify the key matters considered in developing the draft ED and the proposed modifications to IPSAS 40. At this meeting we are seeking the Board's feedback on the ITC and draft ED, including approval of the proposed modifications to IPSAS 40.
10. We will seek feedback on the proposed consequential amendments to other standards at a future meeting (these will be in Appendix B of the draft ED). At this stage we have included only those consequential amendments that relate to the issues discussed in the draft ITC or this memo.

## ITC

11. This section of the memo outlines the structure of the ITC and seeks feedback on whether we have covered the key issues in the ITC. Before we seek more general feedback on the ITC, we would like to check that we have made the right call in omitting some detail about the Board's earlier views from the ITC. The ITC focusses on the IPSASB's approach to classification of combinations in IPSAS 40 and the modifications we are proposing to IPSAS 40. We have not discussed, or sought feedback on, the Board's earlier views about alternative approaches to classification. The background to this issue is set out below.

### Approach to classifying a combination

12. IPSAS 40 requires that an entity classify a combination as either an acquisition or an amalgamation. If one party to a combination gains control of one or more operations as a result of the combination, an entity considers the economic substance of the combination (and whether the resulting classification would be consistent with the objectives of financial reporting and the qualitative characteristics). The diagram below summarises this approach. In assessing the economic substance of the combination, an entity considers the indicators in IPSAS 40 relating to consideration and to the decision-making process.



13. In its comment letter on IPSASB ED 60 *Public Sector Combinations* the Board did not support this approach to classification. The Board suggested an alternative approach using three indicators (consideration, decision making and entities under common control) to determine the economic substance of the combination.
14. Despite its disagreement with the approach in ED 60, in its initial discussions about IPSAS 40 (in March 2017) the Board agreed that, in developing a new PBE Standard, we should retain the IPSAS 40 approach for classifying a combination as either an acquisition or an amalgamation. However, the Board suggested that, in the ITC, constituents be invited to comment on whether they:
- (a) consider the IPSAS 40 classification approach is workable and provides for appropriate outcomes; and, if not
  - (b) would prefer the alternative approach considered by the NZASB in its submission on ED 60.
15. At the time of the Board's initial discussion of this matter, the Board could have been thinking about the best way of undertaking due process and seeking constituent feedback on an aspect of IPSAS 40 that the Board had not initially supported. However, since March 2017, the Board and sub-Board have decided to make a number of changes to the indicators used to assess the substance of a combination and other guidance on classification, while still keeping the core



principle of the approach in IPSAS 40. Therefore we don't think the ITC should cover the points in paragraphs 14(a) and 14(b) above.

16. The major changes made to the classification requirements and guidance in IPSAS 40 as provided for in the accompanying draft ED are listed below. The major changes are discussed in the ITC (attached as agenda item 8.2) and the paragraph references in the ITC are provided below. The changes to paragraphs AG23 and AG24 are not discussed in the ITC because they are minor but have been included in the memo for completeness.
  - (a) We have combined paragraphs 12(a) and 12(b) about the indicators relating to consideration. We have omitted paragraph 12(c). We have reflected these changes throughout the rest of the draft ED. As a result of these changes there is now one proposed indicator about consideration. [Paragraphs 18–22 of the ITC]
  - (b) We have added guidance and an illustrative example for voluntary combination not under common control (paragraph AG17.1 and scenario 15 in the illustrative examples). [Paragraph 39 of the ITC]
  - (c) We have added guidance for identifying an acquirer when a new reporting entity is established (paragraphs AG14 and AG17). [Paragraph 35 of the ITC]
  - (d) We have removed paragraph AG22 because not all amalgamations result in a new reporting entity – they could result in a continuing reporting entity. [Paragraph 27 of the ITC]
  - (e) We have added an example where combining operations' relationships could remain after the combination (paragraph AG23).
  - (f) We have removed the discussion on the types of benefits or service potential obtained (paragraph AG24).
  - (g) We have reordered the guidance on the indicator of consideration so it provides a better flow (paragraphs AG27–AG30). We have also replaced the examples in paragraph AG30. [Paragraphs 18–22 of the ITC]
  - (h) We have reclassified scenario 6 in the illustrative examples from an amalgamation to an acquisition. [Paragraphs 18–22 of the ITC]

**Question for the Board**

- Q1. Does the Board agree that there is sufficient discussion in the ITC on the approach to classifying a combination as either an acquisition or an amalgamation (in the section dealing with indicators relating to consideration)?

*Structure of the ITC*

17. The ITC covers the following:
  - (a) Approach in developing the ED;
  - (b) Overview of the main differences; and
  - (c) Changes made to IPSAS 40 in the proposed PBE IPSAS 40.

18. We have organised the ITC discussion of the changes made to IPSAS 40 under the following headings:
  - (a) Key changes;
  - (b) Proposed RDR concessions; and
  - (c) Amendments to other standards.
19. Apart from the proposed RDR concessions and amendments to other standards, all of these issues have been discussed and tentatively agreed by the Board and/or sub-Board.
20. At this point we would like to seek feedback on whether:
  - (a) we have identified the key issues in the ITC (not too many, not too few);
  - (b) you agree with the discussion of each issue in the ITC; and
  - (c) you agree with how issues have been addressed in the draft ED (that is, the modifications to IPSAS 40).
21. As a prompt for the Board's discussion we have listed all of the issues in the ITC below. To assist the discussion at the Board meeting, we will have some hard copies of the ITC on hand. The issues under key changes are:
  - (a) Indicators relating to consideration;
  - (b) Definitions of equity interests and owners;
  - (c) Use of the term "new entity";
  - (d) Applying the pooling of interests method;
  - (e) Presentation of financial statements and disclosures;
  - (f) Identifying an acquirer;
  - (g) Transition;
  - (h) Voluntary combination not under common control;
  - (i) Selection of accounting policies by the resulting entity; and
  - (j) Income taxes.
22. We seek feedback on the proposed RDR concessions in the next section of this memo.

#### Questions for the Board

- Q2. Does the Board agree that we have identified the key issues in the ITC?
- Q3. Does the Board agree with the discussion of each issue in the ITC?
- Q4. Does the Board agree with how issues have been addressed in the draft ED?

#### RDR concessions

23. As noted in agenda item 3.6.2, given the delays in the for-profit RDR project, we are seeking feedback on how to identify RDR concessions in new PBE Standards. The two options are (i) to

align with existing standards or (ii) align with the proposed new RDR decision-making framework for for-profits. We initially took the second approach in this project, but given the uncertainty about when the for-profit project will be finalised and a new PBE RDR framework developed, we now feel that the first approach might be more appropriate. The pros and cons of the two options are set out below. In addition, we have noted some feedback on the for-profit RDR proposals.

24. In August 2017, the Board reviewed the initial comments received on ED NZASB 2017-1 *Amendments to RDR for Tier 2 For-profit Entities* (the RDR ED). This ED included the *Draft Policy for Determining RDR for Tier 2 Entities in Australia and Tier 2 Entities For-Profit Entities in New Zealand* (Draft RDR decision-making framework). The Board has not yet made any firm decisions on that framework or the concessions for specific standards.
25. An overview of the comments on the RDR ED is as follows.
  - (a) The respondents indicated support for the Draft RDR decision-making framework. However, several respondents provided suggestions for improving the framework and requests have also been made for the AASB and the NZASB to reconsider the outcome of the application of the framework to the disclosures in Australian Accounting Standards and NZ IFRS.
  - (b) Some respondents disagreed with the proposed framework, mainly on the basis that there were no significant reductions to the disclosures currently required under RDR.
26. For the purpose of the draft ED on PBE Combinations, we have considered the two options and their pros and cons. These are set out in Table 1 below.

**Table 1**

Options	Pros	Cons
<b>Option 1</b> Align the RDR concessions and RDR paragraphs for acquisitions with PBE IFRS 3 <i>Business Combinations</i> . Use the current Tier 2 Disclosure Principles (which are based on the IFRS for SMEs Standard, user needs and cost-benefit considerations) for the amalgamation disclosures.	<ul style="list-style-type: none"> <li>Aligns the RDR concessions and RDR paragraphs for acquisition disclosures with existing standards (PBE IFRS 3 and NZ IFRS 3 <i>Business Combinations</i>).</li> <li>Does not depend on the completion of the joint RDR for-profit project.</li> </ul>	<ul style="list-style-type: none"> <li>The Draft RDR decision-making framework is considered to be more robust than our current approach.</li> <li>We would need to reassess the RDR concessions and RDR paragraphs when we develop the eventual RDR PBE Policy (but this could be some time away).</li> <li>Constituents would need to provide feedback on the RDR concessions and RDR paragraphs more than once.</li> </ul>
<b>Option 2</b> Apply the Draft RDR decision-making framework for amalgamation and acquisition disclosures.	<ul style="list-style-type: none"> <li>The Draft RDR decision-making framework is more robust than our current approach.</li> <li>There are no sector-specific differences between the for-profit and PBE sectors for the disclosures relating to acquisitions.</li> </ul>	<ul style="list-style-type: none"> <li>The RDR concessions and RDR paragraphs for the disclosures relating to acquisitions would not align with NZ IFRS 3. This may have an impact on mixed groups.</li> <li>The final <i>for-profit</i> RDR decision-making framework may differ from the draft framework.</li> </ul>

Options	Pros	Cons
	<ul style="list-style-type: none"> <li>This approach would be consistent with the approach taken in developing PBE IPSAS 39 <i>Employee Benefits</i> and PBE IFRS 9 <i>Financial Instruments</i>.</li> </ul>	<ul style="list-style-type: none"> <li>The eventual <i>PBE</i> RDR decision-making framework may differ from the for-profit framework. Constituents would need to provide feedback on the RDR concessions and RDR paragraphs more than once.</li> </ul>

27. The Board may already have formed a view on its preferred approach to identifying RDR concessions in new PBE Standards in its earlier discussions (see agenda item 3.6.2). Although there are no major differences between the two approaches for this draft ED (see Appendix 1 to this memo), we would like a general direction for all new PBE projects until we develop the PBE RDR Policy.
28. On balance, we recommend option 1, both for this project and the other new PBE projects. We have applied option 1 (being the current Tier 2 Disclosure Principles) to the disclosure requirements in the draft ED. The proposed RDR concessions and RDR paragraphs for acquisition disclosures are based on PBE IFRS 3. An analysis of the proposed RDR concessions and RDR paragraphs for amalgamation disclosures and some public sector specific acquisition disclosures is set out in Appendix 2 to this memo.
29. In the event that the Board wants to discuss option 2, we have applied the Draft RDR decision-making framework to the disclosure requirements in the draft ED (see Appendix 1 to this memo).

#### Question for the Board

- Q5. Does the Board agree with the proposed RDR concessions and RDR paragraphs (based on option 1) in the draft ED?

#### Impact of PBE Omnibus on this project

30. The draft *2018 PBE Omnibus Amendments to PBE Standards* (see agenda item 5.2) proposes some amendments to PBE IFRS 3 and PBE IPSAS 37 *Joint Arrangements* to 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. We have incorporated the proposed new paragraph (paragraph 100A) in the draft ED.

#### Next steps

31. At the meeting we will seek the Board's feedback on any other steps we should carry out before the ED is issued.
32. Following this meeting we will:
- update the ITC and draft ED to reflect the views of the Board; and
  - bring the ITC and a clean draft ED (including consequential amendments) to a future meeting and seek approval of the ITC and draft ED at that time.

**Attachments**

Agenda item 8.2: Draft Invitation to Comment

Agenda item 8.3: Draft ED PBE IPSAS 40 *PBE Combinations* (marked-up)

## Appendix 1 RDR Comparison of Approach 1 and Approach 2

This Appendix compares the RDR concessions using option 1 (for-profit Tier 2 Disclosure Principles)<sup>2</sup> and option 2 (the Draft for-profit RDR decision-making framework issued for comment in 2017) in tables 2 and 3. Table 2 shows the proposed RDR concessions with respect to amalgamations. Table 3 shows the proposed RDR concessions with respect to acquisitions.

Grey shading indicates the concessions that are different.

**Table 2: Amalgamations**

Paragraph in the draft ED	Option 1 (For-profit Tier 2 Disclosure Principles)	Option 2 (Draft for-profit RDR decision-making framework)
50(a)–(g)	Not subject to analysis	Not subject to analysis
51(a)	No RDR	No RDR
51(b)	No RDR	No RDR
51(c)	No RDR	No RDR
52	Not subject to analysis	Not subject to analysis
53	Full RDR	Full RDR
RDR 53.1	No difference in disclosure requirements	No difference in disclosure requirements
54(a)	No RDR	No RDR
54(b)	No RDR	No RDR
54(c)	No RDR	No RDR
54(d)	No RDR	No RDR
54(e)	No RDR	No RDR
54(f)	Full RDR	Full RDR
54(g)	No RDR	No RDR
54(h)	No RDR	No RDR
55	Full RDR	Full RDR
56(a)	Full RDR	Full RDR
56(b)	No RDR	No RDR
RDR 56.1	No difference in disclosure requirements	No difference in disclosure requirements
57	Full RDR	Full RDR
AG64(a)	No RDR	No RDR
AG64(b)	No RDR	No RDR

<sup>2</sup> This is based on IFRS for SMEs Standard, user needs and cost-benefit considerations.

**Table 3: Acquisitions**

The concessions set out in the option 1 column are identical to the RDR concessions in PBE IFRS 3. The PBE IFRS 3 references are shown for information.

<b>Option 1 (For-profit Tier 2 Disclosure Principles)</b>	<b>Option 2 (Draft for-profit RDR decision-making framework)</b>	<b>PBE IFRS 3 (for information)</b>
119 Full RDR	119 Full RDR	59 Full RDR
RDR 119.1	RDR 119.1	RDR 63.1
No equivalent paragraph	No equivalent paragraph	60 Full RDR (refers to paragraphs B64–B67)
120(a) No RDR	120(a) No RDR	B64(a) No RDR
120(b) No RDR	120(b) No RDR	B64(b) No RDR
120(c) No RDR	120(c) No RDR	B64(c) No RDR
120(d) Full RDR	120(d) Full RDR	B64(d) Full RDR
120(e) Full RDR	120(e) Full RDR	B64(e) Full RDR
120(f) No RDR	120(f) Full RDR	B64(f) No RDR
120(g) No RDR	120(g) Partial RDR	B64(g) No RDR
120(h) Full RDR	120(h) Full RDR	B64(h) Full RDR
120(i) No RDR	120(i) No RDR	B64(i) No RDR
120(j) Partial RDR	120(j) No RDR	B64(j) Partial RDR
120(k) Full RDR	120(k) Full RDR	B64(k) Full RDR
120(l) Full RDR	120(l) Full RDR	B64(l) Full RDR
120(m) Full RDR	120(m) Full RDR	B64(m) Full RDR
120(n) Partial RDR	120(n) Full RDR	There is no equivalent paragraph
120(o) Partial RDR	120(o) Full RDR	B64(n) Partial RDR
120(p) No RDR	120(p) Full RDR	B64(o) No RDR
120(q) No RDR	120(q) Full RDR	B64(p) No RDR
120(r) Full RDR	120(r) Full RDR	B64(q) Full RDR
RDR 120.1	RDR 120.1	RDR B64.1
121 Full RDR	121 Full RDR	B65 Full RDR
RDR 121.1	RDR 121.1	RDR B65.1
122 Full RDR	122 Full RDR	B66 Full RDR
123 Full RDR	123 Full RDR	61 Full RDR
124(a) Full RDR	124(a) Full RDR	B67(a) Full RDR
124(b) Full RDR	124(b) Full RDR	B67(b) Full RDR
124(c) Full RDR	124(c) Full RDR	B67(c) Full RDR
124(d) No RDR	124(d) Full RDR	B67(d) No RDR
124(e) Full RDR	124(e) Full RDR	B67(e) Full RDR
124(f) No RDR	124(f) Full RDR	There is no equivalent paragraph
RDR 124.1	RDR 124.1	RDR B67.1
125 Full RDR	125 Full RDR	63 Full RDR

## Appendix 2 Rationale for RDR Concessions under Option 1

Table 4 explains the rationale for the proposed RDR concessions under option 1 (the for-profit Tier 2 Disclosure Principles) for the disclosure requirements relating to amalgamations and public sector specific disclosures relating to acquisitions. The proposed RDR concessions and RDR paragraphs for disclosures relating to acquisitions are consistent with those in PBE IFRS 3.

**Table 4**

Paragraph	Comments/PBE IFRS 3 paragraph
<b>Amalgamations</b>	
<b>Presentation of financial statements</b>	
<p>50    <b>If, following a PBE combination, the resulting entity is a new reporting entity, the resulting entity's first set of financial statements following the amalgamation shall comprise:</b></p> <ul style="list-style-type: none"> <li>(a)    <b>An opening statement of financial position as of the amalgamation date;</b></li> <li>(b)    <b>A statement of financial position as at the reporting date;</b></li> <li>(c)    <b>A statement of comprehensive revenue and expense for the period from the amalgamation date to the reporting date;</b></li> <li>(d)    <b>A statement of changes in net assets/equity for the period from the amalgamation date to the reporting date;</b></li> <li>(e)    <b>A cash flow statement for the period from the amalgamation date to the reporting date;</b></li> <li>(f)    <b>When a public sector entity has published general purpose prospective financial statements for the period from the amalgamation date to the reporting date, the information specified in paragraph 148.1 of PBE IPSAS 1 <i>Preparation of Financial Reports</i> shall be presented on the face of the financial statements or as a separate statement. When a not-for-profit entity has published general purpose prospective financial statements for the period from the amalgamation date to the reporting date, the information specified in paragraph 148.1 of PBE IPSAS 1 shall be presented on the face of the financial statements, as a separate statement or in the notes; and</b></li> <li>(g)    <b>Notes, comprising a summary of significant accounting policies and other explanatory notes.</b></li> </ul> <p><b>The resulting entity shall not present comparative information on the face of its financial statements for the periods prior to the amalgamation date. The resulting entity is permitted to disclose in the notes</b></p>	<p>Paragraph 50 explains the composition of the first set of financial statements following the amalgamation. It is neither presentation nor a disclosure requirement and, therefore, is not subject to analysis.</p>



Paragraph	Comments/PBE IFRS 3 paragraph
<p><b>comparative information for the combining operations for the periods prior to the amalgamation date, in accordance with paragraph 54(g).</b></p>	
<p>51 <b>If, following a PBE combination the resulting entity is a continuing reporting entity, the resulting entity shall disclose as of the amalgamation date:</b></p> <ul style="list-style-type: none"> <li>(a) <b>The amounts recognised of each major class of assets and liabilities, and components of net assets/equity from combining operations included in the resulting entity;</b></li> <li>(b) <b>Any adjustments made to components of net assets/equity where required to conform the accounting policies of the combining operations with those of the resulting entity; and</b></li> <li>(c) <b>Any adjustments made to eliminate transactions between the combining operations.</b></li> </ul> <p><b>The resulting entity shall present comparative financial information, in respect of the continuing reporting entity only, for the period prior to the amalgamation date on the face of the financial statements but this information shall not be restated. The resulting entity is permitted to disclose in the notes comparative financial information for the combining operations for the periods prior to the amalgamation date, in accordance with paragraph 54(g).</b></p>	<p>Paragraphs 51(a), 51(b) and 51(c) contain information that meets user needs – liquidity and solvency, accounting policy choice and transaction and other events and conditions encountered by such entities. The benefits of providing the disclosure exceed the costs.</p> <p>Therefore, paragraphs 51(a), 51(b) and 51(c) are kept for Tier 2 entities.</p>
<p>52 Subject to the requirements in paragraphs 54 and 56, the resulting entity is permitted but not required to present financial statements for the combining operations for periods prior to the amalgamation date (paragraph AG64 provides related application guidance). The financial statements for the combining operations belong to those being combined into the resulting entity rather than those that belong to the continuing reporting entity. Where a resulting entity elects to present financial statements for the combining operations for periods prior to the amalgamation date, it shall disclose the information required by paragraph 54(g). The resulting entity shall not restate the combining operations' financial statements, but shall disclose the information on the same basis as previously used in the combining operations' financial statements. Where a resulting entity does not elect to present financial statements for the combining operations for periods prior to the amalgamation date, it shall meet the needs of users of the financial statements in one of the ways outlined in paragraph AG64.</p>	<p>Paragraph 52 deals with presentation rather than disclosure – it permits an entity to <u>present</u> financial statements for the combining operations for periods prior to the amalgamation date. The paragraph is, therefore, not subject to analysis and is kept for Tier 2 entities.</p>

Paragraph	Comments/PBE IFRS 3 paragraph
<b>Disclosures</b>	
<b>*53 The resulting entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an amalgamation.</b>	The equivalent paragraph for acquisitions is paragraph 119, which is reduced. Therefore, paragraph 53 is reduced for Tier 2 entities.
<b>RDR 53.1 A Tier 2 entity is required to comply with the disclosures in paragraphs 54–57 that are not asterisked (*) as RDR concessions.</b>	The equivalent paragraph for acquisitions is paragraph RDR 119.1. Therefore, we propose to add paragraph RDR 53.1.
<p>54 To meet the objective in paragraph 53, the resulting entity shall disclose the following information for each amalgamation that occurs during the reporting period:</p> <p>(a) The name and a description of each combining operation.</p> <p>(b) The amalgamation date.</p> <p>(c) The primary reasons for the amalgamation including, where applicable, the legal basis for the amalgamation.</p>	<p>Paragraphs 54(a) and 54(b) are equivalent to paragraphs 120(a) and 120(b) for acquisitions, which are kept for Tier 2 entities.</p> <p>Paragraph 54(c) is equivalent to paragraph 120(d) for acquisitions, which is reduced for Tier 2 entities. However, we are proposing to keep paragraph 54(c) because amalgamations are more common in the public sector and NFP sector, so the information meets user needs.</p> <p>Therefore, paragraphs 54(a)–54(c) are kept for Tier 2 entities.</p>
(d) The amounts recognised as of the amalgamation date for each major class of assets and liabilities transferred.	<p>Paragraph 54(d) meets user needs – liquidity and solvency. The disclosure is also required for acquisitions (paragraph 120(i)). The benefits of providing the disclosure exceed the costs.</p> <p>Therefore, paragraph 54(d) is kept for Tier 2 entities.</p>
<p>(e) The adjustments made to the carrying amounts of assets and liabilities recorded by each combining operation as of the amalgamation date:</p> <p>(i) To eliminate the effect of transactions between combining operations in accordance with paragraph 22; and</p> <p>(ii) To conform to the resulting entity's accounting policies in accordance with paragraph 27.</p>	<p>Paragraph 54(e) meets user needs – the entity's accounting policy choices, transactions and other events and conditions encountered by such entities. This disclosure is also consistent with the disclosure in paragraphs 51(b) and (c). The benefits of providing the disclosure exceed the costs.</p> <p>Therefore, paragraph 54(e) is kept for Tier 2 entities.</p>
<b>*(f) An analysis of net assets/equity, including any components that are presented separately, and any significant adjustments such as revaluation surpluses or deficits, recognised in accordance with paragraphs 37–38.</b>	<p>Paragraph 54(f) does not meet user information needs.</p> <p>Therefore, paragraph 54(f) is reduced for Tier 2 entities.</p>
<p>(g) If a resulting entity elects to present financial statements for the combining operations for periods prior to the amalgamation date in accordance with paragraph 52, the resulting entity shall disclose the following information for each combining operation in the notes:</p> <p>(iii) A statement of financial position as at the end of the prior period(s);</p>	<p>Paragraph 54(g) relates to paragraph 52, which is kept for Tier 2 entities.</p> <p>Therefore, paragraph 54(g) is kept for Tier 2 entities.</p>

Paragraph	Comments/PBE IFRS 3 paragraph
<p>(iv) A statement of comprehensive revenue and expense for the prior period(s);</p> <p>(v) A statement of changes in net assets/equity for the prior period(s);</p> <p>(vi) A cash flow statement for the prior period(s); and</p> <p>(vii) Notes, comprising a summary of significant accounting policies and other explanatory notes.</p> <p>The resulting entity shall not restate this information, but shall disclose the information on the same basis as previously used in the combining operations' financial statements. The resulting entity shall describe the significant differences between the resulting entity's accounting policies and the accounting policies previously applied by the combining operations. If the combining operations' prior period financial statements are not for the reporting period immediately prior to the amalgamation date the resulting entity shall also disclose the information specified in subparagraph (h) below.</p>	
<p>(h) If, at the time the financial statements of the resulting entity are authorised for issue, the last reporting date of any of the combining operations does not immediately precede the amalgamation date, the resulting entity shall disclose the following information:</p> <p>(i) The amounts of revenue and expense, and the surplus or deficit of each combining operation from the last reporting date of the combining operations until the amalgamation date. The amounts of revenue shall be analysed in a manner appropriate to the entity's operations, in accordance with paragraph 108 of PBE IPSAS 1. The amounts of expense shall be analysed 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, in accordance with paragraph 109 of PBE IPSAS 1.</p> <p>(ii) The amounts reported by each combining operation immediately prior to the amalgamation date for each major class of assets and liabilities.</p> <p>(iii) The amounts reported by each combining operation immediately prior to the amalgamation date in net assets/equity.</p>	<p>Paragraph 54(h) provides financial information about the combining operations from the last reporting date to the amalgamation date. This addresses an information gap for mid-period amalgamations where some entities provide financial information only up to the last reporting date rather than up to the amalgamation date.</p> <p>Therefore, paragraph 54(h) is kept for Tier 2 entities.</p>

Paragraph	Comments/PBE IFRS 3 paragraph
<p>The resulting entity is not required to disclose this information where it has elected to present financial statements of the combining operations for the reporting periods ending immediately prior to the amalgamation date as specified in subparagraph (g) above.</p>	
<p><b>*55 The resulting entity shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to amalgamations that occurred in the period or previous reporting periods.</b></p>	<p>The equivalent paragraph for acquisitions is paragraph 123, which is reduced for Tier 2 entities.</p> <p>Therefore, paragraph 55 is reduced for Tier 2 entities.</p>
<p>56 To meet the objective in paragraph 55, the resulting entity shall disclose the following information:</p> <p><b>*(a)</b> If the initial accounting for an amalgamation is incomplete (see paragraph 40) for particular assets or liabilities, and the amounts recognised in the financial statements for the amalgamation thus have been determined only provisionally:</p> <ul style="list-style-type: none"> <li>(i) The reasons why the initial accounting for the amalgamation is incomplete;</li> <li>(ii) The assets or liabilities for which the initial accounting is incomplete; and</li> <li>(iii) The nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 43.</li> </ul>	<p>The equivalent paragraph for acquisitions is paragraph 124(a), which is reduced for Tier 2 entities.</p> <p>Therefore, paragraph 56(a) is reduced for Tier 2 entities.</p>
<p><b>(b)</b> If amounts of tax due are forgiven as a result of the terms of the amalgamation (see paragraph 33):</p> <ul style="list-style-type: none"> <li>(i) The amount of tax due that was forgiven; and</li> <li>(ii) Where the resulting entity is the tax authority, details of the adjustment made to tax receivable.</li> </ul>	<p>Paragraph 56(b) meets user needs – transactions and other events and conditions encountered by such entities. The benefits of providing the disclosure exceed the costs.</p> <p>Therefore, paragraph 56(b) is kept for Tier 2 entities.</p>
<p><b>RDR 56.1</b> For individually immaterial amalgamations occurring during the reporting period that are material collectively, a Tier 2 resulting entity shall disclose in aggregate the information required by paragraphs 54(d) and 56(b).</p>	<p>The equivalent paragraphs for acquisitions are paragraphs 124(f) and RDR 121.1.</p> <p>Therefore, we propose to add paragraph RDR 56.1 for Tier 2 entities.</p>
<p><b>*57</b> If the specific disclosures required by this and other PBE Standards do not meet the objectives set out in paragraphs 53 and 55, the resulting entity shall disclose whatever additional information is necessary to meet those objectives.</p>	<p>The equivalent paragraph for acquisitions is paragraph 125, which is reduced for Tier 2 entities.</p> <p>Therefore, paragraph 57 is reduced for Tier 2 entities.</p>
<p><i>Amalgamations Occurring During a Reporting Period (see paragraphs 50–52)</i></p> <p><b>AG64</b> To meet the requirements of paragraphs 50–52, the resulting entity is not required to present financial statements of the combining operations for periods prior to the amalgamation date, although it may elect</p>	<p>Paragraph AG64 provides guidance for paragraph 52, which is kept for Tier 2 entities.</p> <p>Therefore, paragraph AG64 is kept for Tier 2 entities.</p>

Paragraph	Comments/PBE IFRS 3 paragraph
<p>to do so by making the disclosures specified in paragraph 54(g). Where the resulting entity does not elect to present financial statements of the combining operations for periods prior to the amalgamation date, it meets the needs of the users of its financial statements for information about the combining operations prior to the amalgamation in one of two ways:</p> <p>(a) Directing the users of its financial statements to the financial statements issued on behalf of each of the combining operations. This is appropriate where financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period).</p> <p>(b) Making the disclosures required by paragraph 54(h) in respect of each of the combining operations. This is appropriate where no financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period).</p>	
<b>Acquisitions</b>	
<b>Disclosures</b>	
119 Full RDR	59 Full RDR
RDR 119.1	RDR 63.1
No equivalent paragraph	60 Full RDR (refers to paragraphs B64–B67)
120(a) No RDR	B64(a) No RDR
120(b) No RDR	B64(b) No RDR
120(c) No RDR	B64(c) No RDR
120(d) Full RDR	B64(d) Full RDR
120(e) Full RDR	B64(e) Full RDR
120(f) No RDR	B64(f) No RDR
120(g) No RDR	B64(g) No RDR
120(h) Full RDR	B64(h) Full RDR
120(i) No RDR	B64(i) No RDR
120(j) Partial RDR	B64(j) Partial RDR
120(k) Full RDR	B64(k) Full RDR
120(l) Full RDR	B64(l) Full RDR
120(m) Full RDR	B64(m) Full RDR
<p>120(n) In an acquisition in which a loss is recognised in surplus or deficit (see paragraph 86):</p> <p>(i) The amount of the loss recognised in accordance with paragraph 86 and the line item in the statement of comprehensive revenue and expense in which the loss is recognised; and</p>	<p>There is no equivalent paragraph in PBE IFRS 3. However, the disclosures are consistent with the disclosures about bargain purchases. For consistency with paragraph 120(o), paragraph 120(n)(i) is kept for Tier 2 entities</p>

Paragraph	Comments/PBE IFRS 3 paragraph
*(ii) A description of the reasons why the transaction resulted in a loss.	and paragraph 120(n)(ii) is reduced for Tier 2 entities.
120(o) Partial RDR	B64(n) Partial RDR
120(p) No RDR	B64(o) No RDR
120(q) No RDR	B64(p) No RDR
120(r) Full RDR	B64(q) Full RDR
RDR 120.1	RDR B64.1
121 Full RDR	B65 Full RDR
RDR 121.1	RDR B65.1
122 Full RDR	B66 Full RDR
123 Full RDR	61 Full RDR
124(a) Full RDR	B67(a) Full RDR
124(b) Full RDR	B67(b) Full RDR
124(c) Full RDR	B67(c) Full RDR
124(d) No RDR	B67(d) No RDR
124(e) Full RDR	B67(e) Full RDR
124(f) If amounts of tax due are forgiven as a result of the terms of the acquisition (see paragraph 78): (i) The amount of tax due that was forgiven; and (ii) Where the acquirer is the tax authority, details of the adjustment made to tax receivable.	There is no equivalent paragraph in PBE IFRS 3. Paragraph 124(f) meets user needs – transactions and other events and conditions encountered by such entities. The benefits of providing the disclosure exceed the costs. We are not proposing to reduce the equivalent paragraph for amalgamations (see paragraph 56(b)).  Therefore, paragraph 124(f) is kept for Tier 2 entities.
RDR 124.1	RDR B67.1
125 Full RDR	63 Full RDR



NZ ACCOUNTING  
STANDARDS  
BOARD

## **NZASB Exposure Draft 2018-X**

### **PBE IPSAS 40 PBE Combinations**

**(NZASB ED 2018-X)**

**Invitation to Comment**

**Month 2018**

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## Information for respondents

### Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)<sup>1</sup> is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising a new PBE Standard based on IPSAS 40 *Public Sector Combinations*.

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](mailto:submissions@xrb.govt.nz)  
(please refer to *PBE Combinations* 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 **XX Month 2019**.

### Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website ([xrb.govt.nz](http://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).

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<sup>1</sup> 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
IFRS	International Financial Reporting Standard
IPSASB	International Public Sector Accounting Standards Board
IPSAS	International Public Sector Accounting Standard
ITC	Invitation to Comment
NFP	Not-for-Profit
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public Benefit Entity
PBE IPSAS	Public Benefit Entity International Public Sector Accounting Standard
RDR	Reduced Disclosure Regime

## Questions for respondents

		Paragraphs
1	Do you agree with the changes (as listed below) made by the NZASB in developing the proposed PBE IPSAS 40? If not, please explain why not and identify what you think would be more appropriate.	18–42
	(a) Indicators relating to consideration	18–22
	(b) Definitions of equity interests and owners	23–24
	(c) Use of the term “new entity”	25–28
	(d) Applying the pooling of interests method	29–31
	(e) Presentation of financial statements and disclosures	32–34
	(f) Identifying an acquirer	35
	(g) Transition	36–38
	(h) Voluntary combination under common control	39
	(i) Selection of accounting policies by the resulting entity	40
	(j) Income taxes	41–42
2	Do you agree with the concessions and associated RDR paragraphs in the proposed PBE IPSAS 40? If you disagree, please provide reasons and indicate any additional concessions or RDR paragraphs that you consider would be appropriate.	43–45 See ED
3	Do you agree with the proposed effective date of 1 January 2022, with early adoption permitted? If you disagree, please provide reasons.	47
4	Do you have any other comments on the Exposure Draft?	

# 1. Introduction

## 1.1 Background

1. The NZASB is proposing to issue a new PBE Standard based on IPSAS 40 *Public Sector Combinations*. This new PBE Standard would supersede PBE IFRS 3 *Business Combinations*, the current PBE Standard dealing with business combinations.
2. PBE IFRS 3 is based on NZ IFRS 3 *Business Combinations*, which in turn is based on IFRS 3 *Business Combinations* issued by the International Accounting Standards Board. Hence, the requirements in PBE IFRS 3 are largely based on IFRS 3. IPSAS 40 is also based, in part, on IFRS 3 but the IPSASB did not regard this as a convergence project. IPSAS 40 establishes requirements for accounting for both acquisitions and amalgamations whereas IFRS 3 requires that an entity uses the acquisition method to account for all combinations that fall within its scope. There are therefore a number of differences between IPSAS 40 and IFRS 3.
3. In developing the proposed PBE IPSAS 40 the NZASB looked first to the requirements in IPSAS 40 but it also drew upon its knowledge of the practical issues in respect of accounting for combinations in New Zealand. This led the NZASB to propose some modifications to the requirements in IPSAS 40. The NZASB is now seeking feedback on the adoption of the requirements in IPSAS 40, with some modifications, as a PBE Standard.

## 1.2 Purpose of this Invitation to Comment

4. The purpose of this ITC and associated ED is to seek comments on the proposed PBE Standard which would be applicable to Tier 1 and Tier 2 public benefit entities (PBEs).

## 1.3 Timeline and next steps

5. Submissions on NZASB ED 2018-XX are due by XX 2019. Information on how to make submissions is provided on page 4 of this ITC.
6. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the new PBE Standard.

## 2. Overview of Invitation to Comment and ED

### 2.1 Summary of the content

7. This ITC seeks feedback on NZASB ED 2018-XX PBE IPSAS 40 *PBE Combinations*, and in particular on the proposals which differ from IPSAS 40.
8. The NZASB applied the *Policy Approach to Developing the Suite of PBE Standards* (the PBE Policy Approach) to IPSAS 40. The NZASB considers that it is desirable to issue a PBE Standard based on this IPSAS for the following reasons.
  - (a) It would make PBE Standards more comprehensive by providing guidance on accounting for amalgamations and combinations under common control.
  - (b) The requirements for accounting for acquisitions in IPSAS 40 are very similar to the requirements in PBE IFRS 3.
9. In order to assist constituents in forming an opinion on the proposals, the NZASB has organised the discussion of the ED as follows:
  - (a) Approach taken in developing the ED;
  - (b) Overview of the main differences between PBE IFRS 3 and the proposed PBE IPSAS 40;
  - (c) Key changes made to IPSAS 40 in developing the proposed PBE IPSAS 40; and
  - (d) Proposed RDR concessions.

### 2.2 Approach taken in developing the ED

10. The IPSASB frequently uses a convergence approach to develop an IPSAS based on an underlying IFRS® Standard. In convergence projects the IPSASB adopts the requirements in the underlying IFRS Standard, subject to making changes to address public sector specific transactions or circumstances. In developing a PBE Standard based on a converged IPSAS the NZASB then focuses on whether those modifications are appropriate for PBEs in New Zealand and considers whether there are any other New Zealand-specific transactions or circumstances that need to be addressed. This generally results in few changes to the IPSAS.
11. Although IPSAS 40 is based, in part, on IFRS 3, this was not a typical convergence project. The IPSASB began with IFRS 3, but then made a number of changes, particularly to address the need for guidance on amalgamations in a public sector context. The IPSASB developed an approach to classify a combination as an acquisition or an amalgamation and developed requirements on accounting for amalgamations.
12. The NZASB has considered the relevance of these requirements for New Zealand PBEs, taking into account current practice under PBE IFRS 3 and the types of combinations that can occur in New Zealand. In developing the ED, the NZASB considered the following issues.
  - (a) Differences between IPSAS 40 and IFRS 3 – considering why the IPSASB has diverged from IFRS 3 and whether such divergences would cause any problems for New Zealand PBEs.
  - (b) The distinction between amalgamations and acquisitions – whether it is clear enough and would lead to sensible answers in New Zealand.
  - (c) Requirements which might be open to interpretation or could be clarified.

13. As a result of considering these issues the NZASB has proposed a number of changes to the requirements of IPSAS 40. The significant changes are discussed in this ITC. They include:
- (a) changes to the requirements in IPSAS 40;
  - (b) clarifications to the guidance in IPSAS 40;
  - (c) NFP enhancements to ensure that the proposed PBE Standard is appropriate for application by NFP PBEs as well as public sector PBEs; and
  - (d) amendments to ensure coherence within the suite of PBE Standards by acknowledging the existence of certain PBE Standards for which there is no corresponding IPSAS. For example, the existence of PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* means that some additional guidance has been included in the proposed PBE Standard.
14. Although the ED has been issued in clean form, a marked-up copy of the ED showing the changes proposed to the underlying IPSAS is also available on the XRB website.<sup>2</sup>

## 2.3 Overview of the main differences

15. The main differences between the requirements in PBE IFRS 3 and the proposed requirements in PBE IPSAS 40 are summarised in Table 1 below.

**Table 1**

<b>PBE IFRS 3</b>	<b>Proposed PBE IPSAS 40</b>
<i>Scope</i>	
Excludes <ul style="list-style-type: none"> <li>business combinations arising from a local authority reorganisation</li> <li>combinations under common control</li> </ul>	Applies to all PBE combinations as defined
<i>Classification of combination</i>	
All business combinations within the scope of the standard are accounted for as acquisitions	PBE combinations are classified as either acquisitions or amalgamations
<i>Accounting for amalgamations</i>	
Not addressed – one of the combining entities must be identified as the acquirer	Guidance on accounting for amalgamations
<i>Identifying an acquirer</i>	
One of the combining entities must be identified as the acquirer	Less guidance on identifying an acquirer because of the classification approach

<sup>2</sup> The marked-up copy of the ED shows most of the New Zealand specific changes to the IPSAS. It does not show the New Zealand specific changes to the consequential amendments.

<b>PBE IFRS 3</b>	<b>Proposed PBE IPSAS 40</b>
<i>Recognition of goodwill</i>	
Goodwill is recognised if the consideration transferred exceeds the fair value of the net assets acquired	Additional guidance on when goodwill is recognised. Goodwill is recognised if the acquisition results in the generation of cash inflows and/or a reduction in the net cash outflows of the acquirer, this is in addition to the consideration transferred exceeding the fair value of the net assets acquired
<i>Non-exchange acquisitions</i>	
Guidance on combinations achieved without the transfer of consideration Does not address the types of non-exchange acquisitions covered by PBE IPSAS 40	Guidance on common non-exchange acquisitions in the PBE sector
<i>Tax forgiven</i>	
No guidance on tax forgiven in a combination	Guidance on tax forgiven in a combination

## 2.4 Changes made to IPSAS 40 in the proposed PBE IPSAS 40

16. The significant changes proposed to the requirements of IPSAS 40 are grouped into one of the following categories:
  - (a) Key changes;
  - (b) Proposed RDR concessions; and
  - (c) Amendments to other standards.
17. All the paragraph references below refer to the proposed PBE IPSAS 40 unless otherwise indicated.

## 2.5 Key changes

### Indicators relating to consideration

18. In reflecting on the types of PBE combinations that it has observed in New Zealand and the role of consideration in those combinations, the NZASB notes that the absence of consideration is a common feature of PBE combinations. The NZASB is of the view that the absence of consideration, in itself, does not provide evidence that the combination is an amalgamation. The NZASB is concerned that application of the guidance in IPSAS 40 about consideration, without any changes, could lead to some PBE combinations, particularly some involving NFP entities, being inappropriately classified as amalgamations. The NZASB considers that a transaction involving a donated operation could be an acquisition. This has led the NZASB to modify the sections of IPSAS 40 dealing with consideration and the classification of combinations.



19. Paragraph 12 of IPSAS 40 (shown below) sets out indicators supporting the classification of a combination as an amalgamation.
  12. The following indicators may provide evidence that the combination is an amalgamation:
    - (a) Consideration is paid for reasons other than to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement (paragraphs AG27–AG28 provide additional guidance);
    - (b) Consideration is not paid to those with an entitlement to the net assets of a transferred operation (paragraphs AG29–AG30 provide additional guidance); or
    - (c) Consideration is not paid because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity (paragraph AG31 provides additional guidance).
20. In developing the ED the NZASB has combined the indicators in paragraphs 12(a) and 12(b) and removed the indicator in paragraph 12(c). The NZASB combined paragraphs 12(a) and 12(b) because of its view that, on its own, the indicator in paragraph 12(a) is not a helpful indicator of an amalgamation. The NZASB is of the view that, when classifying combinations, it is necessary to consider the reasons why no consideration has been paid to compensate those with an entitlement to the net assets of a transferred operation.
21. Consistent with its view that the absence of consideration does not in itself provide evidence that a PBE combination is an amalgamation and the broader view of equity interests and owners by PBEs in New Zealand, the NZASB removed paragraph 12(c). In the New Zealand public sector and NFP sector the concept of equity interests is not limited to equity participants in an equity instrument, and the use of the term owners is not limited to owners with a quantifiable ownership interest. Paragraph 12 in the proposed PBE IPSAS 40 therefore reads:
  12. The absence of consideration paid to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement may provide evidence that the combination is an amalgamation if the reasons for the absence of consideration do not provide evidence of an acquisition (paragraphs AG26–AG30 provide additional guidance).
22. The changes to paragraph 12 led to a number of other changes throughout the ED. The main changes were:
  - (a) the reordering of the guidance in paragraphs AG27–AG30;
  - (b) the replacement of the examples in paragraph AG30;
  - (c) the removal of paragraph AG31 which contained guidance on paragraph 12(c);
  - (d) the removal of the reference to the indicator in paragraph 12(c) in the illustrative examples (scenario 2 variation, scenario 3 and scenario 14);
  - (e) the updating of the analysis in the illustrative examples; and
  - (f) the reclassification of scenario 6 in the illustrative examples from an amalgamation to an acquisition.

#### **Definitions of equity interests and owners**

23. The NZASB has modified the definitions of equity interests and owners in IPSAS 40 so that they broadly align with the definitions in PBE IFRS 3 (see paragraph 5). The NZASB is of the view that these definitions should be broad enough to capture the different types of PBEs and different types of residual interests in PBEs in New Zealand.

24. As a result of changing these definitions the NZASB has also replaced the phrase “quantifiable ownership interests” with “equity interests” where appropriate throughout the proposed PBE IPSAS 40.

#### **Use of the term “new entity”**

25. IPSAS 40 establishes different requirements for resulting entities that are new entities and those that are not. The NZASB agrees that different requirements are appropriate in different circumstances. For example, the availability and usefulness of prior period information differs in various situations. However, the NZASB was concerned that New Zealand PBEs applying IPSAS 40 could have difficulty in identifying when the resulting entity was or was not a new entity; this was because IPSAS 40 referred to both new legal entities and new economic entities in various places (see paragraphs AG17 and AG22 of IPSAS 40). The NZASB considers that clarity over the use of the term “new entity” is important because it affects presentation, disclosure and how to apply the modified pooling of interests method.
26. The NZASB has not base the requirements in the ED on whether or not an entity is a new *legal* entity, because any new entities established as part of a PBE combination would not necessarily be separate legal entities. The NZASB reviewed the use of the terms “new entity” and “continuing entity” in IPSAS 40 and thought the best way to clarify these terms is to specify when a *new reporting entity* and *continuing reporting entity* can arise (see paragraph 18).
27. IPSAS 40 reflects the IPSASB’s view that an amalgamation effectively creates a new entity, whether or not a new entity is established. The NZASB’s view is that it is not appropriate to treat all amalgamations as giving rise to new reporting entities; it could be more appropriate to treat some amalgamations as having continuing reporting entities. The NZASB therefore omitted paragraph AG22 from the proposed PBE IPSAS 40.
28. The clarification of these terms led to a number of other changes throughout the proposed PBE IPSAS 40. The other main changes were:
  - (a) clarifying that the resulting entity is a new reporting entity in paragraph 50;
  - (b) clarifying that the resulting entity is a continuing reporting entity in paragraph 51; and
  - (c) the removal of paragraph AG1.

#### **Applying the modified pooling of interests method**

29. The NZASB thought about application of the proposed standard to PBE combinations involving entities reporting in accordance with different suites of standards. The NZASB felt that it was important for the proposed standard to be clear about what is required if (i) one of the combining entities had previously recognised assets and liabilities that did not meet the recognition and measurement requirements in PBE Standards; and/or (ii) one of the combining entities had failed to recognise assets and liabilities that should be recognised in accordance with PBE Standards. The NZASB also felt that the standard needed to be clear about the circumstances in which the resulting entity would be expected to go through a first-time adoption process.
30. The NZASB did not feel that IPSAS 40 contained sufficient guidance about these issues for New Zealand PBEs. For example, IPSAS 40 does not establish requirements about when the first-time adoption standard would be applied; it has been left to the judgement of the reporting entity. The NZASB therefore added guidance to address these situations (see the proposed

amendments to paragraphs 20.1, AG50.1, AG50.2 and paragraph B6 of PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*).

31. The IPSASB did not permit the recognition of previously unrecognised assets/liabilities of the combining operations on the grounds that the IPSASB considered it would be costly for entities to identify, measure and recognise these assets/liabilities. The NZASB noted that the IPSASB develops standards for application by international governments and public sector entities which can have different characteristics and face different circumstances to New Zealand PBEs. Based on its knowledge of New Zealand PBEs the NZASB is proposing that the resulting entity shall recognise all assets and liabilities of the combining operations in accordance with PBE Standards, irrespective of whether or not the combining operations had recognised the assets and liabilities prior to the amalgamation. The NZASB therefore changed paragraph 21, omitted paragraph 23 and added paragraph B6 of PBE FRS 47.

#### **Presentation of financial statements and disclosures**

32. IPSAS 40 permits, but does not require, the resulting entity to present the combining operations' comparatives in the first set of financial statements following an amalgamation. The NZASB's view is that the continuing reporting entity's comparatives are useful to readers and that a requirement to present such comparatives would not be onerous because the information would have already been prepared. The NZASB has therefore required that the continuing reporting entity present comparative information (see paragraph 51). The comparative information does not have to be restated for the combining operations. This requirement has been clarified in paragraphs 51 and 52.
33. The NZASB has also clarified that a new reporting entity shall not present comparatives because it has not been in existence prior to the amalgamation (see paragraph 50).
34. The NZASB considered what information should be presented in respect of amalgamations that occur part way through a reporting period. Generally, disestablished or newly established public sector entities are required to prepare financial statements following an amalgamation in accordance with legislative requirements (which are intended to ensure that users receive appropriate financial information up to, and following, the amalgamation). Other PBEs such as registered charities do not have equivalent legislative requirements. To address the potential information gap that could occur, the NZASB has clarified that PBEs are required to provide comparative information up to the date of the amalgamation (see paragraphs 52, 54(g) and 54(h)).

#### **Identifying an acquirer**

35. The NZASB noted that guidance from IFRS 3 (and PBE IFRS 3) on identifying an acquirer in a reverse acquisition was omitted from IPSAS 40 (see paragraphs B14–B18 of PBE IFRS 3). The IPSASB may have omitted this guidance from IPSAS 40 on the grounds that the exchange of equity instruments in the public sector is uncommon and is likely to occur only if there is a corporation involved. The NZASB acknowledged that PBE combinations are unlikely to involve reverse acquisitions and that guidance on identifying the acquirer in this situation is not required. However, the NZASB felt that it would be helpful to add guidance on identifying the acquirer when a new reporting entity is formed. The NZASB therefore added guidance from PBE IFRS 3.B15(c) and (d) in paragraphs AG14 and AG17.

#### **Transition**

36. The transitional guidance in IPSAS 40 (paragraphs 127–134 and AG114–AG115) is based on equivalent guidance in IFRS 3. The guidance in IFRS 3 was intended to address transition issues

that could have arisen for entities adopting IFRS 3, having regard to the accounting they applied before adoption of IFRS 3. In contrast, most PBEs will have applied PBE IFRS 3 to any recent combinations falling within the scope of that standard. Because of this the NZASB modified the transition guidance in IPSAS 40.

37. The NZASB is proposing to:
  - (a) mandate prospective application unless the entity is a first-time adopter of PBE Standards, in which case it can choose between prospective application and retrospective application. The NZASB is also proposing to include guidance for retrospective application by a first-time adopter of PBE Standards in PBE FRS 47;
  - (b) permit early application of PBE IPSAS 40; and
  - (c) prohibit restatement of combinations because it would be costly for entities that had not previously applied PBE Standards to adjust assets and liabilities acquired in a combination whose acquisition date preceded the start of the comparative period on application of the proposed PBE IPSAS 40.
38. The proposed transitional provisions are in paragraphs 125.2–125.4 of the proposed PBE IPSAS 40.

#### **Voluntary combination not under common control**

39. IPSAS 40 does not provide guidance for voluntary combinations not under common control. These combinations are more common in the NFP sector than the public sector. The NZASB thought it would be helpful to add guidance and a related illustrative example for such combinations (see paragraph AG17.1 and scenario 15 in the illustrative examples).

#### **Selection of accounting policies by the resulting entity**

40. The NZASB felt that New Zealand PBEs required clear guidance on the selection of accounting policies by the resulting entity and the interaction between the proposed PBE IPSAS 40 and PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*. The NZASB is proposing to clarify the requirements in IPSAS 40, including making it clear that a continuing reporting entity would retain its prior accounting policies. The NZASB has added guidance on the selection of accounting policies by a new reporting entity and a continuing reporting entity (see paragraphs AG54.1 and AG54.2).

#### **Income taxes**

41. The NZASB noted that the IPSASB had included some guidance on the recognition and measurement of income taxes following acquisitions and amalgamations and how to account for taxes forgiven as a result of a combination (see paragraphs 34, 79, AG58 and AG86 of IPSAS 40).
42. The NZASB did not feel that this guidance was necessary as it merely acted as a prompt to look at the requirements in other standards and to eliminate any inter-entity tax balances. The NZASB therefore omitted paragraphs 34 and 79 and the related paragraphs AG58 and AG86.

**Question for respondents**

1. Do you agree with the changes (as listed below) made by the NZASB in developing the proposed PBE IPSAS 40? If not, please explain why not and identify what you think would be more appropriate.
  - (a) Indicators relating to consideration
  - (b) Definitions of equity interests and owners
  - (c) Use of the term “new entity”
  - (d) Applying the pooling of interests method
  - (e) Presentation of financial statements and disclosures
  - (f) Identifying an acquirer
  - (g) Transition
  - (h) Voluntary combination under common control
  - (i) Selection of the accounting policies by the resulting entity
  - (j) Income taxes

**2.6 Proposed RDR concessions**

43. The NZASB has identified proposed RDR concessions for Tier 2 PBEs in the ED. The proposed concessions and associated RDR paragraphs are shown in the ED.
44. The proposed concessions and associated RDR paragraphs for disclosures related to acquisitions are based on the concessions and RDR paragraphs in PBE IFRS 3. The proposed concessions and associated RDR paragraphs for disclosures related to amalgamations have been identified using the approach currently applied to the for-profit standards. Consistency between the disclosures related to acquisitions and amalgamations has also been considered.
45. The NZASB is reviewing the policy for determining RDR concessions in the for-profit standards. Once this policy has been finalised, a policy for determining RDR concessions in PBE Standards will be developed. The NZASB would consult separately on any changes to RDR concessions in PBE Standards as a result of any new policy developed.

**Question for respondents**

2. Do you agree with the concessions and associated RDR paragraphs in the proposed PBE IPSAS 40? If you disagree, please provide reasons and indicate any additional concessions or RDR paragraphs that you consider would be appropriate

**2.7 Amendments to other standards**

46. The ED also contains amendments to other PBE Standards to update references and requirements in those PBE Standards.

**2.8 Effective date and other comments**

47. The proposed effective date for PBE IPSAS 40 is 1 January 2022, with early adoption permitted. This date is based on the assumption that this project will be completed by the end of 2019 and would be reviewed prior to issuing any standard.

**Questions for respondents**

3. Do you agree with the proposed effective date of 1 January 2022, with early adoption permitted? If you disagree, please provide reasons.
4. Do you have any other comments on the Exposure Draft?



## EXPOSURE DRAFT NZASB 2018-X

### **PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 40 PBE COMBINATIONS (PBE IPSAS 40)**

#### **Issued [Date]**

This [draft]<sup>1</sup> 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 the [draft] Standard in accordance with the effective date set out in paragraph 126.1.

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] New Zealand Tier 1 and Tier 2 Public Benefit Entity Accounting Standard has been issued as a result of a new International Public Sector Accounting Standard, IPSAS ~~40~~ *Public Sector Combinations*.

This [draft] Standard when applied, supersedes PBE IFRS 3 *Business Combinations*.

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<sup>1</sup> References to “this Standard” throughout this Exposure Draft should be read as referring to “this draft Standard”.

## **PBE IPSAS 40 PBE COMBINATIONS**

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Public Benefit Entity International Public Sector Accounting Standard 40 *PBE Combinations* is set out in paragraphs 1–134.1 and Appendices A and B. All the paragraphs have equal authority. PBE IPSAS 40 should be read in the context of its objective, the NZASB’s Basis for Conclusions on PBE IPSAS 40, the IPSASB’s Basis for Conclusions on IPSAS 40, 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.

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<sup>2</sup> For the purpose of this Exposure Draft, the IPSASB’s Basis for Conclusions has been included. When the PBE Standard is issued, the IPSASB’s Basis for Conclusions will be made available as additional material on the XRB website.

## Objective

1. The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about a public benefit entity (PBE) ~~public sector~~ combination and its effects. To accomplish that, this Standard establishes principles and requirements for how:
  - (a) A reporting entity classifies a PBE ~~public sector~~ combination as an amalgamation or an acquisition;
  - (b) A resulting entity recognises and measures in its financial statements the ~~identifiable~~ assets received, the liabilities assumed and any non-controlling interest in an amalgamation;
  - (c) A resulting entity recognises and measures components of net assets/equity and other adjustments recognised in an amalgamation;
  - (d) An acquirer recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation;
  - (e) An acquirer recognises and measures the goodwill acquired in, or the gain or loss arising from, an acquisition; and
  - (f) A reporting entity determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a PBE ~~public sector~~ combination.

## Scope

- 1.1 This Standard applies to Tier 1 and Tier 2 public benefit entities.
- 1.2 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.
2. An entity that prepares and presents financial statements ~~under the accrual basis of accounting~~ shall apply this Standard in accounting for PBE ~~public sector~~ combinations.
3. This Standard applies to a transaction or other event that meets the definition of a PBE ~~public sector~~ combination. This Standard does not apply to:
  - (a) The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
  - (b) The acquisition or receipt of an asset or a group of assets (and any related liabilities) that does not constitute an operation. In such cases an entity shall identify and recognise the individual identifiable assets acquired or received (including those assets that meet the definition of, and recognition criteria for, intangible assets in PBE IPSAS 31 *Intangible Assets*) and liabilities assumed. Such a transaction or event does not give rise to goodwill.
  - (c) The assumption of a liability or a group of liabilities that does not constitute an operation. In such cases an entity shall identify and recognise the individual liabilities assumed.
4. The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in PBE IPSAS 35 *Consolidated Financial Statements*, of an investment in a controlled entity that is required to be measured at fair value through surplus or deficit.

## Definitions

5. The following terms are used in this Standard with the meanings specified:

Public benefit entities are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

A public benefit entity (PBE) ~~public sector~~ combination is the bringing together of separate operations into one public ~~benefit sector~~ entity.

*General definitions related to all PBE ~~public sector~~ combinations*

For the purposes of this Standard, equity interests is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities. In the context

of this Standard equity interests may also mean ownership interests established by other mechanisms such as deed or statute.

An asset is identifiable if it either:

- (a) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability, regardless of whether the entity intends to do so; or
- (b) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A mutual entity is an entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.

An operation is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services for community or social benefit, rather than a financial return to equity holders. In the context of this Standard, "operation" also includes an integrated set of activities that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

For the purposes of this Standard, owners is used broadly to include those with an equity interest, any party with quantifiable ownership interests in an operation. This includes, but is not limited to, those with holders of an equity interests in investor-owned entities and owners or members of, or participants in, mutual entities.

A PBE public-sector combination under common control is a PBE public-sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the PBE public-sector combination.

#### *Definitions related to amalgamations*

An amalgamation gives rise to a resulting entity and is either:

- (a) A PBE public-sector combination in which no party to the combination gains control of one or more operations; or
- (b) A PBE public-sector combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.

~~(Paragraph AG1 provides additional guidance.)~~

The amalgamation date is the date on which the resulting entity obtains control of the combining operations.

A combining operation is an operation that combines with one or more other operations to form the resulting entity in an amalgamation.

A resulting entity is the entity that is the result of two or more operations combining in an amalgamation ~~(paragraph AG1 provides additional guidance).~~

#### *Definitions relating to acquisitions*

An acquired operation is the operation that the acquirer gains control of in an acquisition.

An acquirer is the entity that gains control of one or more operations in an acquisition.

An acquisition is a PBE public-sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.

The acquisition date is the date on which the acquirer gains control of the acquired operation.

**Contingent consideration** is usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

**Goodwill** is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognised.

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.

## Identifying a ~~PBE-public-sector~~ Combination

6. An entity shall determine whether a transaction or other event is a ~~PBE-public-sector~~ combination by applying the definitions in this Standard, which requires that the assets and liabilities constitute an operation. If the assets and liabilities do not constitute an operation, the entity shall account for the transaction or other event in accordance with other PBE Standards. Paragraphs AG2–AG9 provide guidance on identifying a ~~PBE-public-sector~~ combination.

## Classification of ~~PBEpublic-Sector~~ Combinations

7. If no party to a ~~PBE-public-sector~~ combination gains control of one or more operations as a result of the combination, the combination shall be classified as an amalgamation. Paragraphs AG10–AG18 provide guidance on determining whether one party to a ~~PBE-public-sector~~ combination gains control of one or more operations as a result of that combination.
8. If one party to a ~~PBE-public-sector~~ combination gains control of one or more operations as a result of the combination, an entity shall consider the economic substance of the combination in classifying the combination as either an amalgamation or an acquisition. A combination in which one party gains control of one or more operations shall be classified as an acquisition, unless it has the economic substance of an amalgamation.
9. In determining the classification of the ~~PBE-public-sector~~ combination, an entity considers whether the resulting accounting treatment of the combination provides information that meets the objectives of financial reporting and that satisfies the qualitative characteristics (QCs). To assess the economic substance of the combination, an entity considers the indicators relating to consideration and to the decision-making process in paragraphs 12–13. These indicators, individually or in combination, will usually provide evidence that the economic substance of the combination is that of an amalgamation. A combination does not need to satisfy both of these indicators to be classified as an amalgamation. Paragraphs AG19–AG39 provide additional guidance.
10. An analysis of the indicators relating to consideration and to the decision-making process in paragraphs 12–13 will usually produce a conclusive result and provide sufficient evidence about the economic substance of the ~~PBEpublic-sector~~ combination to determine whether the combination is an amalgamation. In such circumstances, the resulting classification and the associated accounting treatment will ensure that users have access to information that meets the objectives of financial reporting and that satisfies the QCs.
11. In exceptional circumstances, after applying the indicators in paragraphs 12–13, the results may be inconclusive or may not provide sufficient evidence about the economic substance of the ~~PBE-public-sector~~ combination. In such circumstances, an entity also considers which classification would provide information that best meets the objectives of financial reporting and that best satisfies the QCs, having regard to paragraph 14. Paragraphs AG40–AG41 provide additional guidance.

## Indicators that May Provide Evidence that the Combination is an Amalgamation

### *Indicators Relating to Consideration*

12. The absence of consideration paid to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement may provide evidence that the combination is an amalgamation if the reasons for the absence of consideration do not provide evidence of an acquisition (paragraphs AG26–AG30 provide additional guidance). ~~The following indicators may provide evidence that the combination is an amalgamation:~~

- (a) ~~[Not used] Consideration is paid for reasons other than to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement (paragraphs AG27–AG28 provide additional guidance);~~
- (b) ~~[Not used] Consideration is not paid to those with an entitlement to the net assets of a transferred operation (paragraphs AG29–AG30 provide additional guidance); or~~
- (c) ~~[Not used] Consideration is not paid because there is no one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity (paragraph AG31 provides additional guidance).~~

#### *Indicators Relating to the Decision-Making Process*

13. The following indicators may provide evidence that the combination is an amalgamation:

- (a) A ~~PBE-public sector~~ combination is imposed by a third party without any party to the combination being involved in the decision-making process (paragraphs AG32–AG35 provide additional guidance);
- (b) A ~~PBE-public sector~~ combination is subject to approval by each party's citizens through referenda (paragraph AG36 provides additional guidance); or
- (c) A ~~PBE-public sector~~ combination under common control occurs (paragraphs AG37–AG39 provide additional guidance).

*Additional matters to be taken into account where the indicators relating to consideration and the decision-making process do not provide sufficient evidence to determine whether the combination is an amalgamation*

14. The analysis of the indicators relating to consideration and the decision-making process may, in exceptional circumstances, produce inconclusive results or not provide sufficient evidence to determine whether the combination is an amalgamation, based on the economic substance of the ~~PBE-public sector~~ combination and the indicators in paragraphs 12–13. In such circumstances, an entity considers which classification and resulting accounting treatment would provide information that best meets the objectives of financial reporting. Paragraphs AG42–AG46 provide additional guidance. An entity also considers which classification and resulting accounting treatment would provide information that best satisfies the QCs of relevance, faithful representation, understandability, timeliness, comparability and verifiability. Paragraphs AG47–AG50 provide additional guidance.

### **Accounting for Amalgamations**

15. **A resulting entity shall account for each amalgamation by applying the modified pooling of interests method of accounting.**

### **The Modified Pooling of Interests Method of Accounting**

16. Applying the modified pooling of interests method of accounting requires:

- (a) Identifying the resulting entity;
- (b) Determining the amalgamation date;
- (c) Recognising and measuring the ~~identifiable~~ assets received, the liabilities assumed and any non-controlling interest in the combining operations, consistent with the requirements in PBE Standards; and
- (d) Recognising and measuring the components of net assets/equity and other adjustments from an amalgamation.

#### **Identifying the Resulting Entity**

17. **For each amalgamation, a resulting entity shall be identified.**

18. Paragraph 5 of this Standard defines a resulting entity as “the entity that is the result of two or more operations combining in an amalgamation.” The resulting entity may be a new reporting entity or a continuing reporting entity. When none of the parties to the combination that existed prior to the combination gain control over the combining operations, the resulting entity is a new reporting entity. When one of the parties to the combination that existed prior to the combination gains control of the other

~~combining operations, the resulting entity is that continuing reporting entity. The resulting entity shall thereafter be identified as the entity that obtains control of the combining operations as a result of the amalgamation.~~

### Determining the Amalgamation Date

19. **The resulting entity shall identify the amalgamation date, which is the date on which it obtains control of the combining operations.**
20. The date on which the resulting entity obtains control of the combining operations may be the date on which the resulting entity receives the assets and assumes the liabilities of the combining operations. It is possible that the resulting entity will not receive legal title to the assets or assume legal responsibility for the liabilities of the combining operations. In these circumstances, the resulting entity will often obtain control of the assets and liabilities of the combining operations on the date on which responsibility for the assets and liabilities is formally delegated to the resulting entity. However, the resulting entity might obtain control on a different date. For example, legislation or a written agreement may provide that the resulting entity obtains control of the assets and liabilities of the combining operations on a specified date. A resulting entity shall consider all pertinent facts and circumstances in identifying the amalgamation date.

### Recognising and Measuring the ~~Identifiable~~ Assets Received, Liabilities Assumed and any Non-Controlling Interests in the Combining Operations

#### *Recognition Principle*

- 20.1 ~~If, prior to the amalgamation date, all of the combining operations have previously applied PBE Standards, then the resulting entity shall apply paragraphs 21–35. If, prior to the amalgamation date, one or more of the combining operations have not previously applied PBE Standards, then the resulting entity shall apply refer to paragraphs 21–35 and paragraphs AG50.1–AG50.2 for additional guidance.~~
21. **As of the amalgamation date, the resulting entity shall, in accordance with PBE Standards, recognise in the combined operation's financial statements the identifiable assets, liabilities and any non-controlling interests that are recognised in the financial statements of the combining operations as of the amalgamation date. Recognition of identifiable assets received and liabilities assumed received is subject to the conditions specified in paragraphs 22–23.**

#### *Recognition Conditions*

22. **The effects of all transactions between the combining operations are eliminated in preparing the financial statements of the resulting entity (paragraphs AG51–AG52 provide related application guidance).**
23. ~~[Not used] To qualify for recognition as part of applying the modified pooling of interests method, the identifiable assets and liabilities must meet the definitions of assets and liabilities in the *Public Benefit Entities' Conceptual Framework* at the amalgamation date. For example, costs that the resulting entity expects, but is not obliged, to incur in the future to effect its plan to exit an activity of a combining operation or to terminate the employment of or relocate a combining operation's employees are not liabilities at the amalgamation date. Therefore, the resulting entity does not recognise those costs as part of applying the modified pooling of interests method. Instead, the resulting entity recognises those costs in its post-combination financial statements in accordance with other PBE Standards.~~

### Classifying or Designating Assets and Liabilities in an Amalgamation

24. **At the amalgamation date, the resulting entity shall classify or designate the assets and liabilities received in an amalgamation using the classifications or designations previously applied by the combining operations. A resulting entity shall not adopt different classifications or designations on initial recognition, unless required to do so even if this is permitted by other PBE Standards.**
25. In some situations, PBE Standards provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the resulting entity shall make on the basis of the classifications or designations previously applied by the combining operations include, but are not limited to:



- (a) Classification of particular financial assets and liabilities as measured at fair value or at amortised cost, in accordance with PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*;<sup>3</sup>
- (b) Designation of a derivative instrument as a hedging instrument in accordance with PBE IPSAS 29; and
- (c) Assessment of whether an embedded derivative should be separated from a host contract in accordance with PBE IPSAS 29 (which is a matter of 'classification' as this Standard uses that term).

#### *Measurement Principle*

- 26. **The resulting entity shall measure the ~~identifiable~~ assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, subject to the requirements of paragraph 27 (paragraphs AG53–AG54 provide related application guidance).**
- 27. **As of the amalgamation date, the resulting entity shall adjust the carrying amounts of the ~~identifiable~~ assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies.**
- 28. The modified pooling of interests method results in a single combined resulting entity. A single uniform set of accounting policies, consistent with the requirements of PBE Standards, is adopted by that entity, and the carrying amounts of the ~~identifiable~~ assets and liabilities of the combining operations are adjusted, where required, to conform to those accounting policies (paragraphs AG54.1–AG54.2 provide related application guidance).
- 29. The resulting entity shall measure any non-controlling interests in a combining operation at their carrying amounts in the financial statements of that combining operation as of the amalgamation date, adjusted for the non-controlling interests' proportionate share of the adjustments made in accordance with paragraph 27.
- 30. Paragraphs 33–35 specify the types of ~~identifiable~~ assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

#### *Exceptions to the Recognition or Measurement Principles*

- 31. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 32–35 specify both the particular items for which exceptions are provided and the nature of those exceptions. The resulting entity shall account for those items by applying the requirements in paragraphs 32–35, which will result in some items being:
  - (a) Recognised either by applying recognition conditions in addition to those in paragraphs ~~22–23~~ or by applying the requirements of other PBE Standards, with results that differ from applying the recognition principle and conditions.
  - (b) Measured at an amount other than their amalgamation date carrying amounts.

#### *Exception to the Recognition Principle*

##### *Licences and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation*

- 32. A licence or similar right, previously granted by one combining operation to another combining operation and recognised as an intangible asset by the recipient combining operation shall be recognised by the resulting entity as an intangible asset. The licence or similar right shall not be eliminated in accordance with paragraph 22 (paragraphs AG55–AG56 provide related application guidance).

<sup>3</sup> If an entity applies this Standard and early adopts PBE IFRS 9 *Financial Instruments*, the references to PBE IPSAS 29 in this paragraph shall be read as references to PBE IFRS 9, including the classification of financial assets and financial liabilities in accordance with PBE IFRS 9.



Exceptions to both the Recognition and Measurement Principles

Income Taxes (where Included in the Terms of the Amalgamation)

33. Amalgamations involving public sector entities may result in a tax authority forgiving amounts of tax due as part of the terms of the amalgamation. The resulting entity shall not recognise any taxation items that are forgiven as a result of the terms of the amalgamation (paragraphs AG57–AG58 provide related application guidance).
34. ~~[Not used] The resulting entity shall recognise and measure any remaining taxation items included in or arising from an amalgamation in accordance with the relevant international or national accounting standard dealing with income taxes. The resulting entity shall recognise and measure any remaining revenue from taxation included in or arising from an amalgamation in accordance with PBE IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers).~~

Employee Benefits

35. The resulting entity shall recognise and measure a liability (or asset, if any) related to the combining operation's employee benefit arrangements in accordance with PBE IPSAS 39 *Employee Benefits*.

**Recognising and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation**

36. An amalgamation does not give rise to goodwill (paragraphs AG59–AG60 provide related application guidance).
37. The resulting entity shall recognise within net assets/equity ~~the aggregate of amounts equal and opposite to the following items:~~
  - (a) The carrying amounts of the combining operations'<sup>4</sup> assets;
  - (b) The carrying amounts of the combining operations' liabilities; and
  - (c) The carrying amounts of the combining operations' non-controlling interests.
38. The resulting entity shall recognise within net assets/equity the corresponding adjustments in respect of:
  - (a) The elimination of transactions between combining ~~operations~~entities in accordance with paragraph 22;
  - (b) Adjustments made to the carrying amounts of the ~~identifiable~~assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies, in accordance with paragraph 27; and
  - (c) Adjustments made in respect of the exceptions to the recognition and/or measurement principles, in accordance with paragraphs 32–35.
39. The resulting entity may present the amounts recognised within net assets/equity in accordance with paragraphs 37 and 38 as either:
  - (a) A single opening balance; or
  - (b) As separate opening balances of components of net assets/equity, including any components of the combining operations retained by the resulting entity.

**Measurement Period**

40. If the initial accounting for an amalgamation is incomplete by the end of the reporting period in which the amalgamation occurs, the resulting entity shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity shall retrospectively adjust the provisional amounts recognised at the amalgamation date to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the resulting entity shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that

<sup>4</sup> In this paragraph the term “combining operations” refers to the operations being combined into the resulting entity rather than those that belong to the continuing reporting entity or new reporting entity.

existed as of the amalgamation date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the resulting entity receives the information it was seeking about facts and circumstances that existed as of the amalgamation date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the amalgamation date.

41. The measurement period is the period after the amalgamation date during which the resulting entity may adjust the provisional amounts recognised for an amalgamation. The measurement period provides the resulting entity with a reasonable time to obtain the information necessary to identify and measure the ~~identifiable~~ assets, liabilities and any non-controlling interest in the combining operations as of the amalgamation date in accordance with the requirements of this Standard. The information necessary to identify and measure the ~~identifiable~~ assets, liabilities and any non-controlling interest in the combining operations will generally be available at the amalgamation date. However, this may not be the case where combining operations have previously prepared their financial statements using different accounting policies.
42. The resulting entity recognises an increase (decrease) in the provisional amount recognised for an ~~identifiable~~ asset (liability) by adjusting components of net assets/equity recognised in accordance with paragraphs 37–38. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the resulting entity might have assumed a liability to pay damages related to an accident in one of the combining operation's facilities, part or all of which are covered by the combining operation's liability insurance policy. If the resulting entity obtains new information during the measurement period about the carrying amount of that liability, the adjustment to the gain or loss resulting from a change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to the gain or loss resulting from a change to the provisional amount recognised for the claim receivable from the insurer.
43. During the measurement period, the resulting entity shall recognise adjustments to the provisional amounts as if the accounting for the amalgamation had been completed at the amalgamation date. Thus, the resulting entity shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation or amortisation recognised in completing the initial accounting.
44. After the measurement period ends, the resulting entity shall revise the accounting for an amalgamation only to correct an error in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

### Amalgamation-Related Costs

45. Amalgamation-related costs are costs the resulting entity or combining operations incur to effect an amalgamation. Those costs include advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs; and any costs of registering and issuing debt and equity securities. The resulting entity and combining operations shall account for amalgamation-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with PBE IPSAS –28 *Financial Instruments: Presentation*, and PBE IPSAS 29.<sup>5</sup>

### Subsequent Measurement and Accounting

46. In general, a resulting entity shall subsequently measure and account for assets and liabilities received and equity instruments issued in an amalgamation in accordance with other applicable PBE Standards for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets received and liabilities assumed or incurred in an amalgamation:
  - (a) Licenses and similar rights previously granted by one combining operation to another combining operation;

<sup>5</sup> If an entity applies this Standard and early adopts PBE IFRS 9 *Financial Instruments*, the references to PBE IPSAS 29 in this paragraph shall be read as references to PBE IFRS 9.

- (b) Transfers, concessionary loans and similar benefits received by a combining operation on the basis of criteria that change as a result of an amalgamation; and
- (c) Income taxes (where not included in the terms of the amalgamation).

*Licences and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation*

47. A licence or similar right, previously granted by one combining operation to another combining operation and recognised as an intangible asset shall be amortised over the remaining period of the binding arrangement in which the right was granted, where the right was granted for a finite period. Where the right was granted for an indefinite period, the resulting entity shall test the right for impairment at least annually, and whenever there is an indication that the right may be impaired. A resulting entity that subsequently sells this licence or similar right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

*Transfers, Concessionary Loans and Similar Benefits Received by a Combining Operation on the Basis of Criteria that may Change as a Result of an Amalgamation*

48. A transfer, concessionary loan or similar benefit, previously received by a combining operation on the basis of criteria that change as a result of an amalgamation, shall be reassessed prospectively in accordance with other PBE Standards (paragraphs AG61–AG63 provide related application guidance).

*Income Taxes (Where not Included in the terms of the Amalgamation)*

49. Amalgamations involving public sector entities may result in a tax authority forgiving amounts of tax subsequent to the amalgamation. The resulting entity shall account for the tax forgiven prospectively in accordance with PBE IAS 12 Income Taxes ~~the relevant international or national accounting standard dealing with income taxes.~~

**Presentation of Financial Statements**

50. ~~If, following a PBE combination, Except where a~~ resulting entity is ~~not~~ a new reporting entity ~~following a public sector combination~~, the resulting entity's first set of financial statements following the amalgamation shall comprise:
- (a) An opening statement of financial position as of the amalgamation date;
  - (b) A statement of financial position as at the reporting date;
  - (c) ~~A statement of financial performance~~ statement of comprehensive revenue and expense for the period from the amalgamation date to the reporting date;
  - (d) A statement of changes in net assets/equity for the period from the amalgamation date to the reporting date;
  - (e) A cash flow statement for the period from the amalgamation date to the reporting date;
  - (f) ~~If the entity makes publicly available its approved budget, a comparison of budget and actual amounts for the period from the amalgamation date to the reporting date, either as a separate additional financial statement or as a budget column in the financial statements~~ When a public sector entity has published general purpose prospective financial statements for the period from the amalgamation date to the reporting date, the information specified in paragraph 148.1 of PBE IPSAS 1 Presentation of Financial Reports shall be presented on the face of the financial statements or as a separate statement. When a not-for-profit entity has published general purpose prospective financial statements for the period from the amalgamation date to the reporting date, the information specified in paragraph 148.1 of PBE IPSAS 1 shall be presented on the face of the financial statements, as a separate statement or in the notes; and
  - (g) Notes, comprising a summary of significant accounting policies and other explanatory notes.
- The resulting entity shall not present comparative information on the face of its financial statements for the periods prior to the amalgamation date. The resulting entity is permitted to disclose in the notes comparative information for the combining operations for the periods prior to the amalgamation date, in accordance with paragraph 54(g).

51. **If, following a PBE combination, Where a the resulting entity is ~~not~~ a continuing new reporting entity following a public sector combination, the resulting entity shall disclose as of the amalgamation date:**
- (a) The amounts recognised of each major class of assets and liabilities, and components of net assets/equity from combining operations included in the resulting entity;
  - (b) Any adjustments made to components of net assets/equity where required to conform the accounting policies of the combining operations with those of the resulting entity; and
  - (c) Any adjustments made to eliminate transactions between the combining operations.
- The resulting entity shall present comparative financial information, in respect of the continuing reporting entity only, for the period prior to the amalgamation date on the face of the financial statements but this information shall not be restated. The resulting entity is permitted to disclose in the notes comparative financial information for the combining operations for the periods prior to the amalgamation date, in accordance with paragraph 54(g).**
52. Subject to the requirements in paragraphs 54 and 56, the resulting entity is permitted but not required to present financial statements for one or more of the combining operations for periods prior to the amalgamation date (paragraphs AG64–AG65 provides related application guidance). Where a resulting entity elects to present financial statements for the combining operations for periods prior to the amalgamation date, it shall disclose the information required by paragraph 54(g). The resulting entity shall not restate the combining operations' financial statements, but shall disclose the information on the same basis as previously used in the combining operations' financial statements. Where a resulting entity does not elect to present financial statements for the combining operations for periods prior to the amalgamation date, it shall meet the needs of users of the financial statements in one of the ways outlined in paragraph AG64.

#### Disclosures

- \*53. The resulting entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an amalgamation.**
- RDR 53.1 A Tier 2 entity is required to comply with the disclosures in paragraphs 54–57 that are not asterisked (\*) as RDR concessions.**
54. To meet the objective in paragraph 53, the resulting entity shall disclose the following information for each amalgamation that occurs during the reporting period:
- (a) The name and a description of each combining operation.
  - (b) The amalgamation date.
  - (c) The primary reasons for the amalgamation including, where applicable, the legal basis for the amalgamation.
  - (d) The amounts recognised as of the amalgamation date for each major class of assets and liabilities transferred.
  - (e) The adjustments made to the carrying amounts of assets and liabilities recorded by each combining operation as of the amalgamation date:
    - (i) To eliminate the effect of transactions between combining operations in accordance with paragraph 22; and
    - (ii) To conform to the resulting entity's accounting policies in accordance with paragraph 27.
  - \*(f)** An analysis of net assets/equity, including any components that are presented separately, and any significant adjustments such as revaluation surpluses or deficits, recognised in accordance with paragraphs 37–38.
  - (g) If a resulting entity elects to present financial statements for the combining operations for periods prior to the amalgamation date in accordance with paragraph 52, the resulting entity shall disclose the following information for each combining operation in the notes:
    - (iii) A statement of financial position as at the end of the prior period(s);
    - (iv) A ~~statement of financial performance~~ statement of comprehensive revenue and expense for the prior period(s);

- (v) A statement of changes in net assets/equity for the prior period(s);
- (vi) A cash flow statement for the prior period(s); and
- (vii) Notes, comprising a summary of significant accounting policies and other explanatory notes.

The resulting entity shall not restate this information, but shall disclose the information on the same basis as previously used in the combining operations' financial statements. The resulting entity shall describe ~~disclose~~ the significant differences between the resulting entity's accounting policies and the accounting policies previously applied by the combining operations ~~basis on which this information is presented~~. If the combining operations' prior period financial statements are not for the reporting period immediately prior to the amalgamation date the resulting entity shall also disclose the information specified in subparagraph (h) below.

- (h) If, at the time the financial statements of the resulting entity are authorised for issue, the last reporting date of any of the combining operations does not immediately precede the amalgamation date, the resulting entity shall disclose the following information:
  - (i) The amounts of revenue and expense, and the surplus or deficit of each combining operation from the last reporting date of the combining operations until the amalgamation date. The amounts of revenue shall be analysed in a manner appropriate to the entity's operations, in accordance with paragraph 108 of PBE IPSAS 1 *Presentation of Financial Statements*. The amounts of expense shall be analysed 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, in accordance with paragraph 109 of PBE IPSAS 1.
  - (ii) The amounts reported by each combining operation immediately prior to the amalgamation date for each major class of assets and liabilities.
  - (iii) The amounts reported by each combining operation immediately prior to the amalgamation date in net assets/equity.

The resulting entity is not required to disclose this information where it has elected to present financial statements of the combining operations for the reporting periods ending immediately prior to the amalgamation date as specified in subparagraph (g) above.

**\*55. The resulting entity shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to amalgamations that occurred in the period or previous reporting periods.**

56. To meet the objective in paragraph 55, the resulting entity shall disclose the following information:

- \*(a)** If the initial accounting for an amalgamation is incomplete (see paragraph 40) for particular assets or liabilities, and the amounts recognised in the financial statements for the amalgamation thus have been determined only provisionally:
  - (i) The reasons why the initial accounting for the amalgamation is incomplete;
  - (ii) The assets or liabilities for which the initial accounting is incomplete; and
  - (iii) The nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 43.
- (b) If amounts of tax due are forgiven as a result of the terms of the amalgamation (see paragraphs ~~33=34~~):
  - (i) The amount of tax due that was forgiven; and
  - (ii) Where the resulting entity is the tax authority, details of the adjustment made to tax receivable.

RDR 56.1 For individually immaterial amalgamations occurring during the reporting period that are material collectively, the Tier 2 resulting entity shall disclose in aggregate the information required by paragraphs 54(d) and 56(b).

- \*57. If the specific disclosures required by this and other PBE Standards do not meet the objectives set out in paragraphs 53 and 55, the resulting entity shall disclose whatever additional information is necessary to meet those objectives.

## Accounting for Acquisitions

58. **An acquirer shall account for each acquisition by applying the acquisition method of accounting.**

### The Acquisition Method of Accounting

59. Applying the acquisition method of accounting requires:
- (a) Identifying the acquirer;
  - (b) Determining the acquisition date;
  - (c) Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation; and
  - (d) Recognising and measuring goodwill, a gain or a loss from an acquisition.

#### Identifying the Acquirer

60. **For each acquisition, the party to the combination that gains control of one or more operations shall be identified as the acquirer.**
61. The party to the combination that gains control of one or more operations is identified when determining the classification of the ~~PBEpublic-sector~~ combination in accordance with paragraphs 7, 8 and AG10–AG18.

#### Determining the Acquisition Date

62. **The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquired operation.**
63. The date on which the acquirer obtains control of the acquired operation is generally the date on which the acquirer legally transfers the consideration and/or acquires the assets and assumes the liabilities of the acquired operation—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquired operation on a date before the closing date. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date.

### Recognising and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

#### Recognition Principle

64. **As of the acquisition date, the acquirer shall recognise, separately from any goodwill recognised, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 65 and 66.**

#### Recognition Conditions

65. To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Public Benefit Entities' Conceptual Framework* at the acquisition date, and be capable of being measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reporting. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquired operation or to terminate the employment of or relocate an acquired operation's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other PBE Standards.



66. In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition transaction rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs 109–111 to determine which assets acquired or liabilities assumed are part of the exchange for the acquired operation and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable PBE Standards.
67. The acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquired operation had not previously recognised as assets and liabilities in its financial statements. For example, the acquirer recognises the acquired identifiable intangible assets, such as a patent or a customer relationship, that the acquired operation did not recognise as assets in its financial statements because it developed them internally and charged the related costs to expense.
68. Paragraphs AG72–AG84 provide guidance on recognising operating leases and intangible assets. Paragraphs 76–82 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the recognition principle and conditions.

#### Classifying or Designating Identifiable Assets Acquired and Liabilities Assumed in an Acquisition

69. **At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to subsequently apply other PBE Standards. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement (including contractual terms), economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.**
70. In some situations, PBE Standards provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:
- (a) Classification of particular financial assets and liabilities as measured at fair value or at amortised cost, in accordance with PBE IPSAS 29;<sup>6</sup>
  - (b) Designation of a derivative instrument as a hedging instrument in accordance with PBE IPSAS 29; and
  - (c) Assessment of whether an embedded derivative should be separated from a host contract in accordance with PBE IPSAS 29 (which is a matter of 'classification' as this Standard uses that term).
71. This Standard provides two exceptions to the principle in paragraph 69:
- (a) Classification of a lease arrangement as either an operating lease or a finance lease in accordance with PBE IPSAS 13 *Leases*; and
  - (b) Classification of a contract as an insurance contract in accordance with PBE IFRS 4 *Insurance Contracts*~~the relevant international or national accounting standard dealing with insurance contracts.~~

The acquirer shall classify those binding arrangements on the basis of the terms and other factors at the inception of the binding arrangement (or, if the terms of the binding arrangement have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

#### Measurement Principle

72. **The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.**
73. For each acquisition, the acquirer shall measure at the acquisition date components of non-controlling interests in the acquired operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

<sup>6</sup> If an entity applies this Standard and early adopts PBE IFRS 9 *Financial Instruments*, the references to PBE IPSAS 29 in this paragraph shall be read as references to PBE IFRS 9.

- (a) Fair value; or
- (b) The present ownership instruments' proportionate share in the recognised amounts of the acquired operation's identifiable net assets.

All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by PBE Standards.

74. Paragraphs 78–84 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

#### *Exceptions to the Recognition or Measurement Principles*

75. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 76–84 specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 76–84, which will result in some items being:
- (a) Recognised either by applying recognition conditions in addition to those in paragraphs 65–66 or by applying the requirements of other PBE Standards, with results that differ from applying the recognition principle and conditions.
  - (b) Measured at an amount other than their acquisition-date fair values.

#### Exception to the Recognition Principle

##### Contingent Liabilities

76. PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, defines a contingent liability as:
- (a) A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
  - (b) A present obligation that arises from past events, but is not recognised because:
    - (i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
    - (ii) The amount of the obligation cannot be measured with sufficient reliability.
77. The requirements in PBE IPSAS 19 do not apply in determining which contingent liabilities to recognise as of the acquisition date. Instead, the acquirer shall recognise as of the acquisition date a contingent liability assumed in an acquisition where consideration is transferred if it is a present obligation that arises from past events and its fair value can be measured reliably<sup>7</sup>. Therefore, contrary to PBE IPSAS 19, the acquirer recognises a contingent liability assumed in an acquisition where consideration is transferred at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation. Paragraph 115 provides guidance on the subsequent accounting for contingent liabilities.

#### Exceptions to both the Recognition and Measurement Principles

##### Income Taxes (where Included in the Terms of the Acquisition)

78. Acquisitions by a ~~PBE-public-sector entity~~ may result in a tax authority forgiving amounts of tax due as part of the terms of the acquisition. The acquirer shall not recognise any taxation items that are forgiven as a result of the terms of the acquisition (paragraphs AG85 and –AG87 provide related application guidance).
79. ~~[Not used] The acquirer shall recognise and measure any remaining taxation items included in or arising from an acquisition in accordance with the relevant international or national accounting standard dealing with income taxes. The acquirer entity shall recognise and measure any remaining revenue from taxation included in or arising from an acquisition in accordance with IPSAS 23.~~

<sup>7</sup> 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. Paragraph BC10 of PBE IPSAS 1 discusses the transitional approach to the explanation of reliability.



79.1 The acquirer shall recognise and measure a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a PBE combination in accordance with PBE IAS 12.

79.2 The acquirer shall account for the potential tax effects of temporary differences and carryforwards of the acquired operation that exist at the acquisition date or arise as a result of the acquisition in accordance with PBE IAS 12.

#### Employee Benefits

80. The acquirer shall recognise and measure a liability (or asset, if any) related to the acquired operation's employee benefit arrangements in accordance with PBE IPSAS 39.

#### Indemnification Assets

81. The seller in an acquisition may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. For example, the seller may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency; in other words, the seller will guarantee that the acquirer's liability will not exceed a specified amount. As a result, the acquirer obtains an indemnification asset. The acquirer shall recognise an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognised at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognise the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectibility considerations are included in the fair value measure and a separate valuation allowance is not necessary (paragraph AG88 provides related application guidance).

82. In some circumstances, the indemnification may relate to an asset or a liability that is an exception to the recognition or measurement principles. For example, an indemnification may relate to a contingent liability that is not recognised at the acquisition date because its fair value is not reliably measurable at that date. Alternatively, an indemnification may relate to an asset or a liability, for example, one that results from an employee benefit, that is measured on a basis other than acquisition-date fair value. In those circumstances, the indemnification asset shall be recognised and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectibility of the indemnification asset and any contractual limitations on the indemnified amount. Paragraph 116 provides guidance on the subsequent accounting for an indemnification asset.

#### Exceptions to the Measurement Principle

##### Reacquired Rights

83. The acquirer shall measure the value of a reacquired right recognised as an intangible asset on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value. Paragraphs AG79–AG80 provide related application guidance.

##### Share-Based Payment Transactions

84. The acquirer shall measure a liability or an equity instrument related to share-based payment transactions of the acquired operation or the replacement of an acquired operation's share-based payment transactions with share-based payment transactions of the acquirer in accordance with the relevant international or national accounting standard dealing with share-based payments.

#### Assets Held for Sale

84.1 The acquirer shall measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* at fair value less costs to sell in accordance with paragraphs 15–18 of that Standard.

#### Recognising and Measuring Goodwill or a Gain from a Bargain Purchase

85. **The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below, subject to the requirements of paragraph 86:**

- (a) **The aggregate of:**
    - (i) **The consideration transferred measured in accordance with this Standard, which generally requires acquisition-date fair value (see paragraph 95);**
    - (ii) **The amount of any non-controlling interest in the acquired operation measured in accordance with this Standard; and**
    - (iii) **In an acquisition achieved in stages (see paragraphs 99–100), the acquisition-date fair value of the acquirer’s previously held equity interest in the acquired operation.**
  - (b) **The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.**
86. **The acquirer shall recognise goodwill only to the extent that the acquisition will result in:**
- (a) **The generation of cash inflows (such as the acquisition of a cash-generating operation); and/or**
  - (b) **A reduction in the net cash outflows of the acquirer.**

**An acquirer shall recognise any further excess of (a) over (b) in paragraph 85 above as a loss in surplus or deficit. Paragraph AG93 provides related application guidance.**

87. In an acquisition in which the acquirer and the acquired operation (or its former owners) exchange only equity interests, the acquisition-date fair value of the acquired operation’s equity interests may be more reliably measurable than the acquisition-date fair value of the acquirer’s equity interests. If so, the acquirer shall determine the amount of goodwill by using the acquisition-date fair value of the acquired operation’s equity interests instead of the acquisition-date fair value of the equity interests transferred. To determine the amount of goodwill in an acquisition in which no consideration is transferred in those situations covered in paragraphs 101 and 102, the acquirer shall use the acquisition-date fair value of the acquirer’s interest in the acquired operation in place of the acquisition-date fair value of the consideration transferred (paragraph 85(a)(i)). Paragraphs AG94–AG97 provides related application guidance.

#### *Bargain Purchases*

88. Occasionally in a PBE-public-sector combination classified as an acquisition, an acquirer will make a bargain purchase, which is an acquisition in which the amount in paragraph 85(b) exceeds the aggregate of the amounts specified in paragraph 85(a). If that excess remains after applying the requirements in paragraph 90, the acquirer shall recognise the resulting gain in surplus or deficit on the acquisition date. The gain shall be attributed to the acquirer.
89. A bargain purchase might happen, for example, in an acquisition that is a forced sale in which the seller is acting under economic compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 76–84 may also result in recognising a gain (or change the amount of a recognised gain) on a bargain purchase.
90. Before recognising a gain on a bargain purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognise any additional assets or liabilities that are identified in that review. The acquirer shall then review the procedures used to measure the amounts this Standard requires to be recognised at the acquisition date for all of the following:
- (a) The identifiable assets acquired and liabilities assumed;
  - (b) The non-controlling interest in the acquired operation, if any;
  - (c) For an acquisition achieved in stages, the acquirer’s previously held equity interest in the acquired operation; and
  - (d) The consideration transferred.

The objective of the review is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

91. In the public and not-for-profit sectors, an entity sometimes obtains control of an operation in a non-exchange transaction in which it transfers consideration that is not approximately equal to the fair value of the acquired operation. Such circumstances include, but are not limited to:
- (a) Compensated seizures of operations or entities; and

- (b) The transfer of an operation to the acquirer by a donor for nominal consideration.
- 92. Where the economic substance of the ~~PBEpublic-sector~~ combination is that of an acquisition, such non-exchange acquisitions are treated as bargain purchases and accounted for in accordance with paragraphs 88–90.

*A Non-Exchange Acquisition without the Transfer of Consideration*

- 93. In the public ~~and not-for-profit~~ sectors, an entity sometimes obtains control of an operation in a non-exchange transaction in which it transfers no consideration. Such circumstances include, but are not limited to:
  - (a) Uncompensated seizures of operations or entities (also known as forced nationalisations).
  - (b) The transfer of an operation to the entity by a donor for no consideration. Such transfers may take the form of a bequest.

And

  - (c) The transfer of an operation to the entity where the operation has net liabilities. The entity may accept the transfer of net liabilities to prevent the cessation of the operation. Such transactions are sometimes known as “bailouts”.
- 94. Where the economic substance of the ~~PBEpublic-sector~~ combination is that of an acquisition, the acquirer that obtains control of an acquired operation in a non-exchange transaction in which it transfers no consideration does not recognise goodwill. The acquirer recognises a gain or a loss in surplus or deficit ~~in accordance with paragraph 86~~.

*Consideration Transferred*

- 95. The consideration transferred in an acquisition shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquired operation and the equity interests issued by the acquirer. (However, any portion of the acquirer’s share-based payment awards exchanged for awards held by the acquired operation’s employees that is included in consideration transferred in the acquisition shall be measured in accordance with paragraph 84 rather than at fair value.) Examples of potential forms of consideration include cash, other assets, an operation or a controlled entity of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities.
- 96. The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or an operation of the acquirer). If so, the acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognise the resulting gains or losses, if any, in surplus or deficit. However, sometimes the transferred assets or liabilities remain within the combined entity after the acquisition (for example, because the assets or liabilities were transferred to the acquired operation rather than to its former owners), and the acquirer therefore retains control of them. In that situation, the acquirer shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date and shall not recognise a gain or loss in surplus or deficit on assets or liabilities it controls both before and after the acquisition.

*Contingent Consideration*

- 97. The consideration the acquirer transfers in exchange for the acquired operation includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 95). The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquired operation.
- 98. The acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as a component of net assets/equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 9 of PBE IPSAS 28. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 117 provides guidance on the subsequent accounting for contingent consideration.

## An Acquisition Achieved in Stages

99. An acquirer sometimes obtains control of an acquired operation in which it held an equity interest immediately before the acquisition date. For example, on 31 December 20X1, Entity A holds a 35 percent non-controlling equity interest in Entity B. On that date, Entity A purchases an additional 40 percent interest in Entity B, which gives it control of Entity B. This Standard refers to such a transaction as an acquisition achieved in stages, sometimes also referred to as a step acquisition.
100. In an acquisition achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquired operation at its acquisition-date fair value and recognise the resulting gain or loss, if any, in surplus or deficit or in ~~net assets/equity~~other comprehensive revenue and expense, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquired operation in ~~net assets/equity~~other comprehensive revenue and expense (for example, because the investment was classified as available for sale). If so, the amount that was recognised in ~~net assets/equity~~other comprehensive revenue and expense shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.
- 100A. When a party to a joint arrangement (as defined in PBE IPSAS 37 *Joint Arrangements*) obtains control of an operation that is a joint operation (as defined in PBE IPSAS 37), and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is an acquisition achieved in stages. The acquirer shall therefore apply the requirements for an acquisition achieved in stages, including remeasuring its previously held interest in the joint operation in the manner described in paragraph 100. In doing so, the acquirer shall remeasure its entire previously held interest in the joint operation.<sup>8</sup>

## Additional Guidance for Applying the Acquisition Method where an Acquisition is Achieved Through Changes in Voting Rights, by Contract Alone, and Similar Circumstances in which no Consideration is Transferred

### *An Acquisition Achieved Through Changes in Voting Rights, by Contract Alone, and Similar Circumstances not Involving the Transfer of Consideration*

101. An acquirer sometimes obtains control of an acquired operation without transferring consideration. The acquisition method of accounting for an acquisition applies to those ~~PBE public sector~~ combinations. Such circumstances include:
- (a) The acquired operation repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.
  - (b) Minority veto rights lapse that previously kept the acquirer from controlling an acquired operation in which the acquirer held the majority voting rights.
  - (c) The acquirer and acquired operation agree to combine their operations by contract alone. The acquirer transfers no consideration in exchange for control of an acquired operation and holds no ~~equity quantifiable ownership~~ interests in the acquired operation, either on the acquisition date or previously.
102. In an acquisition achieved by contract alone, the acquirer shall attribute to the owners of the acquired operation the amount of the acquired operation's net assets recognised in accordance with this Standard. In other words, the ~~equity quantifiable ownership~~ interests in the acquired operation held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the ~~equity quantifiable ownership~~ interests in the acquired operation are attributed to the non-controlling interest.

## Measurement Period

103. **If the initial accounting for an acquisition is incomplete by the end of the reporting period in which the acquisition occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if**

<sup>8</sup> Paragraph 100A aligns with proposed amendments to PBE IFRS 3 *Business Combinations* (see NZASB ED 2018-X 2018 *Omnibus Amendments to PBE Standards*) and IPSAS 40 (see IPSASB ED 65 *Improvements to IPSAS, 2018*).

**known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.**

104. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for an acquisition. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Standard:
  - (a) The identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquired operation;
  - (b) The consideration transferred for the acquired operation (or the other amount used in measuring goodwill);
  - (c) In an acquisition achieved in stages, the equity interest in the acquired operation previously held by the acquirer; and
  - (d) The resulting goodwill, loss, or gain on a bargain purchase.
105. The acquirer shall consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the acquisition date. Pertinent factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than is information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its provisional fair value measured at that date is likely to indicate an error in the provisional amount.
106. The acquirer recognises an increase (decrease) in the provisional amount recognised for an identifiable asset (liability) by means of a decrease (increase) in goodwill, subject to the requirements for recognition of goodwill in paragraph 86. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquired operation's facilities, part or all of which are covered by the acquired operation's liability insurance policy. If the acquirer obtains new information during the measurement period about the acquisition-date fair value of that liability, the adjustment to goodwill resulting from a change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to goodwill resulting from a change to the provisional amount recognised for the claim receivable from the insurer.
107. During the measurement period, the acquirer shall recognise adjustments to the provisional amounts as if the accounting for the acquisition had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.
108. After the measurement period ends, the acquirer shall revise the accounting for an acquisition only to correct an error in accordance with PBE IPSAS 3.

#### **Determining what is Part of the Acquisition Transaction**

109. **The acquirer and the acquired operation may have a pre-existing relationship or other arrangement before negotiations for the acquisition began, or they may enter into an arrangement during the negotiations that is separate from the acquisition. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition, i.e., amounts that are not part of the exchange for the acquired operation. The acquirer shall recognise as part of applying the acquisition method only the consideration transferred for the acquired operation and the assets acquired and liabilities assumed**

**in the exchange for the acquired operation. Separate transactions shall be accounted for in accordance with the relevant PBE Standards.**

110. A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquired operation (or its former owners) before the acquisition, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:
- (a) A transaction that in effect settles pre-existing relationships between the acquirer and acquired operation;
  - (b) A transaction that remunerates employees or former owners of the acquired operation for future services; and
  - (c) A transaction that reimburses the acquired operation or its former owners for paying the acquirer's acquisition-related costs.

Paragraphs AG99–AG106 provide related application guidance.

#### *Acquisition-Related Costs*

111. Acquisition-related costs are costs the acquirer incurs to effect an acquisition. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with PBE IPSAS 28 and PBE IPSAS 29.<sup>9</sup>

#### **Subsequent Measurement and Accounting**

112. **In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition in accordance with other applicable PBE Standards for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition:**
- (a) **Reacquired rights;**
  - (b) **Contingent liabilities recognised as of the acquisition date;**
  - (c) **Indemnification assets;**
  - (d) **Contingent consideration; and**
  - (e) **Income taxes (where not included in the terms of the acquisition).**

**Paragraphs AG107–AG108 provide related application guidance.**

#### *Reacquired Rights*

113. A reacquired right recognised as an intangible asset shall be amortized over the remaining period of the binding arrangement in which the right was granted, where the right was granted for a finite period. Where the right was granted for an indefinite period, the resulting entity shall test the right for impairment at least annually, and whenever there is an indication that the right may be impaired. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

#### *Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or Acquired Operation on the Basis of Criteria that may Change as a Result of an Acquisition*

114. A transfer, concessionary loan or similar benefit, previously received by an acquirer or an acquired operation on the basis of criteria that change as a result of an acquisition, shall be reassessed prospectively in accordance with other PBE Standards (paragraphs AG109–AG111 provide related application guidance).

<sup>9</sup> If an entity applies this Standard and early adopts PBE IFRS 9 *Financial Instruments*, the references to PBE IPSAS 29 in this paragraph shall be read as references to PBE IFRS 9.



*Contingent Liabilities*

115. After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in an acquisition at the higher of:

- (a) The amount that would be recognised in accordance with PBE IPSAS 19; and
- (b) The amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with PBE IPSAS 9 *Revenue from Exchange Transactions*.

This requirement does not apply to contracts accounted for in accordance with PBE IPSAS 29.<sup>10</sup>

*Indemnification Assets*

116. At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognised at the acquisition date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectibility of the indemnification asset. The acquirer shall derecognise the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

*Contingent Consideration*

117. Some changes in the fair value of contingent consideration that the acquirer recognises after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 103–107. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

- (a) Contingent consideration classified as a component of net assets/equity shall not be remeasured and its subsequent settlement shall be accounted for within net assets/equity.
- (b) Other contingent consideration that:
  - (i) Is within the scope of PBE IPSAS 29<sup>11</sup> shall be measured at fair value at each reporting date and changes in fair value shall be recognised in surplus or deficit in accordance with PBE IPSAS 29.
  - (ii) Is not within the scope of PBE IPSAS 29 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in surplus or deficit.

*Income Taxes (where not Included in the Terms of the Acquisition)*

118. Acquisitions involving public sector entities may result in a tax authority forgiving amounts of tax subsequent to the acquisition. The acquirer shall account for the tax forgiven prospectively in accordance with PBE IAS 12 – the relevant international or national accounting standard dealing with income taxes.

**Disclosures**

**\*119. The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an acquisition that occurs either:**

- (a) **During the current reporting period; or**
- (b) **After the end of the reporting period but before the financial statements are authorised for issue.**

RDR 119.1 A Tier 2 entity is required to comply with the disclosures in paragraphs 120–124 that are not asterisked (\*) as RDR concessions.

<sup>10</sup> If an entity applies this Standard and early adopts PBE IFRS 9 *Financial Instruments*, the references to PBE IPSAS 29 in this paragraph shall be read as references to PBE IFRS 9.

<sup>11</sup> If an entity applies this Standard and early adopts PBE IFRS 9 *Financial Instruments*, the references to PBE IPSAS 29 in this paragraph shall be read as references to PBE IFRS 9.

120. To meet the objective in paragraph 119, the acquirer shall disclose the following information for each acquisition that occurs during the reporting period:
- (a) The name and a description of the acquired operation.
  - (b) The acquisition date.
  - (c) The percentage of voting equity interests or equivalent acquired.
  - \*(d) The primary reasons for the acquisition and a description of how the acquirer obtained control of the acquired operation including, where applicable, the legal basis for the acquisition.
  - \*(e) A qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining the operations of the acquired operation and the acquirer, intangible assets that do not qualify for separate recognition or other factors.
  - (f) The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
    - (i) Cash;
    - (ii) Other tangible or intangible assets, including an operation or controlled entity of the acquirer;
    - (iii) Liabilities incurred, for example, a liability for contingent consideration; and
    - (iv) Equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.
  - (g) For contingent consideration arrangements and indemnification assets:
    - (i) The amount recognised as of the acquisition date;
    - (ii) A description of the arrangement and the basis for determining the amount of the payment; and
    - (iii) An estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.
  - \*(h) For acquired receivables:
    - (i) The fair value of the receivables;
    - (ii) The gross amounts receivable in accordance with a binding arrangement; and
    - (iii) The best estimate at the acquisition date of the cash flows in accordance with a binding arrangement not expected to be collected.

The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.
  - (i) The amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.
  - (j) For each contingent liability recognised in accordance with paragraph 77, the information required in paragraph 98 of PBE IPSAS 19. If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer shall disclose:
    - \*(i) The information required by paragraph 100 of PBE IPSAS 19; and
    - \*(ii) The reasons why the liability cannot be measured reliably.
  - \*(k) The total amount of goodwill that is expected to be deductible for tax purposes.
  - \*(l) For transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the acquisition in accordance with paragraph 109:
    - (i) A description of each transaction;
    - (ii) How the acquirer accounted for each transaction;
    - (iii) The amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and



- (iv) If the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.
- \*(m) The disclosure of separately recognised transactions required by (l) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of ~~financial performance~~ comprehensive revenue and expense in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised shall also be disclosed.
- (n) In an acquisition in which a loss is recognised in surplus or deficit (see paragraph 86):
  - (i) The amount of the loss recognised in accordance with paragraph 86 and the line item in the statement of ~~financial performance~~ comprehensive revenue and expense in which the loss is recognised; and
  - \*(ii) A description of the reasons why the transaction resulted in a loss.
- (o) In a bargain purchase (see paragraphs 88–90):
  - (i) The amount of any gain recognised in accordance with paragraph 88 and the line item in the ~~statement of financial performance~~ statement of comprehensive revenue and expense in which the gain is recognised; and
  - \*(ii) A description of the reasons why the transaction resulted in a gain.
- (p) For each acquisition in which the acquirer holds less than 100 percent of the equity quantifiable ownership interests or equivalent in the acquired operation at the acquisition date:
  - (i) The amount of the non-controlling interest in the acquired operation recognised at the acquisition date and the measurement basis for that amount; and
  - (ii) For each non-controlling interest in an acquired operation measured at fair value, the valuation technique(s) and significant inputs used to measure that value.
- (q) In an acquisition achieved in stages:
  - (i) The acquisition-date fair value of the equity interest in the acquired operation held by the acquirer immediately before the acquisition date; and
  - (ii) The amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquired operation held by the acquirer before the acquisition (see paragraph 100) and the line item in the ~~statement of financial performance~~ statement of comprehensive revenue and expense in which that gain or loss is recognised.
- \*(r) The following information:
  - (i) The amounts of revenue and expense, and the surplus or deficit of the acquired operation since the acquisition date included in the consolidated ~~statement of financial performance~~ statement of comprehensive revenue and expense for the reporting period; and
  - (ii) The revenue and expense, and the surplus or deficit of the combined entity for the current reporting period as though the acquisition date for all acquisitions that occurred during the year had been as of the beginning of the annual reporting period.

If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This Standard uses the term ‘impracticable’ with the same meaning as in PBE IPSAS 3.

RDR 120.1 A Tier 2 entity is not required to make the disclosures required by paragraph 120(j)(i) and (ii) if a contingent liability is not recognised in accordance with paragraph 77 because its fair value cannot be measured reliably.

- \*121. For individually immaterial acquisitions occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph 120(e)–(r).

RDR 121.1 For individually immaterial acquisitions occurring during the reporting period that are material collectively, a Tier 2 acquirer shall disclose in aggregate the information required by paragraphs 120(f), 120(g), 120(i), 120(n)(i), 120(o)(i), 120(p)(i), 120(q) and the first sentence of paragraph 120(j).

**\*122.** If the acquisition date of an acquisition is after the end of the reporting period but before the financial statements are authorised for issue, the acquirer shall disclose the information required by paragraph 120 unless the initial accounting for the acquisition is incomplete at the time the financial statements are authorised for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.

**\*123.** **The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to acquisitions that occurred in the period or previous reporting periods.**

124. To meet the objective in paragraph 123, the acquirer shall disclose the following information for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively:

**\*(a)** If the initial accounting for an acquisition is incomplete (see paragraph 103) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognised in the financial statements for the acquisition thus have been determined only provisionally:

- (i) The reasons why the initial accounting for the acquisition is incomplete;
- (ii) The assets, liabilities, ~~equity quantifiable ownership~~ interests (or equivalent) or items of consideration for which the initial accounting is incomplete; and
- (iii) The nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 107.

**\*(b)** For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:

- (i) Any changes in the recognised amounts, including any differences arising upon settlement;
- (ii) Any changes in the range of outcomes (undiscounted) and the reasons for those changes; and
- (iii) The valuation techniques and key model inputs used to measure contingent consideration.

**\*(c)** For contingent liabilities recognised in an acquisition, the acquirer shall disclose the information required by paragraphs 97 and 98 of PBE IPSAS 19 for each class of provision.<sup>12</sup>

**(d)** A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:

- (i) The gross amount and accumulated impairment losses at the beginning of the reporting period.
- (ii) Additional goodwill recognised during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with PBE IFRS 5.
- (iii) Adjustments resulting from the subsequent recognition of amounts during the reporting period in accordance with PBE IAS 12~~the relevant international or national accounting standard dealing with income taxes.~~
- (iv) Goodwill included in a disposal group classified as held for sale in accordance with PBE IFRS 5 and gGoodwill derecognised during the reporting period without having previously been included in a disposal group classified as held for sale.
- (v) Impairment losses recognised during the reporting period in accordance with PBE IPSAS 26 *Impairment of Cash-Generating Assets*. (PBE IPSAS 26 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)
- (vi) Net exchange rate differences arising during the reporting period in accordance with PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*.
- (vii) Any other changes in the carrying amount during the reporting period.
- (viii) The gross amount and accumulated impairment losses at the end of the reporting period.

<sup>12</sup> See PBE IPSAS 19 paragraph 97 for disclosure concessions for Tier 2 entities.

- ~~\*(e)~~ The amount and an explanation of any gain or loss recognised in the current reporting period that both:
- ~~(i)~~ Relates to the identifiable assets acquired or liabilities assumed in an acquisition that was effected in the current or previous reporting period; and
  - ~~(ii)~~ Is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.
- And
- ~~(f)~~ If amounts of tax due are forgiven as a result of the terms of the acquisition (see paragraphs 78–79):
- ~~(i)~~ The amount of tax due that was forgiven; and
  - ~~(ii)~~ Where the acquirer is the tax authority, details of the adjustment made to tax receivable.

RDR 124.1 A Tier 2 entity is not required to disclose the reconciliation specified in paragraph 124(d) for prior periods.

- ~~\*125.~~ If the specific disclosures required by this and other PBE Standards do not meet the objectives set out in paragraphs 119 and 123, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

### **Transitional Provisions**

125.1 Except as provided in paragraph 125.3, this Standard shall be applied prospectively to PBE combinations for which the amalgamation date or acquisition date is on or after [date].

125.2 Except as provided in paragraph 125.3, an entity shall not restate PBE combinations that occurred from any date before the effective date in paragraph 126.1.

### **Limited Retrospective Application**

125.3 An entity is permitted to apply the requirements of this Standard to PBE combinations that occurred before the effective date in paragraph 126.1, provided that on first-time application of this Standard it is also a first-time adopter of PBE Standards and has adopted PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*.

## **Effective Date and Transition**

### **Effective Date**

- ~~126. [Not used] This Standard shall be applied prospectively to public sector combinations for which the amalgamation date or acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies this Standard before January 1, 2019, it shall disclose that fact.~~

126.1 A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after [date]. Earlier application is permitted. If a public benefit entity applies this Standard for a period beginning before [date], it shall disclose that fact.

### **Transition**

- ~~127–134. [Not used] Assets and liabilities that arose from public sector combinations whose acquisition dates or amalgamation dates preceded the application of this Standard shall not be adjusted upon application of this Standard.~~

- ~~128. Contingent consideration balances arising from acquisitions whose acquisition dates preceded the date when an entity first applied this Standard shall not be adjusted upon first application of this Standard. Paragraphs 129–132 shall be applied in the subsequent accounting for those balances. Paragraphs 129–132 shall not apply to the accounting for contingent consideration balances arising from acquisitions with acquisition dates on or after the date when the entity first applied this Standard. In paragraphs 129–132 acquisitions refers exclusively to acquisitions whose acquisition date preceded the application of this Standard.~~

129. ~~If an acquisition agreement provides for an adjustment to the cost of the acquisition contingent on future events, the acquirer shall include the amount of that adjustment in the cost of the acquisition at the acquisition date if the adjustment is probable and can be measured reliably.~~
130. ~~An acquisition agreement may allow for adjustments to the cost of the acquisition that are contingent on one or more future events. The adjustment might, for example, be contingent on a specified level of profit being maintained or achieved in future periods, or on the market price of the instruments issued being maintained. It is usually possible to estimate the amount of any such adjustment at the time of initially accounting for the acquisition without impairing the reliability of the information, even though some uncertainty exists. If the future events do not occur or the estimate needs to be revised, the cost of the acquisition shall be adjusted accordingly.~~
131. ~~However, when an acquisition agreement provides for such an adjustment, that adjustment is not included in the cost of the acquisition at the time of initially accounting for the acquisition if it either is not probable or cannot be measured reliably. If that adjustment subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the acquisition.~~
132. ~~In some circumstances, the acquirer may be required to make a subsequent payment to the seller as compensation for a reduction in the value of the assets given, equity instruments issued or liabilities incurred or assumed by the acquirer in exchange for control of the acquired operation. This is the case, for example, when the acquirer guarantees the market price of equity or debt instruments issued as part of the cost of the acquisition and is required to issue additional equity or debt instruments to restore the originally determined cost. In such cases, no increase in the cost of the acquisition is recognised. In the case of equity instruments, the fair value of the additional payment is offset by an equal reduction in the value attributed to the instruments initially issued. In the case of debt instruments, the additional payment is regarded as a reduction in the premium or an increase in the discount on the initial issue.~~
133. ~~An entity, such as a mutual entity, that has not yet applied this Standard and had one or more public sector combinations that were accounted for using the purchase method (which involves the amortisation of goodwill) shall apply the transition provisions in paragraphs AG114–AG115.~~

#### *Income Taxes*

134. ~~For public sector combinations in which the acquisition date or amalgamation date was before this Standard is applied, the acquirer or resulting entity shall apply the requirements of the relevant international or national accounting standard dealing with income taxes prospectively. From the date when this Standard is applied, the acquirer or resulting entity shall recognise any changes required by the relevant international or national accounting standard dealing with income taxes as an adjustment to surplus or deficit (or, if required by the relevant international or national accounting standard dealing with income taxes, outside surplus or deficit).~~

### **Withdrawal and Replacement of PBE IFRS 3 (2014)**

- 134.1 This Standard supersedes PBE IFRS 3 *Business Combinations* (2014). PBE IFRS 3 remains applicable until PBE IPSAS 40 is applied or becomes effective, whichever is earlier.

## Application Guidance

*This Appendix is an integral part of PBE IPSAS 40*

### Definitions (see paragraph 5)

- AG1. ~~[Not used] Paragraph 5 of this Standard defines a resulting entity as “the entity that is the result of two or more operations combining in an amalgamation.” A resulting entity is not initially a party to the public sector combination. A resulting entity may have the legal form of a new entity, or may retain the legal identity of one of the combining operations. However, a resulting entity usually has the economic substance of a new entity. In a combination in which one party to the combination gains control of one or more operations, and in which the economic substance is that of an amalgamation, the nature of the combination is usually that the resulting entity has the substance of a new entity.~~

### Identifying a PBE-public sector Combination (see paragraph 6)

- AG2. Paragraph 5 of this Standard defines a ~~PBE-public sector~~ combination as “the bringing together of separate operations into one PBE-public sector entity.” The reference to one ~~PBE-public sector entity~~ may be to a single entity or to an economic entity. Some public sector or not-for-profit –sector reorganisations may involve more than one ~~entitypublic sector~~ combination. The circumstances in which a ~~PBE-public sector~~ combination might occur include:
- (a) By mutual agreement; and
  - (b) By compulsion (for example by legislation).
- AG3. Paragraph 5 of this Standard defines an operation as “an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity’s objectives, by providing goods and/or services.”
- AG4. An operation consists of inputs and processes applied to those inputs that have the ability to create outputs. Although operations usually have outputs, outputs are not required for an integrated set of activities and related assets and/or liabilities to qualify as an operation. For the purposes of this standard, the three elements of an operation are defined as follows:
- (a) **Input:** Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it. Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property, the ability to obtain access to necessary materials or rights and employees.
  - (b) **Process:** Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)
  - (c) **Output:** The result of inputs and processes applied to those inputs that provide, or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Outputs may also be in the form of goods and services for community or social benefit, goods and/or services.
- AG5. To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets and/or liabilities requires two essential elements—inputs and processes applied to those inputs, which together are or will be used to create outputs. However, an operation need not include all of the inputs or processes that the transferor used in operating that operation if the entity that receives the operation or operations is capable of continuing to produce outputs, for example, by integrating the operation with their own inputs and processes.
- AG6. The nature of the elements of an operation varies by sector and by the structure of an entity’s operations (activities), including the entity’s stage of development. Established operations often have many different types of inputs, processes and outputs, whereas new operations often have few inputs and

processes and sometimes only a single output (product). Nearly all operations also have liabilities, but an operation need not have liabilities.

AG7. An integrated set of activities and assets and/or liabilities in the development stage might not have outputs. In these cases, the entity that receives the operation should consider other factors to determine whether the set is an operation. Those factors include, but are not limited to, whether the set:

- (a) Has begun planned principal activities;
- (b) Has employees, intellectual property and other inputs and processes that could be applied to those inputs;
- (c) Is pursuing a plan to produce outputs; and
- (d) Will be able to obtain access to service recipients that will receive the outputs.

Not all of those factors need to be present for a particular integrated set of activities and assets and/or liabilities in the development stage to qualify as an operation.

AG8. Determining whether a particular set of activities and assets and/or liabilities is an operation should be based on whether the integrated set is capable of being conducted and managed as an operation by another entity. Thus, in evaluating whether a particular set is an operation, it is not relevant whether a transferor operated the set as an operation or whether the acquirer intends to operate the set as an operation.

AG9. In the absence of evidence to the contrary, a particular set of activities and assets and/or liabilities in which goodwill is present shall be presumed to be an operation. However, an operation need not have goodwill.

#### Classification of ~~PBE-public sector~~ Combinations (see paragraphs 7–14)

##### *Assessment of Control (see paragraphs 7–8)*

AG10. Where a party to a ~~PBE-public sector~~ combination gain controls of one or more operations as a result of that combination, the combination is classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. If no party to the combination gains control, the combination is classified as an amalgamation. In making this assessment the first step is to determine whether one of the entities that existed prior to the ~~PBE-public sector~~ combination has gained control of one or more operations. Because this determination is made by reference to the entities that existed prior to the ~~PBE-public sector~~ combination, it differs from the assessment of control made in accordance with PBE IPSAS 35 *Consolidated Financial Statements*,<sup>13</sup> where the assessment of control is made by reference to the entities that exist after a ~~PBE-public sector~~ combination has taken place.

AG11. In determining whether one party to a ~~PBE-public sector~~ combination gains control of one or more operations as a result of the combination, an entity applies the principles and guidance in PBE IPSAS 35. In applying the principles and guidance, references to “an entity controls” are read as “an entity gains control of” and references to “another entity” are read as “an operation”. For example, in determining whether one party to a ~~PBE-public sector~~ combination gains control of one or more operations as a result of the combination for the purposes of this Standard, paragraph 20 of PBE IPSAS 35 should be read as follows (amended text is shown in *italics*):

Thus, an entity *gains control of an operation* if and only if the entity *gains* all the following:

- (a) Power over the operation (see paragraphs 23–29);
- (b) Exposure, or rights, to variable benefits from its involvement with the operation (see paragraphs 30–34); and
- (c) The ability to use its power over the operation to affect the nature or amount of the benefits from its involvement with the operation (see paragraphs 35–37).

<sup>13</sup> If an entity applies this Standard before it applies PBE IPSAS 35 *Consolidated Financial Statements*, any reference to PBE IPSAS 35 shall be read as a references to PBE IPSAS 6 *Consolidated and Separate Financial Statements (PS)* or PBE IPSAS 6 *Consolidated and Separate Financial Statements (NFP)*.



- AG12. In applying the principles and guidance in PBE IPSAS 35, an entity has regard to paragraphs AG13–AG18.
- AG13. A ~~PBE-public-sector~~ combination effected primarily by the transfer of consideration (i.e., by transferring cash or other assets or by incurring liabilities) usually results in one entity gaining control of one or more operations.
- AG14. A ~~PBE-public-sector~~ combination effected primarily by exchanging equity interests usually results in one entity gaining control of one or more operations. Combinations involving an exchange of equity interests usually results in one entity having sufficient voting rights to gain control of one or more operations. This may occur without the entity having a majority of the voting rights where the entity has a large minority voting interest and no other owner or organised group of owners has a significant voting interest. Other pertinent facts and circumstances shall also be considered in assessing whether one entity (and, if so, which entity) has gained control of one or more operations, including:
- (a) The composition of the governing body of the combined operation – The acquirer is usually the combining operation whose owners have the ability to elect a majority of the members of the governing body of the combined operations.
  - (b) The composition of the senior management of the combined operation – The acquirer is usually the combining operation whose (former) management dominates the management of the combined operations.
- AG15. A ~~PBE-public-sector~~ combination involving the issuance of equity interests may give rise to a reverse acquisition (see paragraphs AG66–AG71). An entity considers this possibility in determining whether one party to a ~~PBE-public-sector~~ combination gains control of operations.
- AG16. In a ~~PBE-public-sector~~ combination involving more than two entities, the party to the ~~PBE-public-sector~~ combination that initiates the combination (if any) is more likely to gain control of operations than the other parties to the combination.
- AG17. In a ~~PBE-public-sector~~ combination in which a new entity is formed to effect the combination, but the combination is not effected by exchanging equity interests (see paragraph AG14), that new entity may gain control of operations only where it the entity exists prior to the combination taking place. Where this new entity does not exist prior to the combination taking place, an entity considers other pertinent facts and circumstances (see paragraph AG14) in deciding whether one of the parties to the combination that existed prior to the combination taking place gains control of operations. by considering other pertinent facts and circumstances as discussed in paragraph AG14.
- AG17.1 A PBE combination in which operations not under common control voluntarily agree to voluntarily combine could be classified as an amalgamation. The operations could combine to improve services to their recipients or to reduce operating costs. In this type of combination, the combining operations may be uniting rather than one party gaining control of the other party. This type of combination is more frequent in the not-for-profit sector than the public sector.
- AG18. If the application of this guidance identifies one party to the combination as gaining control of one or more operations, the combination is classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. An entity considers the guidance in paragraphs 9–14 and AG19–AG50 to determine whether the economic substance of the combination is that of an amalgamation. If the application of the guidance does not identify one party to the combination as gaining control of one or more operations, the combination shall be classified as an amalgamation.

*Assessment of the Classification of a- ~~PBEpublic-sector~~ Combination (see paragraphs 9–14)*

- AG19. If one party to a ~~PBE-public-sector~~ combination gains control of one or more operations as a result of the combination, the combination shall be classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. In assessing whether the economic substance of the combination is that of an amalgamation, an entity considers the economic substance of the ~~PBEpublic-sector~~ combination and the indicators in paragraphs 12–14. A combination that does not have the economic substance of an amalgamation shall be classified as an acquisition. In making this assessment, an entity considers the following guidance.

## Economic Substance (see paragraph 9)

- AG20. Usually, an analysis of the indicators in paragraphs 12–13, individually or on combination, will produce a conclusive result and provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation. A combination does not need to satisfy both of these indicators to be classified as an amalgamation.
- AG21. Where consideration of the indicators in paragraphs 12–13 produces inconclusive results or does not provide sufficient evidence to clearly determine the economic substance of the combination, an entity considers the additional matters in paragraph 14.
- AG22. ~~[Not used]The economic substance of an amalgamation is usually that a new entity is formed, irrespective of the legal form of the resulting entity. This applies equally to a combination in which one party to the combination gains control of one or more operations. If the economic substance of a public sector combination is that one of the parties to the combination continues to exist, this may provide evidence that the economic substance of the combination is that of an acquisition. In combinations of operations under common control, the fact that the ultimate controlling entity controls the operations both before and after the combination reduces the significance of this factor.~~
- AG23. An amalgamation involves the integration of the operations that are part of the PBE public sector combination. ~~Generally in other words,~~ an amalgamation does not give rise to a controlling entity/controlled entity relationship between parties to a combination. If, following the combination, any of the operations operate as controlled entities of a party to the combination, this may provide evidence that the economic substance of the combination is that of an acquisition. However, there could be circumstances where a controlling entity/controlled entity relationship between parties to a combination remains after the combination. For example, there could be legal, tax or administrative reasons for leaving the existing operations of the combining operations within their respective existing legal entity structure, which could entail establishing a controlled entity/controlling entity structure as part of the combination, but that outcome does not necessarily mean that the economic substance of the combination is an acquisition.
- AG24. An acquisition is usually a mutual agreement between two or more parties, and usually has commercial substance. However, ~~it is possible for an acquisition to occur without mutual agreement (for example, a forced nationalisation). in the public sector, a party to the combination may be able to impose a public sector combination on the other party to the combination. Where this results in the entity gaining access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement, it is probable that the economic substance of the public sector combination is that of an acquisition. For example, a central government may centralize a service for which it had been providing funding, by requiring local government entities to transfer operations to the central government in order to achieve economies of scale. Where the entity does not gain access to economic benefits or service potential that are similar to those that could have been obtained in a voluntary transaction, it is probable that the economic substance of the public sector combination is that of an amalgamation.~~
- AG25. Where, after consideration of the indicators and the nature of the PBE public sector combination, there is insufficient evidence that the PBE public sector combination has the economic substance of an amalgamation, the combination shall be classified as an acquisition.

## Indicators Relating to Consideration (see paragraph 12)

- AG26. Amalgamations usually do not involve the payment of consideration to compensate a seller for giving up ~~its~~their entitlement to the net assets of an operation. By contrast, acquisitions usually involve an exchange of consideration between those gaining control of the operations and those losing control of the operations.
- AG27. However, there may be a number of reasons why consideration is either paid or not paid. In assessing the impact of consideration on the classification of a combination as an acquisition or an amalgamation, it is necessary to consider those reasons. The payment of consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement provides evidence that the economic substance of the public sector combination is an acquisition. In such cases, the combination is classified as an acquisition.
- AG28. The payment of consideration to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement provides evidence that the economic substance of



~~the PBE combination is an acquisition. In such cases, the combination is classified as an acquisition. If The payment of consideration that is not intended is paid for reasons other than to compensate the seller for giving up its/their entitlement to the net assets of an operation, but is, (for example, intended to reimburse the seller for costs incurred in effecting the PBE public sector combination), this may provide evidence that the economic substance of the combination is that of an amalgamation.~~

- AG29. ~~Acquisitions may occur without an exchange of consideration, for example where an individual bequeaths an operation to a government entity. Consequently, The absence of consideration does not in itself provide evidence of the economic substance of the PBE public sector combination. Acquisitions may occur without an exchange of consideration. If those with an entitlement to the net assets of an operation have voluntarily given up their entitlement in order to donate the net assets of the operation to an unrelated entity (for example, an individual bequeaths an operation to a government entity) this would suggest that the combination is an acquisition. If those with an entitlement to the net assets of an operation have their entitlement extinguished through compulsion (for example, in an uncompensated seizure by a public sector entity), this would suggest that the combination is an acquisition. In assessing consideration, an entity also considers the reasons why consideration was either paid or not paid.~~
- AG30. ~~Where a public sector combination does not include the payment of consideration, an entity considers the reasons why no consideration has been paid. In contrast, if there was no compensation paid because the combining operations are under common control and hence no compensation is necessary, this would suggest that the combination is an amalgamation. Similarly, in a combination that occurs as part of a local government reorganisation, the payment of compensation may not be necessary because the citizens served by the combining operations will continue to be served by the combined operations, which would suggest that the combination is an amalgamation. If the former owner has given up their entitlement to the net assets of an operation, or has had their entitlement extinguished through compulsion (for example, in an uncompensated seizure), there may be evidence that the combination is an acquisition.~~
- AG31. ~~[Not used] Where a public sector combination does not include the payment of consideration because there is no party with an entitlement to the net assets of an operation, the economic substance of the combination will usually be that of an amalgamation. An acquisition involves a transfer of an operation from its former owner to its new owner. If there is no party with an entitlement to the net assets of an operation, there is no former owner, and the combination is usually not an acquisition. This scenario will only arise where a complete entity is being transferred; where an individual operation is being transferred, the entity transferring the operation will be the former owner and will be entitled to the net assets of the operation. Examples of entities where there will be no former owner(s) include municipalities and some not for profit organisations.~~

#### Indicators Relating to the Decision-Making Process (see paragraph 13)

- AG32. An acquisition usually requires the voluntary participation of all the parties to the combination. Consequently, where a ~~PBE public sector~~ combination is imposed by a third party without any party to the combination being involved in the decision-making process, this may provide evidence that the economic substance of the combination is an amalgamation.
- AG33. In other circumstances, the parties to the ~~PBE public sector~~ combination will be able to influence the terms of the combination to different degrees even when the combination is imposed by a third party. As the degree of influence the parties to the combination have increases, particularly the influence of the party that gains control of one or more operations, it becomes less likely that a conclusion regarding the economic substance of the combination can be drawn.
- AG34. For example, the parties to the combination may be directed to combine by a regulator, but the regulator allows the parties to determine the terms of the combination. The economic substance of this ~~PBE public sector~~ combination is likely to be determined by the terms of the combination agreed by the parties rather than by the decision of the regulator that the parties must combine.
- AG35. Where the party to the ~~PBE public sector~~ combination that gains control of one or more operations is able to impose the combination on the other party, this does not provide evidence that the economic substance of the combination is that of an amalgamation. For example, a government may decide to nationalise a private sector entity, contrary to the wishes of the shareholders. The fact that the government (a party to the combination) is able to impose the nationalisation, for example through legislation, does not provide evidence that the economic substance of the combination is an

amalgamation. Where the party to the combination that gains control of one or more operations is able to impose the combination on the other party, this provides evidence that the economic substance of the combination is that of an acquisition.

- AG36. Where a ~~PBE-public-sector~~ combination is subject to approval by each party's citizens through referenda, this may provide evidence that the economic substance of the combination is that of an amalgamation. Such a requirement provides evidence that the parties to the combination do not have freedom to voluntarily effect the combination and that the ultimate decision as to whether the combination takes place is taken by third parties. However, it is possible for citizens to approve, through referenda, a combination whose terms are those of an acquisition.
- AG37. Where a ~~PBE-public-sector~~ combination takes place between two parties that are under common control, this may provide evidence that the economic substance of the combination is that of an amalgamation. ~~PBE~~Public-sector combinations under common control are often instigated by and on behalf of the controlling entity, and the controlling entity will often determine the terms of the combination. For example, a government may decide to combine two ministries for administrative or political reasons, and specify the terms of the combination. In such circumstances, the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. This provides evidence that the economic substance of the combination is an amalgamation.
- AG38. In some circumstances, two operations under common control may agree to combine voluntarily. However, this decision will usually be subject to the approval of the controlling entity, whether this approval is given explicitly or not. Where the approval of the controlling entity is required, this provides evidence that the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. Consequently, this provides evidence that the economic substance of the combination is that of an amalgamation.
- AG39. Only where there is no evidence that the controlling entity is involved in the ~~PBE~~public-sector combination, either by instigating the combination, determining the terms of the combination, or approving (whether explicitly or implicitly) the combination, will there be no evidence that the economic substance of the combination is that of an amalgamation. In such circumstances, the entity considers all other factors in determining the classification of the ~~PBE~~public-sector combination.

Additional Matters to be Considered where the Indicators Relating to Consideration and the Decision-Making Process do not Provide Sufficient Evidence to Determine whether the Economic Substance of the Combination is that of an Amalgamation (see paragraph 14)

- AG40. Where an analysis of the indicators relating to consideration and the decision-making process produces inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation, an entity considers which classification and resulting accounting treatment would provide information that:
- (a) Best meets the objectives of financial reporting; and
  - (b) Best satisfies the qualitative characteristics (QCs).
- AG41. An analysis of the indicators relating to consideration and the decision-making process will usually produce a conclusive result and provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation. This is because the indicators relating to consideration and the decision-making process will provide evidence of the economic substance of a ~~PBE~~public-sector combination in all but exceptional circumstances. As a result, where it is clear that the indicators have been met, the additional matters set out in paragraph 14 are not considered in determining the classification.
- AG42. Where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation, an entity considers which classification would provide information that best meets the objectives of financial reporting. The determination of whether a ~~PBE-public-sector~~ combination is classified as an acquisition or an amalgamation can significantly affect the financial reporting of the combination. Consequently, it is important to consider the information each method provides and the principal users of that information.

- AG43. The modified pooling of interests method views the combination from the perspective of each of the combining operations ~~entities~~ and their owners or constituents who are uniting their interests in the resulting entity. Using the modified pooling of interests method of accounting, the combining operations measure the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date. Such information may assist users in assessing the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods. However, this comparability may be reduced where adjustments to achieve consistent accounting policies are required. ~~It does not include information about the market's expectation of the value of the future cash flows associated with assets and liabilities, other than assets and liabilities recorded at fair value prior to the date of the amalgamation.~~
- AG44. The acquisition method views a combination from the perspective of the acquirer—the entity that gains control of the other operations. The acquirer purchases or otherwise gains control over net assets and recognises in its financial statements the assets acquired and liabilities assumed, including those not previously recognised by the acquired operation. Such information assists users of the financial statements in assessing the initial investments made, where paid, and the subsequent performance of those investments and comparing them with the performance of other entities based on the investment made by the acquirer. ~~It also includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities.~~ While it revalues the assets and liabilities of the acquired operation, it does not affect the valuation of assets and liabilities held by the acquirer prior to the acquisition. Further, depending on the relationship between the amounts in paragraph 85(a) and 85(b) and other factors (for example, a bargain purchase), it may result in the immediate recognition of a gain or loss through surplus or deficit.
- AG45. The information provided by each approach is summarised in the following table.

	<b>Amalgamation</b>	<b>Acquisition</b>
Perspective	Perspective of each of the combining operations and their owners or constituents.	Perspective of the acquirer.
User information	Assists users of the financial statements in assessing the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods.	Assists users of the financial statements in assessing the initial investments made, <u>where paid</u> , and the subsequent performance of those investments.
Basis of reported values	Measures the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date.	Revalues the identifiable assets and liabilities of the acquired operation but does not affect the valuation of assets and liabilities held by the acquirer. <del>Includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities.</del>
Ability to compare to operating results of prior periods	May facilitate the comparison of operating results with prior periods. Comparability may be reduced where adjustments to achieve consistent accounting policies are required.	Difficult to compare operating results with prior periods.

- AG46. Consideration of which classification would provide information that best meets the objectives of financial reporting provides evidence of the economic substance of the ~~PBEpublic sector~~ combination where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation.
- AG47. Where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine the classification of the combination, an entity considers which classification would provide information that best satisfies the QCs of relevance, faithful representation, understandability, timeliness, comparability and verifiability. In making this assessment, an entity also considers the constraints on information included in general purpose financial reports, which are materiality, cost-benefit and the balance between the QCs.
- AG48. When considering the classification of a ~~PBEpublic sector~~ combination, some QCs will be more significant than others. For example, timeliness will be less significant than understandability when considering whether a combination is an amalgamation or an acquisition.
- AG49. An entity considers the QCs and the constraints on information from the perspective of the users of the financial statements. This will include consideration of the following questions; this list is not exhaustive.
- Which classification most faithfully represents the economic substance of the ~~PBEpublic sector~~ combination, which may be different from its legal form? Does that classification faithfully represent an entity's financial performance and financial position?
  - Which classification will help users understand the nature of the ~~PBEpublic sector~~ combination? For example, in an amalgamation, any difference between the total recognised assets and total recognised liabilities is recognised in net assets/equity, whereas in an acquisition, the acquirer recognises goodwill, or a gain or loss in the reporting period. Which approach best helps the user to understand the nature of the combination?
  - Users' needs are best served when the information provided in respect of a transaction is comparable. How are similar ~~PBEpublic sector~~ combinations classified?
- AG50. Consideration of which classification would provide information that best meets the QCs provides evidence of the economic substance of the ~~PBEpublic sector~~ combination where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation.

## Accounting for Amalgamations

### *Combining Operations that Have not Previously Applied PBE Standards (see paragraph 20.1)*

AG50.1 Where the resulting entity is a continuing reporting entity and has previously applied PBE Standards prior to the amalgamation but one or more of the combining operations have not previously applied PBE Standards prior to the amalgamation, the resulting entity shall:

- Prepare an opening statement of financial position as at the amalgamation date (this shall be the date of transition to PBE Standards) in accordance with paragraphs 10–23 of PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* for each of the combining operations that have not previously applied PBE Standards; and
- Use the same accounting policies for those combining operations as are already being applied by the continuing reporting entity.

After preparing the combining operations' statements of financial position the resulting entity shall then apply the requirements in paragraphs 21–35.

AG50.2 Where the resulting entity is a new reporting entity and one or more of the combining operations have not previously applied PBE Standards prior to the amalgamation, the resulting entity shall:

- Apply XRB A1 to determine the appropriate tier of reporting for the resulting entity. It shall not apply the requirements for moving between tiers in XRB A1 as it was not in existence as a reporting entity prior to the amalgamation;

- (b) Prepare an opening statement of financial position as at the amalgamation date (this shall be the date of transition to PBE Standards) in accordance with paragraphs 10–23 of PBE FRS 47 for each of the combining operations that have not previously applied PBE Standards; and
- (c) Use the same accounting policies as were previously used by those combining operations that have previously applied PBE Standards.

After preparing the combining operations' statements of financial position the resulting entity shall then apply the requirements in paragraphs 21–35.

*Eliminating Transactions Between the Combining Operations (see paragraph 22)*

- AG51. A resulting entity eliminates the effects of all transactions between the combining operations. For many transactions, elimination will take place automatically. For example, one combining operation provided services for a fee to another combining operation prior to the amalgamation date. The revenue of the combining operation that provided the services is reflected in that combining operation's ~~accumulated surplus or deficit~~accumulated comprehensive revenue and expense at the amalgamation date. The expense of the combining operation receiving the services is reflected in that combining operation's ~~accumulated surplus or deficit~~accumulated comprehensive revenue and expense at the amalgamation date. The resulting entity will recognise both amounts in net assets/equity.
- AG52. Elimination may not take place automatically where one combining operation has recognised an asset, and another combining operation has recognised a corresponding liability as a result of the transaction between two combining operations. The resulting entity eliminates both the asset and the liability, and recognises any difference between the asset and liability in net assets/equity.

*Carrying Amounts to be Used (see paragraphs 26–27)*

- AG53. Where a combining operation has previously been acquired in an acquisition (i.e., it was previously an acquired operation), the carrying amounts of the combining operation's assets and liabilities in its separate financial statements may be different to the carrying amounts of those assets and liabilities in the controlling entity's financial statements. In an acquisition, the controlling entity would measure the combining operation's assets and liabilities at their fair value. However, where the combining operation (i.e., the previously acquired operation) continues to prepare separate financial statements, it would use its previous carrying amounts. The fair value measurements in the financial statements of the controlling entity are not pushed down to the combining operation.
- AG54. To meet the requirements in paragraphs 26–27, a resulting entity measures the ~~identifiable~~ assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, subject to the requirement to adjust the carrying amounts to conform to the resulting entity's accounting policies. ~~The resulting entity does not measure the assets and liabilities at the carrying amounts in the financial statements of the controlling entity.~~

*Accounting Policies to be Used (see paragraph 28)*

- AG54.1 Where the resulting entity is a new reporting entity and the combining operations have applied different accounting policies for similar transactions and events, the resulting entity shall select the accounting policies that result in the financial statements providing the most relevant and faithfully representative information, subject to the requirements in paragraphs 31–35. If a resulting entity has transactions, other events or conditions that differ in substance from those previously occurring, that did not previously occur, or that were previously immaterial, it shall select or develop accounting policies in accordance with PBE IPSAS 3.
- AG54.2 Where the resulting entity is a continuing reporting entity, it shall continue to apply its previous accounting policies to transactions and events, subject to the requirements in paragraphs 31–35. There are some limited circumstances in which a resulting entity that is a continuing reporting entity may need to apply PBE IPSAS 3 in preparing its first set of financial statements following the amalgamation. These include:
- (a) The identification of a prior period error, in which case PBE IPSAS 3 (paragraphs 46–54) applies; or
  - (b) The resulting entity voluntarily changes an accounting policy, including the selection of a different option permitted under PBE Standards, in which case PBE IPSAS 3 (paragraphs 17–34) applies; or



- (c) The resulting entity will have transactions, other events or conditions that differ in substance from those previously occurring, that did not previously occur, or that were previously immaterial, in which case PBE IPSAS 3 (paragraphs 9–15) applies.

*Licences and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation (see paragraph 32)*

- AG55. As part of an amalgamation, a resulting entity may receive a licence or similar right that had previously been granted by one combining operation to another combining operation to use one or more of the grantor's recognised or unrecognised assets. Examples of such rights include a right to use the acquirer's technology under a technology licencing agreement. The resulting entity recognises this licence or similar right as an identifiable intangible asset, and measures the intangible asset at its carrying amount in the financial statements of the combining operation as of the amalgamation date. Because the licence or similar right has previously been part of a binding arrangement, the licence satisfies both the separability and binding arrangement criteria in PBE IPSAS 31 *Intangible Assets*. Paragraph 47 provides guidance on the subsequent accounting for a licence or similar right previously granted by one combining operation to another combining operation.
- AG56. The resulting entity assesses both the licence or similar right previously granted by one combining operation to another combining operation, and the underlying asset (where the underlying asset is a recognised asset) for impairment in accordance with PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets*, at the amalgamation date.

*Forgiveness of Amounts of Tax Due in an Amalgamation (where Included in the Terms of the Amalgamation) (see paragraph 33–34)*

- AG57. The resulting entity shall not recognise any amounts in respect of a combining operation's tax due where these amounts have been forgiven by a tax authority as part of the terms of the amalgamation. Where tax forgiveness occurs subsequent to an amalgamation, the resulting entity applies the requirements in paragraph 49. In applying the modified pooling of interests method of accounting, the resulting entity shall treat those amounts included in the terms of the amalgamation as having been derecognised prior to the amalgamation. The resulting entity shall account for a combining operation's tax due that has not been forgiven by a tax authority in accordance with PBE IAS 12~~the relevant international or national accounting standard dealing with income taxes.~~
- AG58. ~~[Not used] Where, as a result of the amalgamation, the resulting entity becomes the tax authority, it shall derecognise any tax receivable relating to the combining operation's tax due that has been forgiven in accordance with PBE IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers).~~

*Recognition of Goodwill (see paragraph 36)*

- AG59. Amalgamations do not give rise to goodwill, and consequently a resulting entity does not recognise goodwill arising from an amalgamation. Paragraphs 37–38 specify the treatment of the net assets/equity arising as a result of the amalgamation.
- AG60. Where a combining operation has previously recognised goodwill as a result of a previous acquisition, the resulting entity recognises this goodwill in its opening statement of financial position.

*Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by a Combining Operation on the Basis of Criteria that may Change as a Result of an Amalgamation (see paragraph 48)*

- AG61. Prior to an amalgamation taking place, a combining operation may receive a transfer from a third party, based on specified criteria. For example, a national government may provide grants to those municipalities where the average household income is below a threshold. An amalgamation of two municipalities may involve one municipality which met the criteria and received the grant, and one municipality which did not meet the criteria and which did not receive the grant. Following the amalgamation, the average household income of the new, combined municipality will either be above or below the threshold, which may cause the grantor to reassess the amount of grant given.
- AG62. The resulting entity shall not account for any revisions to the grant amount as part of the amalgamation, but shall account for any revisions at the point the grantor makes its intentions known in accordance with other PBE Standards.

- AG63. Similar circumstances may arise in respect of concessionary loans and other benefits. The resulting entity shall not account for any revisions to those transactions as part of the amalgamation, but shall account for any revisions at the point the grantor makes its intentions known in accordance with other PBE Standards.

*Amalgamations Occurring During a Reporting Period (see paragraphs 50–52)*

- AG64. To meet the requirements of paragraphs 50–52, the resulting entity is not required to present financial statements of the combining operations for periods prior to the amalgamation date, although it may elect to do so by making the disclosures specified in paragraph 54(g). Where the resulting entity does not elect to present financial statements of the combining operations for periods prior to the amalgamation date, it meets the needs of the users of its financial statements for information about the combining operations prior to the amalgamation ~~by in one of two ways:~~
- (a) Directing the users of its financial statements to the financial statements issued on behalf of each of the combining operations. This is appropriate w~~here~~ financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period); ~~directing the users of its financial statements to the financial statements issued on behalf of the combining operations.~~
  - (b) Making the disclosures required by paragraph 54(h) in respect of each of the combining operations. This is appropriate w~~here~~ no financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period); ~~making the disclosures required by paragraph 54(h).~~
- AG65. ~~[Not used] To satisfy the requirements of a regulator, it may be necessary for the combining operations and/or the resulting entity to present or disclose information in addition to that required by this Standard.~~

## Accounting for Acquisitions

### *Reverse Acquisitions*

- AG66. A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquired operation for accounting purposes on the basis of the guidance in paragraphs AG10–AG18. The entity whose equity interests are acquired (the legal acquired operation) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition. For example, reverse acquisitions sometimes occur when an unlisted public sector entity wants to become a listed entity but does not want to register its equity shares. To accomplish that, the unlisted public sector entity will arrange for a listed entity to acquire its equity interests in exchange for the equity interests of the listed entity. In this example, the listed entity is the legal acquirer because it issued its equity interests, and the unlisted public sector entity is the legal acquired operation because its equity interests were acquired. However, application of the guidance in paragraphs AG10–AG18 results in identifying:
- (a) The listed entity as the acquired operation for accounting purposes (the accounting acquired operation)—i.e., the listed entity does not gain control of one or more operations; and
  - (b) The unlisted public sector entity as the acquirer for accounting purposes (the accounting acquirer)—i.e., the unlisted public sector entity does gain control of one or more operations.

The accounting acquired operation must meet the definition of an operation for the transaction to be accounted for as a reverse acquisition, and all of the recognition and measurement principles in this Standard, including the requirement to recognise goodwill, apply.

### Measuring the Consideration Transferred

- AG67. In a reverse acquisition, the accounting acquirer usually issues no consideration for the acquired operation. Instead, the accounting acquired operation usually issues its equity shares to the owners of the accounting acquirer. Accordingly, the acquisition-date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquired operation is based on the number of equity interests the legal controlled entity would have had to issue to give the owners of the legal controlling entity the same percentage equity interest in the combined entity that results from the reverse acquisition. The fair value of the number of equity interests calculated in that way can be used as the fair value of consideration transferred in exchange for the acquired operation.

## Preparation and Presentation of Consolidated Financial Statements

- AG68. Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal controlling entity (accounting acquired operation) but described in the notes as a continuation of the financial statements of the legal controlled entity (accounting acquirer), with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquired operation. That adjustment is required to reflect the capital of the legal controlling entity (the accounting acquired operation). Comparative information presented in those consolidated financial statements also is retroactively adjusted to reflect the legal capital of the legal controlling entity (accounting acquired operation).
- AG69. Because the consolidated financial statements represent the continuation of the financial statements of the legal controlled entity except for its capital structure, the consolidated financial statements reflect:
- The assets and liabilities of the legal controlled entity (the accounting acquirer) recognised and measured at their pre-combination carrying amounts.
  - The assets and liabilities of the legal controlling entity (the accounting acquired operation) recognised and measured in accordance with this Standard.
  - The ~~accumulated surplus or deficit~~accumulated comprehensive revenue and expense and other equity balances of the legal controlled entity (accounting acquirer) before the acquisition.
  - The amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal controlled entity (the accounting acquirer) outstanding immediately before the acquisition to the fair value of the legal controlling entity (accounting acquired operation). However, the equity structure (i.e., the number and type of equity interests issued) reflects the equity structure of the legal controlling entity (the accounting acquired operation), including the equity interests the legal controlling entity issued to effect the acquisition. Accordingly, the equity structure of the legal controlled entity (the accounting acquirer) is restated using the exchange ratio established in the acquisition agreement to reflect the number of shares of the legal controlling entity (the accounting acquired operation) issued in the reverse acquisition.
  - The non-controlling interest's proportionate share of the legal controlled entity's (accounting acquirer's) pre-acquisition carrying amounts of retained earnings and other equity interests as discussed in paragraphs AG70 and AG71.

## Non-Controlling Interest

- AG70. In a reverse acquisition, some of the owners of the legal acquired operation (the accounting acquirer) might not exchange their equity interests for equity interests of the legal controlling entity (the accounting acquired operation). Those owners are treated as a non-controlling interest in the consolidated financial statements after the reverse acquisition. That is because the owners of the legal acquired operation that do not exchange their equity interests for equity interests of the legal acquirer have an interest in only the results and net assets of the legal acquired operation—not in the results and net assets of the combined entity. Conversely, even though the legal acquirer is the acquired operation for accounting purposes, the owners of the legal acquirer have an interest in the results and net assets of the combined entity.
- AG71. The assets and liabilities of the legal acquired operation are measured and recognised in the consolidated financial statements at their pre-combination carrying amounts (see paragraph AG69(a)). Therefore, in a reverse acquisition the non-controlling interest reflects the non-controlling shareholders' proportionate interest in the pre-acquisition carrying amounts of the legal acquired operation's net assets even if the non-controlling interests in other acquisitions are measured at their fair value at the acquisition date.

*Recognising Particular Assets Acquired and Liabilities Assumed in an Acquisition (see paragraphs 64–68)*

## Operating Leases

- AG72. The acquirer shall recognise no assets or liabilities related to an operating lease in which the acquired operation is the lessee except as required by paragraphs AG73–AG74.



- AG73. The acquirer shall determine whether the terms of each operating lease in which the acquired operation is the lessee are favourable or unfavourable. The acquirer shall recognise an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms. Paragraph AG89 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquired operation is the lessor.
- AG74. An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms. For example, a lease of gates at an airport or of retail space in a prime shopping area might provide entry into a market or other future economic benefits or service potential that qualify as identifiable intangible assets, for example, as a relationship with users of a service. In that situation, the acquirer shall recognise the associated identifiable intangible asset(s) in accordance with paragraph AG75.

#### Intangible Assets

- AG75. The acquirer shall recognise, separately from goodwill, the identifiable intangible assets acquired in an acquisition. An intangible asset is identifiable if it meets either the separability criterion or the binding arrangement criterion.
- AG76. An intangible asset that meets the binding arrangement criterion is identifiable even if the asset is not transferable or separable from the acquired operation or from other rights and obligations. For example:
- (a) An acquired operation leases a facility under an operating lease that has terms that are favourable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The amount by which the lease terms are favourable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even though the acquirer cannot sell or otherwise transfer the lease arrangement.
  - (b) An acquired operation owns and operates a nuclear power plant. The licence to operate that power plant is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognise the fair value of the operating licence and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.
  - (c) An acquired operation owns a technology patent. It has licensed that patent to others for their exclusive use outside the domestic market, receiving a specified percentage of future foreign revenue in exchange. Both the technology patent and the related licence agreement meet the binding arrangement criterion for recognition separately from goodwill even if selling or exchanging the patent and the related licence agreement separately from one another would not be practical.
- AG77. The separability criterion means that an acquired intangible asset is capable of being separated or divided from the acquired operation and sold, transferred, licensed, rented or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability. An intangible asset that the acquirer would be able to sell, license or otherwise exchange for something else of value meets the separability criterion even if the acquirer does not intend to sell, license or otherwise exchange it. An acquired intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the acquirer is involved in them. For example, lists of users of a service are frequently licensed and thus meet the separability criterion. Even if an acquired operation believes its lists of users of a service have characteristics different from other lists of users of a service, the fact that lists of users of a service are frequently licensed generally means that the acquired list of users of a service meets the separability criterion. However, a list of users of a service acquired in an acquisition would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing or otherwise exchanging information about its users of a service.
- AG78. An intangible asset that is not individually separable from the acquired operation or combined entity meets the separability criterion if it is separable in combination with a related binding arrangement, identifiable asset or liability. For example, an acquired operation owns a registered trademark and documented but unpatented technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark, the owner is also required to transfer everything else necessary for

the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the acquired operation or combined entity and sold if the related trademark is sold, it meets the separability criterion.

#### Reacquired Rights

- AG79. As part of an acquisition, an acquirer may reacquire a right that it had previously granted to the acquired operation to use one or more of the acquirer's recognised or unrecognised assets. Examples of such rights include a **right to use the acquirer's trade name under a network or partner agreement or a right to use the acquirer's technology under a technology licensing agreement**. A reacquired right is an identifiable intangible asset that the acquirer recognises separately from goodwill or a gain from a bargain purchase. Paragraph 83 provides guidance on measuring a reacquired right and paragraph 113 provides guidance on the subsequent accounting for a reacquired right.
- AG80. If the terms of the binding arrangement giving rise to a reacquired right are favourable or unfavourable relative to the terms of current market transactions for the same or similar items, the acquirer shall recognise a settlement gain or loss. Paragraph AG100 provides guidance for measuring that settlement gain or loss.

#### Assembled Workforce and Other Items that are not Identifiable

- AG81. The acquirer subsumes into goodwill the value of an acquired intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an assembled workforce, which is an existing collection of employees that permits the acquirer to continue to operate an acquired operation from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce—the (often specialised) knowledge and experience that employees of an acquired operation bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognised separately from goodwill or a gain from a bargain purchase, any value attributed to it is subsumed into goodwill or a gain from a bargain purchase.
- AG82. The acquirer also subsumes into goodwill or a gain from a bargain purchase any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential binding arrangements the acquired operation is negotiating with prospective new customers at the acquisition date. Because those potential binding arrangements are not themselves assets at the acquisition date, the acquirer does not recognise them separately from goodwill or a gain from a bargain purchase. The acquirer should not subsequently reclassify the value of those binding arrangements from goodwill for events that occur after the acquisition date. However, the acquirer should assess the facts and circumstances surrounding events occurring shortly after the acquisition to determine whether a separately recognizable intangible asset existed at the acquisition date.
- AG83. After initial recognition, an acquirer accounts for intangible assets acquired in an acquisition in accordance with the provisions of PBE IPSAS 31. However, as described in paragraph 6 of PBE IPSAS 31, the accounting for some acquired intangible assets after initial recognition is prescribed by other PBE Standards.
- AG84. The identifiability criteria determine whether an intangible asset is recognised separately from goodwill. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in measuring the fair value of an intangible asset. For example, the acquirer would take into account the assumptions that market participants would use when pricing the intangible asset, such as expectations of future renewals of binding arrangements, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph 83, which establishes an exception to the fair value measurement principle for reacquired rights recognised in an acquisition.) Paragraphs 39.4D and 39.5E of PBE IPSAS 31 provide guidance for determining whether intangible assets should be combined into a single unit of account with other intangible or tangible assets.

#### *Forgiveness of Amounts of Tax Due in an Acquisition (where Included in the Terms of the Acquisition)* (see paragraphs 78–79.2)

- AG85. The acquirer shall not recognise any amounts in respect of an acquired operation's tax due where these amounts have been forgiven by a tax authority as part of the terms of the acquisition. Where tax forgiveness occurs subsequent to an acquisition, the resulting entity applies the requirements in paragraph 118. The acquirer shall account for an acquired operation's tax due that has not been forgiven

by a tax authority in accordance with PBE IAS 12~~the relevant international or national accounting standard dealing with income taxes.~~

AG86. ~~[Not used] If the acquirer is itself the tax authority, it shall derecognise any tax receivable relating to the acquired operation's tax due that has been forgiven in accordance with PBE IPSAS 23.~~

AG87. If, as a consequence of the terms of an acquisition, a tax authority forgives an amount of the acquirer's tax due, the acquirer shall derecognise those amounts in accordance with PBE IAS 12~~the relevant international or national accounting standard dealing with income taxes.~~

*Measuring the Fair Value of Particular Identifiable Assets and a Non-Controlling Interest in an Acquired Operation in an Acquisition (see paragraphs 72–73)*

*Assets with Uncertain Cash Flows (Valuation Allowances)*

AG88. The acquirer shall not recognise a separate valuation allowance as of the acquisition date for assets acquired in an acquisition that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure. For example, because this Standard requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values in accounting for an acquisition, the acquirer does not recognise a separate valuation allowance for the cash flows of the binding arrangement that are deemed to be uncollectible at that date<sup>14</sup>.

*Assets Subject to Operating Leases in which the Acquired Operation is the Lessor*

AG89. In measuring the acquisition-date fair value of an asset such as a building that is subject to an operating lease in which the acquired operation is the lessor, the acquirer shall take into account the terms of the lease. In other words, the acquirer does not recognise a separate asset or liability if the terms of an operating lease are either favourable or unfavourable when compared with market terms as paragraph AG73 requires for leases in which the acquired operation is the lessee.

*Assets that the Acquirer Intends not to use or to use in a Way that is Different from the Way Other Market Participants would use them*

AG90. To protect its competitive position, or for security or other reasons, the acquirer may intend not to use an acquired non-financial asset actively, or it may not intend to use the asset according to its highest and best use. For example, that might be the case for an acquired research and development intangible asset that the acquirer plans to use defensively by preventing others from using it. Nevertheless, the acquirer shall measure the fair value of the non-financial asset assuming its highest and best use by market participants in accordance with the appropriate valuation premise, both initially and when measuring fair value less costs of disposal for subsequent impairment testing.

*Non-Controlling Interest in an Acquired Operation*

AG91. This Standard allows the acquirer to measure a non-controlling interest in the acquired operation at its fair value at the acquisition date. Sometimes an acquirer will be able to measure the acquisition-date fair value of a non-controlling interest on the basis of a quoted price in an active market for the equity shares (i.e., those not held by the acquirer). In other situations, however, a quoted price in an active market for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using other valuation techniques.

AG92. The fair values of the acquirer's interest in the acquired operation and the non-controlling interest on a per-share basis might differ. The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquired operation or, conversely, the inclusion of a discount for lack of control (also referred to as a non-controlling interest discount) in the per-share fair value of the non-controlling interest if market participants would take into account such a premium or discount when pricing the non-controlling interest.

<sup>14</sup> If an entity that applies this Standard and early adopts PBE IFRS 9, this paragraph should be read as follows:

The acquirer shall not recognise a separate valuation allowance as of the acquisition date for assets acquired in an acquisition that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure. For example, because this Standard requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values in accounting for an acquisition, the acquirer does not recognise a separate valuation allowance for the cash flows of the binding arrangement that are deemed to be uncollectible at that date, or a loss allowance for expected credit losses.

*Measuring Goodwill or a Gain from a Bargain Purchase in an Acquisition (see paragraphs 85–98)*

## Relationship between Goodwill and Cash Flows (see paragraph 86)

- AG93. The acquirer shall recognise goodwill only to the extent that the acquirer estimates there will be favourable changes to its net cash flows, either from increased cash inflows or decreased cash outflows. An acquirer shall not recognise goodwill related to service potential other than cash flows.

*Measuring the Acquisition-Date Fair Value of the Acquirer's Interest in the Acquired Operation Using Valuation Techniques (see paragraph 87)*

- AG94. In an acquisition achieved without the transfer of consideration, the acquirer must substitute the acquisition-date fair value of its interest in the acquired operation for the acquisition-date fair value of the consideration transferred to measure goodwill, a loss or a gain on a bargain purchase (see paragraphs 85–87).

*Special Considerations in Applying the Acquisition Method to Combinations of Mutual Entities (Application of paragraph 87)*

- AG95. When two mutual entities combine, the fair value of the equity or member interests in the acquired operation (or the fair value of the acquired operation) may be more reliably measurable than the fair value of the member interests transferred by the acquirer. In that situation, paragraph 87 requires the acquirer to determine the amount of goodwill by using the acquisition-date fair value of the acquired operation's equity interests instead of the acquisition-date fair value of the acquirer's equity interests transferred as consideration. In addition, the acquirer in a combination of mutual entities shall recognise the acquired operation's net assets as a direct addition to capital or equity in its statement of financial position, not as an addition to ~~accumulated surplus or deficit~~ accumulated comprehensive revenue and expense, which is consistent with the way in which other types of entities apply the acquisition method.
- AG96. Although they are similar in many ways to other entities, mutual entities have distinct characteristics that arise primarily because their members are both customers and owners. Members of mutual entities generally expect to receive benefits for their membership, often in the form of reduced fees charged for goods and services or patronage dividends. The portion of patronage dividends allocated to each member is often based on the amount of business the member did with the mutual entity during the year.
- AG97. A fair value measurement of a mutual entity should include the assumptions that market participants would make about future member benefits as well as any other relevant assumptions market participants would make about the mutual entity. For example, a present value technique may be used to measure the fair value of a mutual entity. The cash flows used as inputs to the model should be based on the expected cash flows of the mutual entity, which are likely to reflect reductions for member benefits, such as reduced fees charged for goods and services.

*Determining what is Part of the Acquisition Transaction (see paragraphs 109–111)*

- AG98. The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the exchange for the acquired operation or whether the transaction is separate from the acquisition:
- (a) The reasons for the transaction. Understanding the reasons why the parties to the acquisition (the acquirer and the acquired operation and their owners, directors and managers—and their agents) entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred and the assets acquired or liabilities assumed. For example, if a transaction is arranged primarily for the benefit of the acquirer or the combined entity rather than primarily for the benefit of the acquired operation or its former owners before the combination, that portion of the transaction price paid (and any related assets or liabilities) is less likely to be part of the exchange for the acquired operation. Accordingly, the acquirer would account for that portion separately from the acquisition.
  - (b) Who initiated the transaction. Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the acquired operation. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits to the acquirer or combined entity with little or no benefit received by the acquired operation or its former owners before the combination. On the other

hand, a transaction or arrangement initiated by the acquired operation or its former owners is less likely to be for the benefit of the acquirer or the combined entity and more likely to be part of the acquisition transaction.

- (c) The timing of the transaction. The timing of the transaction may also provide insight into whether it is part of the exchange for the acquired operation. For example, a transaction between the acquirer and the acquired operation that takes place during the negotiations of the terms of an acquisition may have been entered into in contemplation of the acquisition to provide future economic benefits to the acquirer or the combined entity. If so, the acquired operation or its former owners before the acquisition are likely to receive little or no benefit from the transaction except for benefits they receive as part of the combined entity.

#### Effective Settlement of a Pre-Existing Relationship between the Acquirer and Acquired Operation in an Acquisition (see paragraph 110(a))

AG99. The acquirer and acquired operation may have a relationship that existed before they contemplated the acquisition, referred to here as a 'pre-existing relationship'. A pre-existing relationship between the acquirer and acquired operation may arise from a binding arrangement (for example, vendor and customer or licensor and licensee) or may arise outside of a binding arrangement (for example, plaintiff and defendant).

AG100. If the acquisition in effect settles a pre-existing relationship, the acquirer recognises a gain or loss, measured as follows:

- (a) For a pre-existing relationship arising outside of a binding arrangement (such as a lawsuit), fair value.
- (b) For a pre-existing relationship arising from a binding arrangement, the lesser of (i) and (ii):
  - (i) The amount by which the binding arrangement is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavourable binding arrangement is a binding arrangement that is unfavourable in terms of current market terms. It is not necessarily an onerous binding arrangement in which the unavoidable costs of meeting the obligations under the binding arrangement exceed the economic benefits expected to be received under it.)
  - (ii) The amount of any stated settlement provisions in the binding arrangement available to the counterparty to whom the binding arrangement is unfavourable.

If (ii) is less than (i), the difference is included as part of the acquisition accounting.

The amount of gain or loss recognised may depend in part on whether the acquirer had previously recognised a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

AG101. A pre-existing relationship may be a binding arrangement that the acquirer recognises as a reacquired right. If the binding arrangement includes terms that are favourable or unfavourable when compared with pricing for current market transactions for the same or similar items, the acquirer recognises, separately from the acquisition, a gain or loss for the effective settlement of the binding arrangement, measured in accordance with paragraph AG100.

#### Arrangements for Contingent Payments to Employees or Selling Shareholders (see paragraph 110(b))

AG102. Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the acquisition or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement.

AG103. If it is not clear whether an arrangement for payments to employees or selling shareholders is part of the exchange for the acquired operation or is a transaction separate from the acquisition, the acquirer should consider the following indicators:

- (a) Continuing employment. The terms of continuing employment by the selling shareholders who become key employees may be an indicator of the substance of a contingent consideration

arrangement. The relevant terms of continuing employment may be included in an employment agreement, acquisition agreement or some other document. A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than remuneration.

- (b) Duration of continuing employment. If the period of required employment coincides with or is longer than the contingent payment period, that fact may indicate that the contingent payments are, in substance, remuneration.
- (c) Level of remuneration. Situations in which employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the combined entity may indicate that the contingent payments are additional consideration rather than remuneration.
- (d) Incremental payments to employees. If selling shareholders who do not become employees receive lower contingent payments on a per-share basis than the selling shareholders who become employees of the combined entity, that fact may indicate that the incremental amount of contingent payments to the selling shareholders who become employees is remuneration.
- (e) Number of shares owned. The relative number of shares owned by the selling shareholders who remain as key employees may be an indicator of the substance of the contingent consideration arrangement. For example, if the selling shareholders who owned substantially all of the shares in the acquired operation continue as key employees, that fact may indicate that the arrangement is, in substance, a profit-sharing arrangement intended to provide remuneration for post-combination services. Alternatively, if selling shareholders who continue as key employees owned only a small number of shares of the acquired operation and all selling shareholders receive the same amount of contingent consideration on a per-share basis, that fact may indicate that the contingent payments are additional consideration. The pre-acquisition ownership interests held by parties related to selling shareholders who continue as key employees, such as family members, should also be considered.
- (f) Linkage to the valuation. If the initial consideration transferred at the acquisition date is based on the low end of a range established in the valuation of the acquired operation and the contingent formula relates to that valuation approach, that fact may suggest that the contingent payments are additional consideration. Alternatively, if the contingent payment formula is consistent with prior profit-sharing arrangements, that fact may suggest that the substance of the arrangement is to provide remuneration.
- (g) Formula for determining consideration. The formula used to determine the contingent payment may be helpful in assessing the substance of the arrangement. For example, if a contingent payment is determined on the basis of a multiple of earnings, that might suggest that the obligation is contingent consideration in the acquisition and that the formula is intended to establish or verify the fair value of the acquired operation. In contrast, a contingent payment that is a specified percentage of earnings might suggest that the obligation to employees is a profit-sharing arrangement to remunerate employees for services rendered.
- (h) Other agreements and issues. The terms of other arrangements with selling shareholders (such as agreements not to compete, executory contracts, consulting contracts and property lease agreements) and the income tax treatment of contingent payments may indicate that contingent payments are attributable to something other than consideration for the acquired operation. For example, in connection with the acquisition, the acquirer might enter into a property lease arrangement with a significant selling shareholder. If the lease payments specified in the lease arrangement are significantly below market, some or all of the contingent payments to the lessor (the selling shareholder) required by a separate arrangement for contingent payments might be, in substance, payments for the use of the leased property that the acquirer should recognise separately in its post-combination financial statements. In contrast, if the lease arrangement specifies lease payments that are consistent with market terms for the leased property, the arrangement for contingent payments to the selling shareholder may be contingent consideration in the acquisition.

Acquirer Share-Based Payment Awards Exchanged for Awards held by the Acquired Operation's Employees (see paragraph 110(b))

- AG104. An acquirer may exchange its share-based payment awards for awards held by employees of the acquired operation. The acquirer shall account for exchanges of share options or other share-based payment awards in conjunction with an acquisition in accordance with the relevant international or national accounting standard dealing with share-based payments.
- AG105. In situations in which acquired operation awards would expire as a consequence of an acquisition and if the acquirer replaces those awards when it is not obliged to do so, the acquirer shall recognise any costs as remuneration cost in the post-combination financial statements in accordance with the relevant international or national accounting standard dealing with share-based payments. The cost of those awards shall not be included in measuring the consideration transferred in the acquisition.

#### Equity-Settled Share-Based Payment Transactions of the Acquired Operation

- AG106. The acquired operation may have outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions. If vested, those acquired operation share-based payment transactions are part of the non-controlling interest in the acquired operation. If unvested, they are measured as if the acquisition date were the grant date. Share-based payment transactions are measured in accordance with the relevant international or national accounting standard dealing with share-based payments.

#### *Subsequent Measurement and Accounting (see paragraph 112)*

- AG107. Examples of other PBE Standards that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in an acquisition include:
- (a) PBE IPSAS 31 prescribes the accounting for identifiable intangible assets acquired in an acquisition. The acquirer measures goodwill at the amount recognised at the acquisition date less any accumulated impairment losses. PBE IPSAS 26 prescribes the accounting for impairment losses.
  - (b) PBE IPSAS 35 provides guidance on accounting for changes in a controlling entity's ownership interest in a controlled entity after control is obtained.
  - (c) PBE IFRS 4 provides guidance on the subsequent accounting for an insurance contract acquired in an acquisition.
  - (d) PBE IAS 12 prescribes the subsequent accounting for deferred tax assets (including unrecognised deferred tax assets) and liabilities acquired in an acquisition.
- AG108. An acquirer should refer to the relevant international or national accounting standards for guidance on subsequently measuring and accounting for ~~insurance contracts, income taxes and~~ share-based payments.

#### *Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or Acquired Operation on the Basis of Criteria that may Change as a Result of an Acquisition (see paragraph 114)*

- AG109. Prior to an acquisition taking place, an acquirer or an acquired operation may receive a transfer from a third party, based on specified criteria. For example, a national government may provide grants to those municipalities where the municipality's revenue per head of population is below a threshold. An acquisition by a municipality of a cash-generating operation may increase the revenue per head of population of the municipality so that it is above the threshold. This may cause the government to review the grant.
- AG110. The acquirer shall not account for any revisions to the grant amount as part of the acquisition, but accounts for any revisions at the point the grantor makes its intentions known in accordance with other PBE Standards.
- AG111. Similar circumstances may arise in respect of concessionary loans and other benefits. The acquirer shall not account for any revisions to those transactions as part of the acquisition, but accounts for any revisions at the point the grantor makes its intentions known in accordance with other PBE Standards.



*Acquisitions Occurring During a Reporting Period*

- AG112. The resulting entity meets the needs of the users of its financial statements for information about the acquired operations prior to the acquisition by making the disclosures in paragraph 120(r).
- AG113. ~~[Not used] To satisfy the requirements of a regulator, it may be necessary for the acquirer to present or disclose information in addition to that required by this Standard.~~

**Transitional Provisions for ~~PBE public sector~~ Combinations Involving only Mutual Entities or by Contract Alone ~~(see paragraph 133)~~**

- AG114-~~AG115.~~ ~~[Not used] Paragraph 126 provides that this Standard applies prospectively to public sector combinations for which the acquisition date or amalgamation date is on or after the beginning of the first annual reporting period beginning on or after [date]. Earlier application is permitted.~~
- AG115. ~~The requirement to apply this Standard prospectively has the following effect for a public sector combination involving only mutual entities or by contract alone if the acquisition date or amalgamation date for that public sector combination is before the application of this Standard:~~
- ~~(a) Classification. An entity shall continue to classify the prior public sector combination in accordance with the entity's previous accounting policies for such combinations.~~
  - ~~(b) Previously recognised goodwill. At the beginning of the first annual period in which this Standard is applied, the carrying amount of goodwill arising from the prior public sector combination shall be its carrying amount at that date in accordance with the entity's previous accounting policies. In determining that amount, the entity shall eliminate the carrying amount of any accumulated amortisation of that goodwill and the corresponding decrease in goodwill. No other adjustments shall be made to the carrying amount of goodwill.~~
  - ~~(c) Goodwill previously recognised as a deduction from equity. The entity's previous accounting policies may have resulted in goodwill arising from the prior public sector combination being recognised as a deduction from equity. In that situation the entity shall not recognise that goodwill as an asset at the beginning of the first annual period in which this Standard is applied. Furthermore, the entity shall not recognise in surplus or deficit any part of that goodwill when it disposes of all or part of the operation to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.~~
  - ~~(d) Subsequent accounting for goodwill. From the beginning of the first annual period in which this Standard is applied, an entity shall discontinue amortising goodwill arising from the prior public sector combination and shall test goodwill for impairment in accordance with PBE IPSAS 26.~~
  - ~~(e) Previously recognised negative goodwill. An entity that accounted for the prior public sector combination by applying the purchase method may have recognised a deferred credit for an excess of its interest in the net fair value of the acquired operation's identifiable assets and liabilities over the cost of that interest (sometimes called negative goodwill). If so, the entity shall derecognise the carrying amount of that deferred credit at the beginning of the first annual period in which this Standard is applied with a corresponding adjustment to the opening balance of accumulated surplus or deficit at that date.~~



## Amendments to Other Standards

### Note for Board

We have included only those consequential amendments relating to first-time adoption issues. The remaining consequential amendments will be included in the next version of the ED.

### **PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS***

Paragraph B1 (and its related headings) are amended and paragraph B6 is added. New text is underlined and deleted text is struck through.

### **Exemptions for PBE Business Combinations**

*This Appendix is an integral part of PBE FRS 47. An entity shall apply the following requirements to PBE business combinations that the entity recognised before the date of transition to PBE Standards.*

- B1. A first-time adopter may elect not to apply PBE IPSAS 40 ~~IFRS 3~~ PBE Business PBE Combinations retrospectively to past PBE business combinations (PBE business combinations that occurred before the date of transition to PBE Standards). However, if a first-time adopter restates any PBE business combination to comply with PBE IPSAS 40 ~~IFRS 3~~, it shall restate all later PBE business combinations and shall also apply PBE IPSAS 35 *Consolidated Financial Statements* from that same date. For example, if a first-time adopter elects to restate a PBE business combination that occurred on 30 June 20X6, it shall restate all PBE business combinations that occurred between 30 June 20X6 and the date of transition to PBE Standards, and it shall also apply PBE IPSAS 35 from 30 June 20X6.

...

### **Amalgamations**

B6 If a first-time adopter does not apply PBE IPSAS 40 retrospectively to a past amalgamation, this has the following consequences for that PBE combination:

- (a) The first-time adopter shall retain the classification of the combination (that is, as an amalgamation or an acquisition) in its previous GAAP financial statements.
- (b) At the date of transition to PBE Standards the first-time adopter shall recognise all the assets and liabilities that it received and assumed in a past amalgamation, other than:
  - (i) Some financial assets and financial liabilities derecognised in accordance with previous GAAP (see paragraph A2); and
  - (ii) Assets, including goodwill, and liabilities that were not recognised in the resulting entity's statement of financial position in accordance with previous GAAP and which would not qualify for recognition in accordance with PBE Standards in the separate statement of financial position of the combining operations (see (f)–(i) below).

The first-time adopter shall recognise any resulting change by adjusting accumulated comprehensive revenue and expense (or, if appropriate, another category of net assets/equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see (g)(i) below).

- (c) The first-time adopter shall exclude from its opening statement of financial position under PBE Standards any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under PBE Standards. The first-time adopter shall account for the resulting change as follows:
  - (i) The first-time adopter may have classified a past PBE combination as an acquisition and recognised as an intangible asset an item that does not qualify for recognition as an asset in

- accordance with PBE IPSAS 31 *Intangible Assets*. It shall reclassify that item (and, if any, the related deferred tax and non-controlling interests) as part of goodwill (unless it deducted goodwill directly from net assets/equity in accordance with previous GAAP, see (g)(i) and (g)(ii) below).
- (ii) The first-time adopter shall recognise all other resulting changes in accumulated comprehensive revenue and expense.
- (d) PBE Standards require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The first-time adopter shall measure such assets and liabilities in its opening statement of financial position on the basis required by PBE Standards, even if they were received or assumed in a past amalgamation. It shall recognise any resulting change in the carrying amount by adjusting accumulated comprehensive revenue and expense (or, if appropriate, another category of net assets/equity).
- (e) Immediately after the amalgamation, the carrying amount in accordance with previous GAAP of assets received and liabilities assumed in that PBE combination shall be their deemed cost in accordance with PBE Standards at that date. If PBE Standards require a cost-based measurement of those assets and liabilities at a later date, that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the PBE combination.
- (f) If an asset received, or liability assumed, in a past amalgamation was not recognised in accordance with previous GAAP, it does not have a deemed cost of zero in the opening statement of financial position under PBE Standards. Instead, the resulting entity shall recognise and measure it in its statement of financial position on the basis that PBE Standards would require in the statement of financial position of the combining operation. To illustrate: if the resulting entity had not, in accordance with its previous GAAP, capitalised finance leases assumed in a past amalgamation, it shall capitalise those leases in its first set of financial statements under PBE Standards, as PBE IPSAS 13 *Leases* would require the combining operation to do in its statement of financial position under PBE Standards.
- (g) The carrying amount of goodwill in the opening statement of financial position under PBE Standards shall be its carrying amount in accordance with previous GAAP at the date of transition to PBE Standards, after the following two adjustments:
- (i) If required by (c)(i) above, the first-time adopter shall increase the carrying amount of goodwill when it reclassifies an item that it recognised as an intangible asset in accordance with previous GAAP. Similarly, if (f) above requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill accordingly (and, if applicable, adjust deferred tax and non-controlling interests).
- (ii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply PBE IPSAS 26 *Impairment of Cash-Generating Assets* in testing the goodwill for impairment at the date of transition to PBE Standards and in recognising any resulting impairment loss in accumulated comprehensive revenue and expense. The impairment test shall be based on conditions at the date of transition to PBE Standards.
- (h) No other adjustments shall be made to the carrying amount of goodwill at the date of transition to PBE Standards. For example, the first-time adopter shall not restate the carrying amount of goodwill:
- (i) To exclude in-process research and development assumed in that PBE combination (unless the related intangible asset would qualify for recognition in accordance with PBE IPSAS 31 in the statement of financial position of the resulting entity);
- (ii) To adjust previous amortisation of goodwill; or
- (iii) To reverse adjustments to goodwill that PBE IPSAS 40 would not permit, but were made in accordance with previous GAAP because of adjustments to assets and liabilities between the date of the amalgamation and the date of transition to PBE Standards.

- (i) If the first-time adopter recognised goodwill in accordance with previous GAAP as a deduction from net assets/equity it shall not recognise that goodwill in its opening statement of financial position under PBE Standards.
- (j) In accordance with its previous GAAP, the first-time adopter may not have recognised the assets received and liabilities assumed in a previous amalgamation. The first-time adopter shall adjust the carrying amounts of the resulting entity's assets and liabilities to the amounts that PBE Standards would require in the resulting entity's statement of financial position. The adjustments shall be recognised by adjusting the accumulated comprehensive revenue or expense (or, if appropriate, another category of net assets/equity).
- (k) The measurement of non-controlling interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect non-controlling interests and deferred tax.

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 40.*

### Introduction

- BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 40 *Public Sector Combinations* for application by Tier 1 and Tier 2 public benefit entities (PBEs). Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by PBEs. The NZASB considers that the requirements of IPSAS 40 are generally appropriate for application by PBEs except for the matters discussed below.
- BC2. In developing the Standard the NZASB considered:
- (a) The differences between IPSAS 40 and IFRS 3 *Business Combinations* – why the IPSASB had diverged from requirements in IFRS 3 and whether those differences were appropriate for New Zealand PBEs;
  - (b) The distinction between amalgamations and acquisitions – whether it is clear enough and would lead to sensible answers in New Zealand; and
  - (c) Whether there were any requirements which might be open to interpretation or could be clarified.
- BC3. As a result of considering these matters the NZASB modified some of the requirements in IPSAS 40. The significant changes to the requirements of IPSAS 40 are discussed in this Basis for Conclusions. Most of the changes relate to:
- (a) Changes to the requirements in IPSAS 40;
  - (b) Clarifications to the guidance in IPSAS 40;
  - (c) Not-for-profit (NFP) enhancements to ensure that the PBE Standard is appropriate for application by NFP PBEs as well as public sector PBEs; and
  - (d) Amendments to ensure coherence within the suite of PBE Standards by acknowledging the existence of certain PBE Standards for which there is no corresponding IPSAS. For example, the existence of PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* means that some additional guidance has been included in the PBE Standard.

### Indicators Relating to Consideration

- BC4. The NZASB reflected on the types of PBE combinations that it has observed in New Zealand and the role of consideration in those combinations. The NZASB noted that the absence of consideration is a common feature of PBE combinations, and was of the view that the absence of consideration, in itself, does not provide evidence that the combination is an amalgamation. The NZASB was concerned that application of the guidance in IPSAS 40 about consideration, without any changes, could lead to some PBE combinations, particularly some involving NFP entities, being inappropriately classified as amalgamations. The NZASB considered that a transaction involving a donated operation could be an acquisition. This led the NZASB to modify the sections of IPSAS 40 dealing with consideration and the classification of combinations.
- BC5. Paragraph 12 of IPSAS 40 sets out indicators supporting the classification of a combination as an amalgamation. That paragraph read as follows:
12. The following indicators may provide evidence that the combination is an amalgamation:
- (a) Consideration is paid for reasons other than to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement (paragraphs AG27–AG28 provide additional guidance);
  - (b) Consideration is not paid to those with an entitlement to the net assets of a transferred operation (paragraphs AG29–AG30 provide additional guidance); or
  - (c) Consideration is not paid because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity (paragraph AG31 provides additional guidance).
- BC6. The NZASB combined the indicators in paragraphs 12(a) and 12(b) and removed the indicator in paragraph 12(c). The NZASB combined paragraphs 12(a) and 12(b) because of its view that, on its own,

the indicator in paragraph 12(a) is not a helpful indicator of an amalgamation. The NZASB was of the view that, when classifying combinations, it is necessary to consider the reasons why no consideration has been paid to compensate those with an entitlement to the net assets of a transferred operation.

- BC7. Consistent with its view that the absence of consideration does not in itself provide evidence that a PBE combination is an amalgamation and the broader view of equity interests and owners by PBEs in New Zealand, the NZASB removed paragraph 12(c). In the New Zealand public sector and NFP sector the concept of equity interests is not limited to equity participants in an equity instrument, and the use of the term owners is not limited to owners with a quantifiable ownership interest.
- BC8. The changes to the indicators in paragraph 12 led to a number of other changes throughout the Standard. The main changes were:
- (a) The reordering of the guidance in paragraphs AG27–AG30;
  - (b) The replacement of the examples in paragraph AG30;
  - (c) The removal of paragraph AG31 which contained guidance on paragraph 12(c);
  - (d) The removal of the reference to the indicator in paragraph 12(c) in the illustrative examples (scenario 2 variation, scenario 3 and scenario 14);
  - (e) The updating of the analysis in the illustrative examples; and
  - (f) The reclassification of scenario 6 in the illustrative examples from an amalgamation to an acquisition.

### Definitions of Equity Interests and Owners

- BC9. The NZASB modified the definitions of equity interests and owners in IPSAS 40 to broadly align the definitions with those used in PBE IFRS 3 *Business Combinations*. The NZASB was of the view that these definitions should be broad enough to capture the different types of PBEs and different types of residual interests in PBEs in New Zealand.
- BC10. As a result of changing these definitions the NZASB also replaced the phrase “quantifiable ownership interests” with “equity interests” where appropriate throughout the Standard.

### Use of the Term New Entity

- BC11. IPSAS 40 establishes different requirements for resulting entities that are new entities and those that are not. The NZASB agreed that different requirements are appropriate in different circumstances. For example, the availability and usefulness of prior period information differs in various situations. However, the NZASB was concerned that New Zealand PBEs applying IPSAS 40 could have difficulty in identifying when the resulting entity was or was not a new entity; this was because IPSAS 40 referred to both new legal entities and new economic entities in various places (see paragraphs AG17 and AG22 of IPSAS 40). The NZASB considered that clarity over the use of the term “new entity” is important because it affects presentation, disclosure and how to apply the modified pooling of interests method.
- BC12. The NZASB did not base the requirements in the ED on whether or not an entity was a new *legal* entity, because any new entities established as part of a PBE combination would not necessarily be separate legal entities. The NZASB reviewed the use of the terms “new entity” and “continuing entity” in IPSAS 40 and decided that it would be clearer to specify when there is a *new reporting entity* or a *continuing reporting entity* and the applicable requirements in each case (see paragraph 18 of the Standard).
- BC13. IPSAS 40 reflects the IPSASB’s view that an amalgamation effectively creates a new entity, whether or not a new entity is established. The NZASB is of the view that it is not appropriate to treat all amalgamations as giving rise to new reporting entities; it could be more appropriate to treat some amalgamations as having continuing reporting entities. The NZASB therefore omitted paragraph AG22 from the Standard.
- BC14. The clarification of these terms led to a number of other changes throughout the Standard. The other main changes were:
- (a) Clarifying that the resulting entity is a new reporting entity in paragraph 50;
  - (b) Clarifying that the resulting entity is a continuing reporting entity in paragraph 51; and
  - (c) The removal of paragraph AG1.

### Applying the Modified Pooling of Interests Method

- BC15. The NZASB thought about application of the Standard to PBE combinations involving entities reporting in accordance with different suites of standards. The NZASB felt that it was important for the Standard to be clear about what is required if (i) one of the combining entities had previously recognised assets and liabilities that did not meet the recognition and measurement requirements in PBE Standards; and/or (ii) one of the combining entities had failed to recognise assets and liabilities that should be recognised in accordance with PBE Standards. The NZASB also felt that the Standard needed to be clear about the circumstances in which the resulting entity would be expected to go through a first-time adoption process.
- BC16. The NZASB did not feel that IPSAS 40 contained sufficient guidance about these issues for New Zealand PBEs. For example, IPSAS 40 does not establish requirements about when the first-time adoption standard would be applied; it has been left to the judgement of the reporting entity. The NZASB therefore added guidance to address these situations (see paragraphs 20.1, AG50.1, AG50.2 of the Standard and paragraph B6 of PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*).
- BC17. The IPSASB did not permit the recognition of previously unrecognised assets/liabilities of the combining operations on the grounds that the IPSASB considered it would be costly for entities to identify, measure and recognise these assets/liabilities. The NZASB noted that the IPSASB develops standards for application by international governments and public sector entities which can have different characteristics and face different circumstances to New Zealand PBEs. Based on its knowledge of New Zealand PBEs the NZASB required that the resulting entity shall recognise all assets and liabilities of the combining operations in accordance with PBE Standards, irrespective of whether or not the combining operations had recognised the assets and liabilities prior to the amalgamation. The NZASB therefore changed paragraph 21, omitted paragraph 23 and added paragraph B6 of PBE FRS 47.

### Presentation of Financial Statements and Disclosures

- BC18. IPSAS 40 permits but does not require the resulting entity to present the combining operations' comparatives in the first set of financial statements following an amalgamation. The NZASB is of the view that the continuing reporting entity's comparatives are useful to readers and that a requirement to present such comparatives would not be onerous because the information would have already been prepared. The NZASB has therefore required that the continuing reporting entity present comparative information (see paragraph 51). The comparative information does not have to be restated for the combining operations. This requirement has been clarified in paragraphs 51 and 52.
- BC19. The NZASB also clarified that a new reporting entity shall not present comparatives because it has not been in existence prior to the amalgamation (see paragraph 50).
- BC20. The NZASB considered what information should be presented in respect of amalgamations that occur part way through a reporting period. Generally, disestablished or newly established public sector entities are required to prepare financial statements following an amalgamation in accordance with legislative requirements (which are intended to ensure that users receive appropriate financial information up to, and following, the amalgamation). Other PBEs such as registered charities do not have equivalent legislative requirements. To address the potential information gap that could occur, the NZASB clarified that PBEs are required to provide comparative information up to the date of the amalgamation (see paragraphs 52, 54(g) and 54(h)).

### Identifying an Acquirer

- BC21. The NZASB noted that guidance from IFRS 3 (and PBE IFRS 3) on identifying an acquirer in a reverse acquisition was omitted from IPSAS 40 (see paragraphs B14–B18 of PBE IFRS 3). The IPSASB may have omitted this guidance from IPSAS 40 on the grounds that the exchange of equity instruments in the public sector is uncommon and is likely to occur only if there is a corporation involved. The NZASB acknowledged that PBE combinations are unlikely to involve reverse acquisitions and that guidance on identifying the acquirer in this situation is not required. However, the NZASB felt that it would be helpful to add guidance on identifying the acquirer when a new reporting entity is formed. The NZASB therefore added guidance from PBE IFRS 3.B15(c) and (d) in paragraphs AG14 and AG17.

### Transition

- BC22. The transitional guidance in IPSAS 40 (paragraphs 127–134 and AG114–AG115) is based on equivalent guidance in IFRS 3. The guidance in IFRS 3 was intended to address transition issues that could have

arisen for entities adopting IFRS 3, having regard to the accounting they applied before adoption of IFRS 3. In contrast, most PBEs will have applied PBE IFRS 3 to any recent combinations falling within the scope of that standard. Because of this the NZASB modified the transition guidance in IPSAS 40.

BC23. The NZASB has:

- (a) Mandated prospective application unless the entity is a first-time adopter of PBE Standards, in which case it can choose between prospective application and retrospective application. The NZASB has also included guidance for retrospective application by a first-time adopter of PBE Standards in PBE FRS 47;
- (b) Permitted early application of the Standard; and
- (c) Prohibited restatement of combinations because it would be costly for entities that had not previously applied PBE Standards to adjust assets and liabilities acquired in a combination whose acquisition date preceded the start of the comparative period on application of the Standard.

BC24. The New Zealand transitional provisions are in paragraphs 125.2–125.4.

### **Voluntary Combination not under Common Control**

BC25. IPSAS 40 does not provide guidance for voluntary combinations not under common control. These combinations are more common in the NFP sector than the public sector. The NZASB thought it would be helpful to add guidance and a related illustrative example for such combinations (see paragraph AG17.1 and scenario 15 in the illustrative examples).

### **Selection of Accounting Policies by the Resulting Entity**

BC26. IPSAS 40 is not clear on what accounting policies the resulting entity shall select and the interaction between IPSAS 40 and IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*. The NZASB thought clarifying this requirement would be helpful and part of this clarification is that a continuing reporting entity would retain its prior accounting policies. The NZASB therefore added paragraphs AG54.1 and AG54.2 to provide guidance on the selection of accounting policies by a new reporting entity and a continuing reporting entity.

### **Income Taxes**

BC27. The NZASB noted that the IPSASB had included some guidance on the recognition and measurement of income taxes following acquisitions and amalgamations and how to account for taxes forgiven as a result of a combination. Paragraphs 34, 79, AG58 and AG86 of IPSAS 40 read as follows.

- 34. The resulting entity shall recognize and measure any remaining taxation items included in or arising from an amalgamation in accordance with the relevant international or national accounting standard dealing with income taxes. The resulting entity shall recognize and measure any remaining revenue from taxation included in or arising from an amalgamation in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.
- 79. The acquirer shall recognize and measure any remaining taxation items included in or arising from an acquisition in accordance with the relevant international or national accounting standard dealing with income taxes. The acquirer entity shall recognize and measure any remaining revenue from taxation included in or arising from an acquisition in accordance with IPSAS 23.
- AG58. Where, as a result of the amalgamation, the resulting entity becomes the tax authority, it shall derecognize any tax receivable relating to the combining operation's tax due that has been forgiven in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.
- AG86. If the acquirer is itself the tax authority, it shall derecognize any tax receivable relating to the acquired operation's tax due that has been forgiven in accordance with IPSAS 23.

BC28. The NZASB did not feel that this guidance was necessary as it merely prompted entities to look at the requirements in other standards and to eliminate any inter-entity tax balances. The NZASB therefore omitted paragraphs 34 and 79 and the related paragraphs AG58 and AG86.

## IPSASB Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 40*

### Objective (paragraph 1)

- BC1. In the absence of an International Public Sector Accounting Standard (IPSAS) dealing with public sector combinations, public sector entities are directed, in IPSAS 1, *Presentation of Financial Statements*, to look to other international or national accounting standards. In the case of public sector combinations, they may look to International Financial Reporting Standard (IFRS®) 3, *Business Combinations*. However, IFRS 3 requires all business combinations to be accounted for using acquisition accounting. In developing IFRS 3, the International Accounting Standards Board (IASB®) came to the conclusion that ‘true mergers’ or ‘mergers of equals’ in which none of the combining entities obtains control of the others are so rare as to be virtually non-existent. The IASB also observed that respondents and other constituents were unable to suggest an unambiguous and non-arbitrary boundary for distinguishing true mergers or mergers of equals from other business combinations and concluded that developing such an operational boundary would not be feasible (see IFRS 3, BC35). Consequently, the IASB decided that separate accounting requirements for such combinations was not necessary.
- BC2. Many consider that in the public sector, mergers or amalgamations are the most common form of combination. As a result, public sector entities may not apply IFRS Standards when accounting for public sector combinations. This means that there may not be consistent or appropriate reporting of such combinations in general purpose financial statements (GPFSs). Consequently, users may not be able to obtain the information needed to identify the type of public sector combination and evaluate its nature and financial effect. The IPSASB believes this Standard will promote consistency and comparability in how public sector combinations are reported by public sector entities.

### Process

- BC3. In developing this Standard the IPSASB had regard to the discussion of control in IPSAS 35, *Consolidated Financial Statements*. The IPSASB considered how control, as defined in IPSAS 35, should influence the classification of public sector combinations in this Standard. The IPSASB also had regard to the guidance on combinations in the *Government Finance Statistics Manual 2014* (GFSM 2014) with the aim of avoiding unnecessary differences. The IPSASB also considered IFRS 3 and guidance on combinations developed by national standard setters.

### *Alignment with Government Finance Statistics (GFS)*

- BC4. In developing this Standard, the IPSASB had regard to the treatment of public sector combinations in Government Finance Statistics (GFS):

GFS guidelines make a distinction between an acquisition and an amalgamation based on the principle that with an acquisition a transaction occurs, while with an amalgamation just a reclassification of units may occur.

A transaction will occur where a “market unit” is nationalized or privatized (that is, entering government control or leaving it), and the amounts are recorded in GFS as transactions in equity that correspond to the observed transaction price. Any changes in valuation—for example, between the opening balance of a government equity stake and the eventual transaction price—are recorded as revaluation effects, with no impact on government net lending/net borrowing. For amalgamations, the main impact is on the sectorization of the “institutional units”.

Where the units before amalgamation belonged to the same sector or subsector of general government, the amalgamation will have no impact on the data for that sector or subsector. For example, an amalgamation of two local governments, where both are already classified to the local government sector, would not change results for the local government sector.

However, in cases where a unit in one subsector is being amalgamated with a unit in another subsector, the amalgamated units will be removed from the sector they belonged to and be added to the sector of the new amalgamated unit, through a reclassification of the unit (recorded in GFS as an “other volume change in assets and liabilities”). For example, if a local government unit is amalgamated with a state



government, the unit will be reclassified from the local government subsector to the state government subsector.

BC5. The IPSASB agreed the approach in GFS was not an appropriate basis for classifying public sector combinations in this Standard, for the following reasons:

- (a) The approach in GFS is based on a number of concepts that have no equivalent in IPSASs, for example:
  - (i) The classification of institutional units into sectors based on their economic nature; and
  - (ii) The distinction between market producers and nonmarket producers.
- (b) Amalgamations in GFS can arise from a reclassification of units without a transaction being recorded, which is inconsistent with the approach in IPSASs; and
- (c) Public sector combinations within the same sector or subsector of general government have no impact on the data in GFS, whereas IPSASs would require the changes to individual entities to be accounted for.

BC6. In coming to this conclusion the IPSASB noted that the different approaches in GFS and IPSASs may lead to similar accounting, for example:

- (a) Nationalizations are likely to be recorded as acquisitions under both approaches; and
- (b) The modified pooling of interests method of accounting will produce similar accounting to the GFS reclassification approach where the combining operations had previously adopted the same accounting policies.

#### Scope (paragraphs 2–4)

BC7. The IPSASB initially considered developing two Standards on public sector combinations, covering:

- (a) Entity combinations arising from exchange transactions—a limited convergence project with IFRS 3; and
- (b) Entity combinations arising from non-exchange transactions—a public sector-specific project.

BC8. In May 2009, the IPSASB issued Exposure Draft (ED) 41, *Entity Combinations from Exchange Transactions*, which was the limited convergence project with IFRS 3. Following the consultation process on ED 41, the IPSASB decided not to continue with this approach for the following reasons:

- (a) IFRS 3 includes bargain purchases within its scope. It could be argued, therefore, that IFRS 3 also applies to at least some non-exchange entity combinations. The IPSASB acknowledged that it may be difficult to establish a clear demarcation between all exchange and non-exchange entity combinations.
- (b) It was not clear whether combinations where no party gains control of the other parties to the combination would be classified as entity combinations arising from exchange transactions, and therefore required to be accounted for as an acquisition in accordance with ED 41.

BC9. Subsequently, the IPSASB decided to develop a single standard dealing with all public sector combinations. This wider scope was included in the Consultation Paper (CP), *Public Sector Combinations*, issued in June 2012. Respondents to the CP supported this wider scope.

BC10. The IPSASB, therefore, decided that this Standard should apply to all public sector combinations, with only limited exceptions. This Standard defines a public sector combination as the bringing together of separate operations into one public sector entity. This definition refers to the bringing together of operations rather than entities, as public sector combinations, in common with business combinations, may involve part of an entity that can be managed separately from the rest of the entity.

BC11. In coming to a decision on the scope of this Standard, the IPSASB agreed to include public sector combinations under common control. While these are excluded from the scope of IFRS 3, the IPSASB considered it important that this Standard included all public sector combinations within its scope.

*Scope exclusions*

- BC12. The IPSASB agreed that this Standard should not apply to the formation of joint arrangements or joint ventures. The IPSASB stated in the CP that:
- “The concept underlying the formation of a joint venture differs from other combinations, in that the formation arises from separate entities deciding to share control, i.e., they have joint control of the operations that form the joint venture. The concept of joint control may give rise to issues that affect how the joint venture itself should account for its formation.”
- BC13. In developing this Standard, the IPSASB discussed whether this rationale was still valid given that this Standard takes a different approach to classifying public sector combinations. The IPSASB concluded that the concept of joint control does not reflect the issues addressed in this Standard, and agreed to exclude the formation of joint arrangements or joint ventures from its scope.
- BC14. The IPSASB noted that combinations of two or more joint arrangements may occur. The IPSASB considered that, where such a combination results in the formation of a new joint arrangement, this would be outside the scope of IPSAS 40. The IPSASB noted that a combination may result in the acquisition of one or more joint arrangements by another joint arrangement. In such circumstances, the entities that previously had control over the acquired joint arrangements give up that joint control. Such a combination would be an acquisition within the scope of IPSAS 40.
- BC15. The IPSASB also agreed to exclude from the scope of this Standard the acquisition by an investment entity of an investment in a controlled entity that is required to be measured at fair value through surplus or deficit. Such transactions are considered to be investments rather than public sector combinations. IPSAS 35 prescribes the accounting requirements for such transactions.

*Responses to ED 60, Public Sector Combinations*

- BC16. The IPSASB issued its proposals in ED 60, *Public Sector Combinations*, in January 2016. Respondents to ED 60 generally supported the proposed scope and the exclusions. The IPSASB considered the responses, and agreed that no changes to the scope were required. In doing so, the IPSASB noted that the scope of the standard included combinations undertaken on a temporary basis, for example the bailout of a private sector company with the intention of selling that company as soon as it was returned to a sound financial position. The IPSASB noted that including such combinations within the scope of this Standard was consistent with the decision taken in developing IPSAS 35 not to require a different accounting treatment for temporarily controlled entities.

**Classification of Public Sector Combinations (paragraphs 7–14)**

- BC17. As a result of the responses it received to ED 41, the IPSASB concluded that distinguishing between entity combinations arising from exchange transactions and entity combinations arising from non-exchange transactions did not provide a suitable basis for a future IPSAS. Relying on the definition of “exchange transactions” in the IPSASB’s literature would mean that most government interventions during times of economic crisis, such as the global financial crisis in 2008, would not meet the definition of an acquisition. The IPSASB considered it inappropriate to define such “bailouts” as amalgamations.
- BC18. The IPSASB also noted that IFRS 3 applied to a “business”, not to an entity. As well as applying to an entity, the definition of a business could also apply to part of an entity that could be managed separately from the rest of the entity. The IPSASB had regard to these issues in developing its approach in the CP.

*Classification approach in the Consultation Paper, Public Sector Combinations*

- BC19. The approach taken in the CP was to distinguish between combinations where the parties to the combination are under common control, and combinations where the parties to the combination are not controlled by the same ultimate controlling party, i.e., not under common control. A further distinction was made between combinations where one party gains control of another party (considered by the CP to be acquisitions), and combinations where no party gains control of the other parties to the combination (considered by the CP to be amalgamations).
- BC20. The IPSASB considered that the concept of control was important in determining the classification of a public sector combination. Control underpins much of financial reporting. IPSAS 35 requires an entity to consolidate those other entities that it controls, as does the predecessor standard, IPSAS 6,

*Consolidated and Separate Financial Statements.* The IPSASB also noted that Government Finance Statistics adopts a similar approach to control as that adopted in both IPSAS 35 and IPSAS 6.

BC21. Similarly, control is an important factor when recognizing assets. Paragraph 5.6 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) defines an asset as “A resource presently controlled by the entity as a result of a past event.”

BC22. The IPSASB determined, therefore, that control was an appropriate starting point for the classification of public sector combinations. As a result, the CP included the IPSASB’s preliminary view as to the role of control in classifying public sector combinations:

“The sole definitive criterion for distinguishing an amalgamation from an acquisition is that, in an amalgamation, none of the combining operations gains control of the other operations.”

BC23. In developing the CP, the IPSASB explained that the parties to a public sector combination under common control are ultimately controlled by the same entity both before and after the combination. This leads to economic differences between combinations that take place under common control and those that take place not under common control, as follows:

- (a) Public sector combinations between entities within an economic entity (i.e., under common control) do not change the economic resources of that economic entity;
- (b) Any surpluses and deficits resulting from a public sector combination under common control are eliminated in full in the ultimate controlling entity’s consolidated GPFSS; and
- (c) The ultimate controlling entity can specify whether any consideration is transferred (and if consideration is transferred, the amount of that consideration) in a public sector combination under common control.

These differences may have implications for the accounting treatment of a public sector combination under common control.

BC24. The approach in the CP reflected the IPSASB’s views that:

- (a) The economic differences between combinations that take place under common control and those that take place not under common control may have implications for their accounting treatment; and
- (b) Acquisitions should be distinguished from amalgamations on the basis of control.

BC25. Similar numbers of respondents to the CP supported and disagreed with the proposals. Respondents who disagreed with the proposals suggested that distinguishing acquisitions from amalgamations based solely on control did not reflect public sector circumstances. In particular, these respondents noted that

- (a) Public sector combinations may occur where it is not possible to identify an acquirer even if it is possible to identify an entity that has gained control of operations as a result of the public sector combination. Under IFRS 3, the acquirer can be identified by analyzing the ownership interests in the respective parties. However, in the public sector there may be no quantifiable ownership interests in the entities, making such an analysis impossible. The entity gaining control of the operations may not have existed prior to the combination, and if there are no quantifiable ownership interests in that entity, it will not be possible to identify an acquirer.
- (b) Public sector combinations may be imposed on all parties to the combination by a higher level of government, for example when a central government reorganizes local government by legislating the combination of municipalities irrespective of the wishes of those municipalities.

BC26. Respondents who disagreed with the proposals in the CP suggested a number of alternative bases for classifying public sector combinations, including:

- (a) Variations of whether consideration was transferred:
  - (i) Consideration was transferred as part of the combination;
  - (ii) Significant consideration was transferred as part of the combination;
  - (iii) The combination was effected at market value;

- (iv) Distinguishing acquisitions (which include the transfer of consideration) not under common control from all other combinations; and
  - (v) Distinguishing between combinations under common control on the basis of whether the combination has “commercial substance” (which includes the transfer of consideration).
- (b) Whether the public sector combination was effected voluntarily or involuntarily.

*Development of the classification approach in ED 60, Public Sector Combinations*

- BC27. The IPSASB considered the responses to the CP. The IPSASB accepted that the classification approach adopted in the CP would not always reflect public sector circumstances. Consequently, the IPSASB agreed to revisit the classification of public sector combinations.
- BC28. As part of this process, the IPSASB considered whether any of the approaches suggested by respondents might provide an alternative basis for classification. The IPSASB concluded that these approaches were not suitable, for the following reasons:
- (a) The IPSASB came to the view that the transfer of consideration, on its own, was insufficient to distinguish an acquisition from an amalgamation. As noted in paragraph BC17 above, defining an acquisition as an exchange transaction would lead to bailouts being classified as amalgamations. Similarly, if an acquisition was defined as requiring consideration to be transferred by the acquirer, this could lead to bailouts being classified as amalgamations. Definitions of an acquisition that required the transfer of significant consideration, or for the public sector combination to take place at market value, would not address issues such as bargain purchases (discussed above in paragraph BC8(a)).
  - (b) The IPSASB came to the view that whether a public sector combination was effected voluntarily or involuntarily did not provide, on its own, sufficient information to classify a public sector combination. The voluntary or involuntary nature of a public sector combination provides information as to the process of the combination but not its outcome. Public sector combinations may have different economic outcomes irrespective of their voluntary or involuntary nature. The IPSASB did not consider that it was possible to classify a public sector combination without considering the outcome of that combination. Consequently, the IPSASB did not consider a classification based solely on the voluntary or involuntary nature of the public sector combination would meet the objectives of financial reporting.
- BC29. The IPSASB reviewed the role of control in classifying public sector combinations, and concluded that control remained an important factor in determining whether a combination was an acquisition or an amalgamation. In coming to this conclusion, the IPSASB noted that an acquisition could only occur when a party to the combination gained control of one or more operations (this is discussed in more detail in paragraph BC25(a) above). Consequently, the IPSASB reviewed the factors suggested by respondents to the CP to determine which factors might usefully supplement the concept of control.
- BC30. The IPSASB discussed the following factors, and agreed that they could be helpful in supplementing the concept of control in classifying public sector combinations:
- (a) **Consideration.** The IPSASB agreed that whether a public sector combination includes the transfer of consideration is relevant to classifying the combination. Acquisitions generally include consideration, whereas consideration will be absent from amalgamations. For the reasons given in paragraph BC28(a) above, the IPSASB agreed that the transfer of consideration in itself was not conclusive, and that more information about the nature of a combination would be obtained by having regard to the reasons why consideration was or was not transferred.
  - (b) **Exchange transactions.** The IPSASB agreed that an acquisition was more likely to occur in an exchange transaction than in a non-exchange transaction. However, the IPSASB had already acknowledged that it may be difficult to establish a clear demarcation between all exchange and non-exchange entity combinations (see paragraph BC8(a) above). The IPSASB came to the conclusion that information about whether a public sector combination was an exchange transaction or a non-exchange transaction could be determined by having regard to the reasons why consideration was or was not transferred. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of consideration.
  - (c) **Quantifiable ownership interests.** The IPSASB noted that whether there are quantifiable ownership interests in an operation can influence the economic substance of a public sector

combination. If there are no quantifiable ownership interests in an operation, no consideration can be transferred as there is no party with an entitlement to receive the consideration. This can distinguish the combination from an acquisition, where there is always an owner to receive the consideration. The IPSASB noted that that lack of quantifiable ownership interests could be a reason why consideration was not transferred. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of consideration.

- (d) **Decision-making process.** The IPSASB agreed that having regard to which parties were able to make decisions regarding a public sector combination could provide useful information about the classification of that combination. In the private sector, combinations are usually entered into voluntarily, at least from the acquirer's perspective. In the public sector, other parties may be involved in the decision-making process. The freedom that the parties to the combination are able to exercise may influence the economic substance of the combination and hence its classification.
- (e) **Compulsion.** In the public sector, a public sector combination may be imposed by a higher level of government, whether or not that higher level of government controls the parties to the combination for financial reporting purposes. For example, a central government may restructure local government by directing certain municipalities to combine. The IPSASB agreed that compulsion was relevant to the classification of a public sector combination, but considered that information about compulsion would be obtained by having regard to decision-making. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of the decision-making process.
- (f) **Common control.** In developing the CP, the IPSASB identified the economic differences between public sector combinations that take place under common control and those that take place not under common control (see paragraph BC23 above). The IPSASB agreed that the ability of the controlling entity to specify whether any consideration is transferred is relevant to the classification of the combination, but considered this to be an element of the decision-making process. The fact that the economic resources of the economic entity do not change in a combination under common control, and that any surpluses or deficits would be eliminated on consolidation were seen as relevant to the controlling entity, but not the controlled entity. As the controlled entity will be the reporting entity for the combination, the IPSASB concluded that it is not necessary to assess this factor independently of the decision-making process.
- (g) **Citizens' rights.** In some jurisdictions, citizens may be part of the decision-making process, for example where public sector combinations are subject to the approval of citizens through a referendum. The IPSASB agreed that citizens' rights to accept or reject the combination was relevant to the classification of the combination. However, the IPSASB considered these rights to be rights to participate in the decision-making process. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of the decision-making process.

BC31. The IPSASB did not consider that the following factors would be helpful in supplementing the concept of control in classifying public sector combinations:

- (a) **Change of sector.** The IPSASB acknowledged that a change of sector would be an indicator of a public sector entity acquiring an operation. However, the IPSASB considered that this change of sector would be a consequence of a change in control rather than a separate factor to be considered. The IPSASB also noted that the classification of institutional units into sectors based on their economic nature of being government units was a feature of GFS that had no equivalent in the IPSASB's literature. This will continue to be a significant difference between macroeconomic statistical reporting and accounting and financial reporting. Consequently, the IPSASB did not consider a change of sector to be a useful factor in classifying public sector combinations.
- (b) **Nature of the jurisdiction.** Some responses to the CP suggested that, in jurisdictions where there is significant interaction or redistribution between the different levels of government, the public sector can be seen as operating as part of a single quasi "group" entity. Such a view could have implications for the classification of public sector combinations. The IPSASB did not consider that from the reporting entity's perspective, the nature of the jurisdiction was relevant to the classification of public sector combinations. A reporting entity could make an assessment of control, consideration and decision-making without reference to a quasi-group entity. The

IPSASB noted that the nature of the jurisdiction may form part of the assessment of the nature of the public sector combination, which an entity may need to consider when the analysis of all other factors has produced inconclusive results or does not provide sufficient evidence to determine the appropriate classification of a public sector combination.

- (c) **Operation of government.** Some respondents to the CP suggested that the operation of government would be relevant to the classification of public sector combinations. Examples given included:
- (i) The existence of a ministerial or other government power enabling the government to direct the entity's governing body to achieve the government's policy objectives;
  - (ii) Ministerial approval is required for operating budgets; and
  - (iii) The government has broad discretion, under existing legislation, to appoint or remove a majority of the members of the governing body of the entity.

The IPSASB concluded that the examples were indicators of control or common control rather than suggesting an independent factor. As such, the IPSASB did not consider that the operation of government was relevant to the classification of public sector combinations.

- (d) **The entity directs public policy and/or engages in non-market activity mainly financed by public resources.** Some respondents to the CP suggested that control should be supplemented by having regard to whether the entity directs public policy and/or engages in non-market activity mainly financed by public resources. Where this was the case, this would suggest an amalgamation. The IPSASB noted that this approach would require the introduction of new concepts into the IPSASB's literature. For example, non-market activity is a GFS concept that the IPSASB has not adopted. The IPSASB did not consider it appropriate to introduce these concepts in ED 60. Consequently, the IPSASB did not consider that this factor was relevant to the classification of public sector combinations.
- (e) **Accountability.** Some respondents suggested that accounting for a public sector combination at fair value provides more information about the effect of that combination, but that this is only useful for accountability purposes where the entity was responsible for the decision to combine. The IPSASB did not consider accountability to be a primary factor in its own right, but acknowledged that the information resulting from the classification of a public sector combination should meet the objectives of financial reporting. In exceptional circumstances, when an analysis of consideration and the decision-making process produces an inconclusive result or does not provide sufficient evidence as to the appropriate classification of a public sector combination, an entity may need to consider other matters, including what information would meet the objectives of financial reporting and satisfy the qualitative characteristics (QCs).

BC32. The IPSASB concluded, therefore, that control should be supplemented by two additional factors—whether consideration was transferred, and the reasons for the presence or absence of consideration; and the decision-making process. These factors are wide ranging, and encompass elements of other factors, as discussed above.

BC33. The IPSASB noted that these factors could be used either to supplement the indicators of control in IPSAS 35, or could be used to supplement the control concept in classifying public sector combinations. The IPSASB debated the merits of these two approaches. The IPSASB noted that using the factors to supplement the indicators of control was likely to result in a classification approach that better satisfied the QC of comparability. However, the IPSASB considered that using the factors to supplement the control concept was likely to produce a classification approach that provided more relevant and faithfully representative information. Using the factors to supplement the control concept was also more likely to address the concerns raised by respondents.

BC34. Respondents to the CP had identified difficulties with distinguishing between acquisitions and amalgamations based solely on control that were unlikely to be fully addressed by further development of the indicators of control. The IPSASB agreed, and concluded that the gaining of control of operations by a party to the combination is an essential element of an acquisition, but is not sufficient in itself to determine whether a combination is an acquisition. Consequently, the IPSASB agreed to develop an approach to classifying public sector combinations that:

- (a) Uses the factors to supplement the concept of control; and

- (b) Considers control in the context of whether a party to the combination gains control of one or more operations as a result of the combination.
- BC35. Having agreed to develop an approach that uses the factors to supplement control, the IPSASB discussed the relative importance to be attached to control and to the other factors in classifying public sector combinations. As part of this discussion, the IPSASB identified the following two approaches:
- (a) **Rebuttable presumption approach.** Under this approach, when one party to the combination gains control of an operation, this creates a rebuttable presumption that the combination is an acquisition. This approach gives a strong weighting to the gaining of control, and the analysis of the other factors is focused on whether there is sufficient evidence to rebut this presumption.
- (b) **Individual weighting approach.** Under this approach, the weightings given to the gaining of control, consideration and decision-making are a matter for professional judgment based on the individual circumstances of the combination. Preparers would identify which (if any) factors indicate an acquisition and which (if any) factors indicate an amalgamation. Where indicators of both an acquisition and an amalgamation are present, the weighting given to the respective factors by preparers using professional judgment would determine the classification.
- BC36. The IPSASB noted that the rebuttable presumption approach provided greater clarity, and better satisfied the QC of comparability. The individual weighting approach was likely to be more subjective in practice. However, the IPSASB acknowledged that the individual weighting approach would enable practitioners to better reflect the economic substance of the combination, and might better meet the QCs of relevance and faithful representation.
- BC37. Control was seen by most members as more important in determining the classification than the other factors, and the rebuttable presumption approach reflected this. Consequently, the IPSASB agreed to develop the rebuttable presumption approach.
- BC38. In coming to this decision the IPSASB noted that an approach that considered other factors as supplementing control (which better satisfies the QCs of relevance and faithful representation at the expense of comparability) while at the same time incorporating a rebuttable presumption that one party to a combination gaining control of operations gives rise to an acquisition (which better satisfies the QC of comparability at the expense of relevance and faithful representation) is likely to produce an appropriate balance between the QCs.
- BC39. The IPSASB also considered the possibility that, in rare circumstances, neither the consideration nor the decision-making indicators would be sufficient to rebut the presumption that a public sector combination was an acquisition even though this classification did not reflect the economic substance of the combination. The IPSASB agreed to require consideration of the economic substance of the combination when determining whether the presumption should be rebutted. To assist preparers in this determination, ED 60 also required, in these rare circumstances, an assessment as to which classification produces information that best satisfies the objectives of financial reporting and the QCs.
- BC40. The IPSASB considered that the most common circumstances in which a public sector combination would be considered an acquisition are:
- (a) One party to the combination gains control of an operation and pays consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement.
- (b) One party to the combination gains control of an operation from outside the public sector without paying consideration to compensate those with an entitlement to the net assets of the transferred operations.
- (c) One party to the combination gains control of an operation from outside the public sector by imposing the combination on the other party.
- (d) One party to the combination gains control of an operation from a separate government.
- The IPSASB noted that, except in exceptional cases, the classification approach adopted in ED 60 would result in such combinations being classified as acquisitions. This provided reassurance to the IPSASB that the approach adopted was appropriate.

*Responses to ED 60*

- BC41. The IPSASB considered the responses to ED 60. The IPSASB noted that there was substantial support for the overall approach to classifying public sector combinations in the ED.
- BC42. Respondents did, however, identify areas where they considered the approach could be improved. The main issues identified were:
- (a) Having a rebuttable presumption that was expected to be rebutted significantly more frequently than not was confusing;
  - (b) The approach was seen as giving too much emphasis to control, with some stakeholders interpreting the ED as requiring the use of the acquisition method in most cases where one party to the combination gained control of operations; and
  - (c) In many jurisdictions, it will be easier to determine the economic substance of a public sector combination by reference to the indicators (consideration and decision making) than by reference to whether one party to the combination gained control of operations.
- BC43. The IPSASB acknowledged these concerns. The IPSASB accepted that rebuttable presumptions are generally expected to be rebutted infrequently, and that the use of this term with an expectation that it would be frequently rebutted may be confusing for preparers. This confusion could result in a preparer classifying a public sector combination as an acquisition when this was not the IPSASB's intention.
- BC44. The IPSASB considered that the potential confusion as to how the rebuttable presumption was to be interpreted might explain the concerns of some stakeholders that the acquisition method would be used inappropriately. The IPSASB did not intend that the approach in the ED would require the use of the acquisition method in most cases where one party to the combination gained control of operations. The IPSASB considered that acquisitions would arise in limited circumstances, as can be seen from the list in paragraph BC40 above.
- BC45. The IPSASB accepted that, in many jurisdictions, the economic substance of a public sector combination could be more readily determined by reference to the indicators, in particular whether a combination occurred under common control. However, the IPSASB noted that this was not the case for all jurisdictions. The IPSASB noted that control remained a significant factor; in particular, an acquisition can only occur when a party to the combination gains control of one or more operations. The IPSASB also noted that the approach in ED 60 provided a suitable decision framework for ensuring all relevant factors were considered.
- BC46. Consequently, the IPSASB agreed to reconsider the way the classification approach is expressed to address these concerns, without changing the substance of the approach. The rebuttable presumption and reference to control was intended to be the first step in the process of determining a classification based on the economic substance of the combination. In creating this first step, the IPSASB did not intend that, once it has been established that one party has gained control, control should be given greater weight than consideration and decision making in determining the economic substance of the combination. The IPSASB accepted that the reference in BC35(a) to the approach giving a strong weighting to the gaining of control could be misleading. Control remains important, as its absence eliminates the possibility of an acquisition, but its significance in determining the economic substance of a particular combination where one party has gained control is a matter of professional judgment. The IPSASB remains of the view that the classification approach in ED 60 was appropriate, and the changes introduced in this Standard are intended to provide greater clarity as to how the approach should be applied. These changes are not intended to produce different classifications from ED 60.

*Comparison with IFRS 3*

- BC47. This Standard is not converged with IFRS 3. IFRS 3 considers all business combinations to be acquisitions, whereas this Standard provides for both amalgamations and acquisitions. The IPSASB considers this difference to be appropriate, for the following reasons:
- (a) In developing IFRS 3, the IASB concluded that 'true mergers' or 'mergers of equals' in which none of the combining entities obtains control of the others are so rare as to be virtually non-existent. However, in the public sector, such combinations are common. Developing a Standard that did not address amalgamations would not meet the needs of the users of public sector GPFSS.



- (b) IFRS 3 assumes that it is always possible to identify the acquirer, as the businesses to which IFRS 3 applies will always have owners. In the public sector, there may be no quantifiable ownership interests in a public sector entity, which can make it impossible to identify an acquirer. Developing a Standard that does not recognize this situation would not meet the needs of the users of public sector GPFSs.

### Accounting for Amalgamations (paragraphs 15–57)

#### *Reasons for adopting the modified pooling of interests method of accounting for amalgamations*

- BC48. In developing the CP, the IPSASB identified three methods of accounting for public sector combinations that have either been applied in practice, or discussed. These are:
- (a) The acquisition method;
  - (b) The pooling of interests method, including a possible modification to this method; and
  - (c) The fresh start method.
- BC49. The acquisition method (which is applied by IFRS 3) requires that an acquirer is identified for all combinations. The IPSASB had already concluded that it may not be possible to identify an acquirer for all public sector combinations, and that any combination in which an acquirer could not be identified would be classified as an amalgamation. The IPSASB therefore concluded that the acquisition method of accounting would not be appropriate for amalgamations.
- BC50. The pooling of interests method of accounting was previously used in IAS 22, *Business Combinations* (the predecessor standard to IFRS 3). It was intended for application to a combination in which an acquirer cannot be identified. The pooling of interests method of accounting was previously used by many jurisdictions as the basis for merger accounting or amalgamation accounting. It continues to be used by many entities when accounting for combinations under common control (which are outside the scope of IFRS 3).
- BC51. The pooling of interests method accounts for the combining operations as though they were continuing as before, although now jointly owned and managed. The financial statement items of the combining operations for the period in which the combination occurs, and for any comparative periods disclosed, are included in the financial statements of the resulting entity as if they had been combined from the beginning of the earliest period presented. In other words, the recognition point is the beginning of the earliest period presented, and, consequently, comparative information is restated.
- BC52. The IPSASB noted that some are of the view that the requirement to restate comparative information might be onerous and unnecessary. In the CP, the IPSASB consulted on a variation of the pooling of interests method of accounting, described as the modified pooling of interests method of accounting. Under the modified pooling of interests method, the resulting entity combines the items in the statement of financial position as at the date of the amalgamation.
- BC53. The third method the IPSASB discussed in the CP was the fresh start method of accounting. In contrast to the pooling of interests method of accounting, the premise of the fresh start method is that the resulting entity is a new entity (irrespective of whether a new entity is formed) and therefore its history commences on that date. The modified pooling of interests method has a similar effect in practice.
- BC54. The fresh start method requires recognition of all of the identifiable assets and liabilities of all the combining operations at fair value as at the date of the combination in the financial statements of the resulting entity. This includes recognizing identifiable assets and liabilities that were not previously recognized by the combining operations. In other words, the fresh start method uses the same recognition and measurement basis as the acquisition method, but applies it to all of the combining operations rather than just acquired operations.
- BC55. In developing the CP, the IPSASB came to the conclusion that the pooling of interests method of accounting, the modified pooling of interests method of accounting and the fresh start method of accounting all provided a possible basis for accounting for amalgamations.
- BC56. The IPSASB noted that the future cash flows and service potential of the resulting entity will generally be the same regardless of which method is used to account for the amalgamation. However, the presentation of the financial performance and financial position of the resulting entity differs

significantly depending on the method applied. If preparers are given a free choice of method, this would reduce comparability between entities and over time.

- BC57. Supporters of the pooling or modified pooling of interests method of accounting for amalgamations considered that these methods satisfy users' needs:

- (a) For information for decision-making purposes; and
- (b) To assess the accountability of the resulting entity for its use of resources.

This is because users of public sector entities' GPFSs use the information to assess how financial resources have been allocated and the financial condition of an entity. This information can be obtained by applying the pooling or modified pooling of interests methods of accounting.

- BC58. These methods are seen as satisfying the QCs of relevance and faithful representation, because they reflect the amounts recognized in the financial statements of the combining operations before the amalgamation. The subsequent performance of the resulting entity, and its accountability for the management of those resources, can be assessed on the same basis as was used to assess accountability before the amalgamation.

- BC59. The pooling or modified pooling of interests methods of accounting are seen as generally the least costly to apply, because they:

- (a) Use the existing carrying amounts of the assets, liabilities, and net assets/equity of the combining operations; and
- (b) Do not require identifying, measuring, and recognizing assets or liabilities not previously recognized before the amalgamation.

- BC60. Supporters of the modified pooling of interests method of accounting consider it to be superior to the pooling of interests method because it portrays the amalgamation as it actually is. This is because it recognizes the assets and liabilities of the combining operations at the date of the amalgamation. Supporters consider this to be a faithful representation of the amalgamation.

- BC61. Those who support the use of the modified pooling of interests method acknowledge that the history of the combining operations may help in assessing the performance of the resulting entity. In debating the merits of the different methods, the IPSASB acknowledged that adopting the modified pooling of interests method of accounting without addressing users' needs for historical information may not satisfy the objectives of financial reporting.

- BC62. Others consider that the fresh start method of accounting is conceptually superior to both the pooling of interests method of accounting and its modified version, because the resulting entity is held accountable for the current value of the resources of the combining operations. It also provides more complete information of an amalgamation, because it recognizes the identifiable assets and liabilities of the combining operations, regardless of whether they were recognized prior to the amalgamation.

- BC63. Supporters of the fresh start method of accounting consider that it satisfies users' needs:

- (a) For information for decision-making purposes; and
- (b) To assess the accountability of the resulting entity for its use of resources.

This is because it enables users to better assess the financial condition of the entity and how the financial resources have been allocated.

- BC64. Supporters of the fresh start method of accounting consider that this method is, to a large extent, an extension of the use of fair value in the acquisition method of accounting. Consequently, they argue that if the acquisition method is adopted for acquisitions, there is no reason not to adopt similar accounting for amalgamations.

- BC65. In developing the CP, the IPSASB came to the view that the modified pooling of interests method of accounting is the appropriate method to apply, because users' are able to assess the performance and accountability of the resulting entity without the entity having to remeasure its assets and liabilities. Furthermore, it recognizes the amalgamation on the date it takes place. The IPSASB noted that IPSASs permit revaluation to fair value subsequent to initial recognition if a resulting entity considers that this approach would provide more relevant information to users.

- BC66. Respondents to the CP generally supported the IPSASB's view that the modified pooling of interests method of accounting is the appropriate method to apply to amalgamations. The IPSASB reconsidered the methods in developing ED 60, and identified no reason to change its previously stated view. The IPSASB therefore agreed that the modified pooling of interests method of accounting should be adopted for amalgamations in ED 60. In coming to this decision, the IPSASB agreed that the modified pooling of interests method of accounting should include appropriate disclosures to ensure that the users of public sector entities' GPFs had access to the historical information they need.
- BC67. Respondents to ED 60 generally agreed that the modified pooling of interests method of accounting is the appropriate method to apply to amalgamations. However, some respondents considered that the pooling of interests method of accounting provided better information, and only supported the modified pooling of interests method for cost/benefit reasons. These respondents considered that, in some circumstances, the benefits of providing prior period information would outweigh the cost of so doing. The IPSASB accepted this view, and agreed that resulting entities should be permitted, but not required, to present prior period information. The IPSASB decided that prior period information should not be restated, as doing so would require the use of a different recognition point, which would reduce comparability.

*Exceptions to the principle that assets and liabilities are recognized and measured at their previous carrying amount*

- BC68. The modified pooling of interests method of accounting requires the resulting entity to recognize and measure the assets and liabilities of the combining operations at their previous carrying amounts, subject to the requirement to adjust the carrying amounts to conform to the resulting entity's accounting policies. The effects of all transactions between the combining operations, whether occurring before or after the amalgamation date, are eliminated in preparing the financial statements of the resulting entity.
- BC69. The IPSASB considered the circumstances in which the application of these principles would not be appropriate. The IPSASB identified three circumstances in which an exception to the recognition and/or measurement principles would be appropriate:
- (a) **Licenses and similar rights previously granted by one combining operation to another combining operation.** A license or similar right may have been granted by one combining operation to another combining operation and recognized as an intangible asset by the recipient. Applying the general principles would require this transaction to be eliminated. However, the IPSASB considered that, in granting the license or similar right, the recognition criteria for an intangible asset are met. Where internally generated intangible assets are not recognized, this is because of the problems in Identifying whether and when there is an identifiable asset that will generate expected future economic benefits or service potential; and in determining the cost of the asset reliably. Once a license or similar right has been granted to a recipient, this demonstrates that there is an identifiable asset that will generate future economic benefits or service potential. Similarly, the transaction will establish a cost for the asset. Consequently, the recognition criteria for an intangible asset are met. Because of this, the asset is not eliminated when combining operations that have granted and received the license or similar right are part of an amalgamation. The situation is similar to that where a tangible asset is sold by one combining operation to another combining operation. Eliminating the effect of the sale does not eliminate the tangible asset itself, as the asset was previously recognized by the seller. In the case of a license or similar right, eliminating the transaction does not eliminate the intangible asset, as the transaction provides sufficient evidence of the existence of the intangible asset, such that the grantor would itself recognize that intangible asset. The IPSASB noted that in some cases where a combining operation gains control of other operations, the right might be considered as a reacquired right. The IPSASB did not consider that this would warrant a different accounting treatment, and noted that reacquired rights are recognized as intangible assets under the acquisition method. For these reasons, the IPSASB concluded that the asset recognized in respect of a license or similar right previously granted by one combining operation to another should not be eliminated.
  - (b) **Income taxes.** In the public sector, amalgamations, especially those imposed by a higher level of government, may include tax forgiveness as part of the terms and conditions of the amalgamation. The IPSASB agreed that the resulting entity should recognize any tax items that exist following the amalgamation rather than those that existed prior to the amalgamation. Having considered comments by respondents to ED 60, the IPSASB agreed that there may be

cases where any tax forgiveness arises subsequent to the amalgamation, rather than as part of the terms and conditions of the amalgamation. The IPSASB agreed to include provisions dealing with both cases in IPSAS 40.

- (c) **Employee benefits.** The IPSASB noted that the assets and liabilities required to be recognized by IPSAS 39, *Employee Benefits*, in respect of a post-employment benefit plan following an amalgamation might differ from the combined carrying amounts of the combining operations' equivalent amounts. As an example, an amalgamation involves five combining operations who are the only participants in a multi-employer defined benefit plan. Prior to the amalgamation, the combining operations have insufficient information to determine each combining operation's proportionate share of the defined benefit obligation, plan assets, and cost associated with the plan. As a result, the combining operations account for the plan as if it is a defined contribution plan. Following the amalgamation, the resulting entity is the only participant in the plan, and is able to determine its defined benefit obligation, plan assets, and cost associated with the plan. It therefore accounts for the plan as a defined benefit plan from the date of the amalgamation. The IPSASB agreed that the resulting entity's opening statement of financial position should include the assets and liabilities measured in accordance with IPSAS 39.

*Recognizing and measuring components of net assets/equity arising as a result of an amalgamation*

- BC70. In developing ED 60, the IPSASB noted that a residual amount might arise as a result of an amalgamation. The IPSASB considered how this should be recognized and measured. The IPSASB agreed that the residual amount does not reflect the financial performance of the resulting entity, and concluded that the residual amount should be recognized in the resulting entity's opening statement of financial position.
- BC71. The IPSASB considered the nature of the residual amount. The IPSASB considered that, for amalgamations not under common control, the residual amount represents the past financial performance of the combining operations not included in their transferred net assets/equity. The IPSASB agreed that the residual amount should be included in the resulting entity's opening net assets/equity where the amalgamation takes place not under common control.
- BC72. The IPSASB considered that, for amalgamations under common control, the residual amount represents the financial consequences of decisions made by the controlling entity in setting or accepting the terms of the amalgamation. Consequently, the IPSASB agreed that the residual amount should be treated as an ownership contribution or ownership distribution where the amalgamation takes place under common control.
- BC73. The IPSASB considered the items that should be included in the residual amount. The IPSASB noted that the modified pooling of interests method of accounting usually recognizes an amalgamation as giving rise to, in substance, a new entity on the date the amalgamation takes place. As the new entity would not have generated other components of net assets/equity such as accumulated surplus or deficit, or revaluation surplus, all items within net assets/equity would be included as part of the residual amount.
- BC74. The IPSASB considered that this approach best reflects the conceptual basis of an amalgamation and agreed that all items within net assets/equity at the amalgamation date should be considered to be part of the residual amount. In coming to this view, the IPSASB accepted that this approach may have consequences for some entities. For example, because the residual amount would include any previously recognized revaluation surplus, any future revaluation decreases are more likely to be recognized in surplus or deficit. This is because the previously recognized revaluation surplus would no longer be available to absorb future revaluation decreases.
- BC75. Another consequence relates to amalgamations that take place under common control. The resulting entity would recognize a residual amount but the controlling entity would continue to recognize the previous components of net assets/equity in its consolidated financial statements, giving rise to ongoing consolidation adjustments. The IPSASB did not consider that these consequences outweighed the benefits of adopting the conceptual approach.

## Responses to ED 60

- BC76. Although the majority of respondents to ED 60 supported the IPSASB's approach to the residual amount, a significant minority did not. The main reasons respondents gave for not supporting the proposed treatment of the residual amount were as follows:
- (a) Retaining existing reserves better represents the combination, is more transparent and better meets users' needs;
  - (b) The proposals will result in reliable information on the revaluation reserve being discarded;
  - (c) For amalgamations under common control, the combining entities may effectively be continuing as one entity rather than as two or more separate entities, as opposed to being a new entity;
  - (d) Reporting subsequent revaluation losses as an expense risks misrepresenting financial performance in future years;
  - (e) The proposals will produce ongoing consolidation adjustments where the amalgamation takes place under common control, and the need to prepare these adjustments outweighed the benefits of recognizing a single residual amount; and
  - (f) The proposals will impact on a wide range of reserves, including those relating to employee benefits, hedging and reserves restricted by legislation, which would be inconsistent with ED 60's requirement that the existing classifications and designations are maintained.
- BC77. The IPSASB was persuaded by some of the reasons provided by respondents. In particular the IPSASB acknowledged that the proposals in ED 60 might be internally inconsistent.
- BC78. The IPSASB therefore reconsidered the proposal to require all amounts recognized in net assets/equity to be recognized in the residual amount.
- BC79. The IPSASB concluded that the most appropriate presentation of net assets/equity would depend on the circumstances of the amalgamation. In an amalgamation not under common control, and where there were no reserves such as those referred to in paragraph BC76(f) above, presenting a single opening balance in net assets/equity could provide faithfully representative information. In an amalgamation under common control, and with reserves such as those referred to in paragraph BC76(f) above, presenting a single opening balance in net assets/equity is unlikely to provide faithfully representative information. In these circumstances, presenting separate components of net assets/equity will provide more relevant and useful information.
- BC80. Consequently, the IPSASB decided not to specify which components of net assets/equity should be presented, as preparers will be in the best position to judge the most appropriate treatment. The IPSASB agreed to amend the requirements accordingly.

*Measurement period*

- BC81. IFRS 3 permits acquirers a period of one year after the acquisition date to complete the accounting for the acquisition. This is to allow the acquirer sufficient time to obtain information to determine the fair value of an acquired operation's assets and liabilities.
- BC82. The IPSASB considered whether such a period was required when accounting for an amalgamation. The modified pooling of interests method does not require assets and liabilities to be restated to fair value at the amalgamation date. However, the IPSASB noted that the combining operations may have different accounting policies, which could result in some assets and liabilities being required to be restated to conform to the resulting entity's accounting policies. For example, the resulting entity may adopt an accounting policy of revaluing certain assets such as property, plant and equipment. If one or more combining operations had previously adopted an accounting policy of measuring such assets at cost, the practical effect of determining the carrying amount of those assets under the revaluation model would be similar to that of determining their fair value. For this reason, the IPSASB agreed that it was appropriate to permit a resulting entity time to obtain the information needed to restate assets and liabilities to conform to its accounting policies. The IPSASB agreed that a period of one year was appropriate.

*Combining operations that have not previously adopted accrual basis IPSASs*

- BC83. In developing this Standard, the IPSASB considered whether it was necessary to include specific provisions to address the situation where one or more combining operations had not previously adopted accrual basis IPSASs. For example, one public sector entity that has previously applied accrual basis IPSASs may be amalgamated with a second public sector entity that has previously applied an alternative accrual basis of accounting. In such circumstances, recognizing and measuring the second public sector entity's assets and liabilities at their carrying amount may not be consistent with the requirements of accrual basis IPSASs.
- BC84. The IPSASB concluded that no separate provisions were required in this Standard. Paragraph 27 of IPSAS 40 requires the resulting entity to adjust the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies. The IPSASB considered this requirement to be sufficient to address most circumstances where one or more combining operations had not previously adopted accrual basis IPSASs.
- BC85. The IPSASB came to the view that where adjusting the carrying amounts to conform to the resulting entity's accounting policies was insufficient to achieve compliance with accrual basis IPSASs, the resulting entity would be a first-time adopter of accrual basis IPSASs. This could occur where one or more combining operations had previously adopted the cash basis of accounting and had, therefore, not previously recognized certain assets and liabilities. In these circumstances, the resulting entity would apply IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* in preparing its first post-combination financial statements.

**Accounting for acquisitions (paragraphs 58–125)***Reasons for adopting the acquisition method of accounting for acquisitions*

- BC86. In developing the CP, the IPSASB did not reach a conclusion as to “whether the use of fair value as the measurement basis, is appropriate for some or all acquisitions in the public sector. This is because the most prevalent types of acquisition occur where operations are acquired for the achievement of objectives relating to the delivery of goods and/or services, instead of generating economic benefits to return to equity holders. Moreover, many acquisitions do not include the transfer of consideration. Some consider that these types of acquisitions are different in nature from business combinations as identified in IFRS 3, because the concept of acquiring an operation directly in exchange for the transfer of consideration is missing.” Respondents to the CP generally supported the use of fair value for acquisitions in which consideration was transferred. For acquisitions in which no consideration was transferred, there was broadly equal support for fair value measurement and measurement at carrying amount.
- BC87. The arguments developed in the CP reflected the classification approach in the CP. In the CP, the IPSASB proposed that the gaining of control was the sole definitive criterion for distinguishing an amalgamation from an acquisition. The IPSASB has subsequently decided to supplement the gaining of control with two other factors, consideration and decision-making. The IPSASB considers that this will result in fewer public sector combinations being classified as acquisitions than under the approach in the CP. Those public sector combinations that are classified as acquisitions will be similar in nature to the business combinations addressed by IFRS 3.
- BC88. Having regard to the revised classification approach that it had agreed to adopt, the IPSASB reconsidered which accounting method would be appropriate for acquisitions. The IPSASB concluded that the acquisition method was appropriate, and agreed to adopt the acquisition method as set out in IFRS 3 as the accounting method for acquisitions in this Standard. This approach was supported by respondents to ED 60.

*Differences to the accounting treatments in IFRS 3*

- BC89. IFRS 3 includes accounting treatments that are based on other IFRS Standards for which there is no equivalent IPSAS, for example income taxes and share-based payment. The IPSASB agreed not to include the detailed requirements specified in IFRS 3, but to include references to the relevant international or national accounting standard dealing with the issue.
- BC90. The IPSASB considered whether any additional guidance to that provided by IFRS 3 was required. The IPSASB noted that acquisitions in the public sector may include assets and liabilities arising from non-

exchange transactions that are not addressed in IFRS 3. Consequently, the IPSASB agreed to include additional guidance on the following non-exchange items:

- (a) Tax forgiveness; and
- (b) The subsequent measurement of transfers, concessionary loans and similar benefits received by a combining operation on the basis of criteria that may change as a result of an acquisition.

BC91. The IPSASB considered comments from respondents to ED 60 regarding the acquisition method. As a result, the IPSASB agreed to make minor changes to the requirements:

The tax forgiveness requirements have been amended to allow for those cases where tax forgiveness occurs subsequent to the acquisition as well as where it forms part of the terms of the acquisition.

The IPSASB considered whether any additional exemptions to the recognition and measurement principles or any additional guidance on the acquisition method were required. The IPSASB concluded that no further provisions were necessary, as the Board considered that the provisions in this Standard or in other IPSASs were already sufficiently clear.

*Acquired operations that have not previously adopted accrual basis IPSASs*

BC92. In developing this Standard, the IPSASB considered whether it was necessary to include specific provisions to address the situation where one or more acquired operations had not previously adopted accrual basis IPSASs. The IPSASB concluded that no separate provisions were required in this Standard. Paragraph 64 of IPSAS 40 requires an acquirer to recognize the identifiable assets acquired, the liabilities assumed and any non-controlling interest in an acquired operation. Paragraph 72 of the Standard requires the acquirer to measure the assets and liabilities acquired at their acquisition-date fair values. Consequently, the acquirer will measure all assets and liabilities in accordance with accrual basis IPSASs, irrespective of the accounting basis previously adopted by an acquired operation.

*Fair value cannot be determined*

BC93. Respondents to ED 60 commented that, in exceptional circumstances, it may be impracticable for an acquirer to determine the fair value of an item and suggested that the use of the item's previous carrying amount may be an appropriate alternative. The IPSASB considered this suggestion but concluded that using carrying amount may not be appropriate in all instances, particularly if the acquired operation does not apply accrual based IPSASs. The IPSASB agreed that entities should apply the existing requirements in IPSASs. In particular, the IPSASB noted that, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. IPSAS 3 provides additional guidance. In such cases, the acquirer would measure the item as of the acquisition date in a manner that is consistent with other IPSASs and the acquirer's accounting policies, and make the disclosures required by other IPSASs. The IPSASB considered that it would be appropriate to measure the item at its previous carrying amount only where that carrying amount is consistent with other IPSASs and the acquirer's accounting policies.

**Revision of IPSAS 40 as a result of [draft] *Improvements to IPSAS, 2018*<sup>15</sup>**

BC94. The IPSASB reviewed the revisions to IFRS 3, *Business Combinations*, included in Annual Improvements to IFRS® Standards 2015–2017 Cycle issued by the IASB in December 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions. The IPSASB concurred that, as the accounting for an acquisition achieved in stages was the same in IPSAS 40 as in IFRS 3, there was no public sector specific reason for not adopting the amendments.

<sup>15</sup> In May 2018 the IPSASB issued *Improvements to IPSAS, 2018* which includes proposals to amend IPSAS 40 by adding paragraph 100A and to add paragraph BC94 to the IPSASB's Basis for Conclusions.

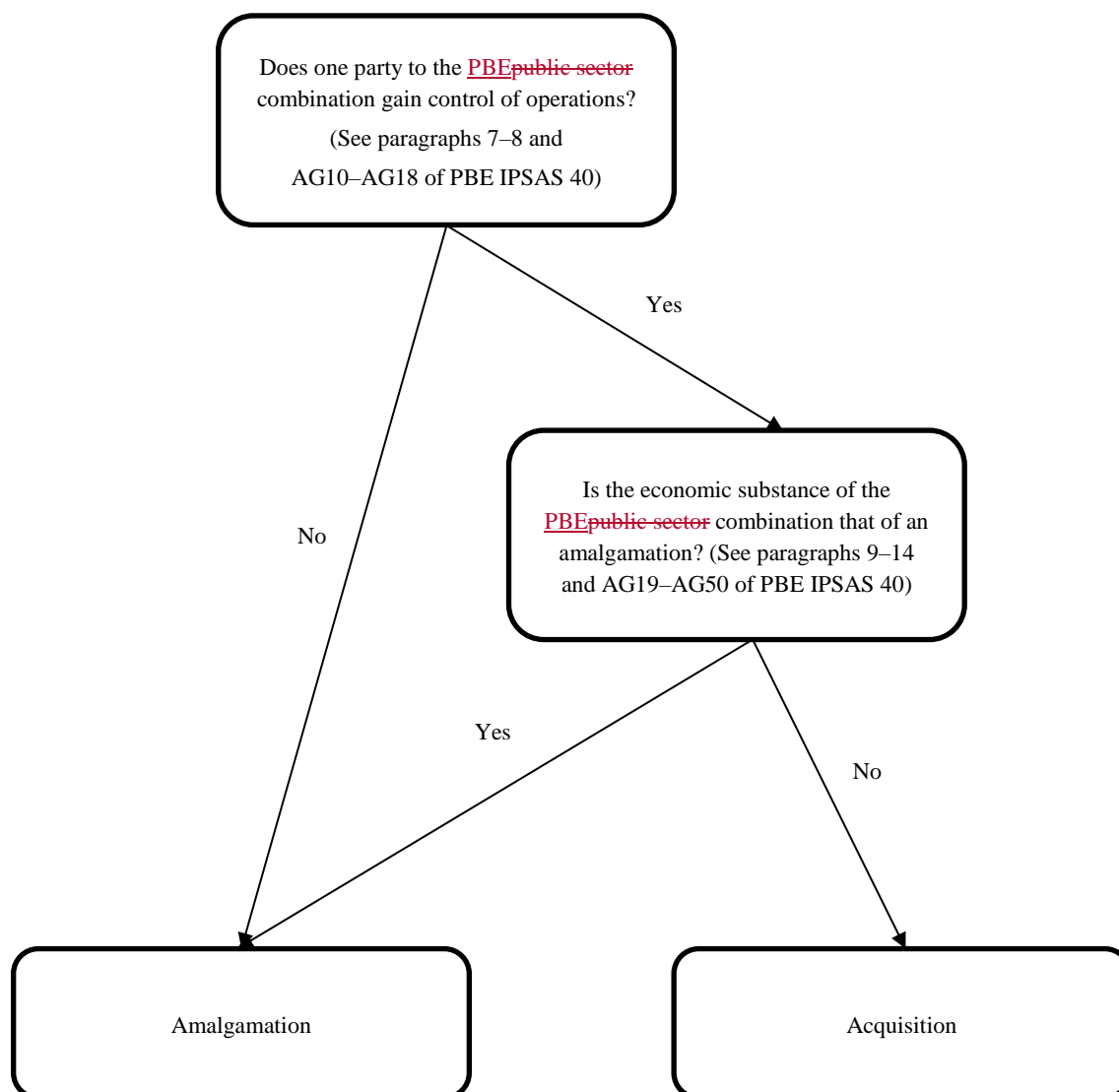
## Implementation Guidance

*This guidance accompanies, but is not part of, PBE IPSAS 40*

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of PBE IPSAS 40.

### Classification of PBE Combinations

IG2. The diagram below summarises the process established by PBE IPSAS 40 for classifying PBE combinations.





## Illustrative Examples

*These examples accompany, but are not part of, PBE IPSAS 40*

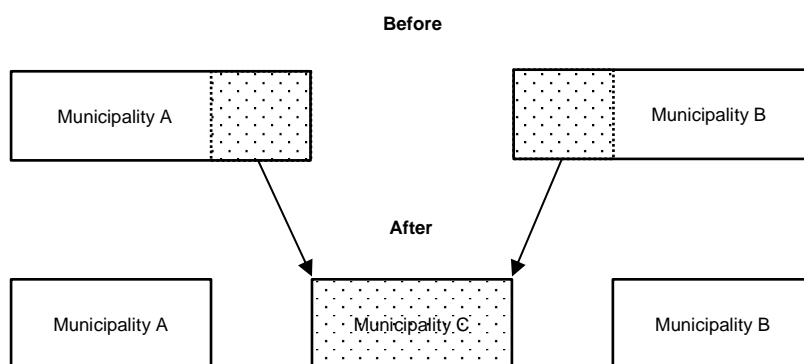
### Classification of ~~PBEpublic sector~~ Combinations

*Illustrating the consequences of applying paragraphs 7–14 and AG10–AG50 of PBE IPSAS 40*

- IE1. The following scenarios illustrate the process for classifying ~~PBEpublic sector~~ combinations. These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying PBE IPSAS 40.
- IE2. Each scenario is illustrated by a diagram. Where a ~~PBEpublic sector~~ combination involves operations which form part of an economic entity, but not the whole economic entity, the operations that are involved in the combination, and the entity that is formed by the combination, are shaded in the diagram. Where more than one reporting entity is included in an economic entity, the boundary of the economic entity is shown by a dotted line.

#### *Scenario 1: Reorganisation of Local Government by Rearranging Territorial Boundaries*

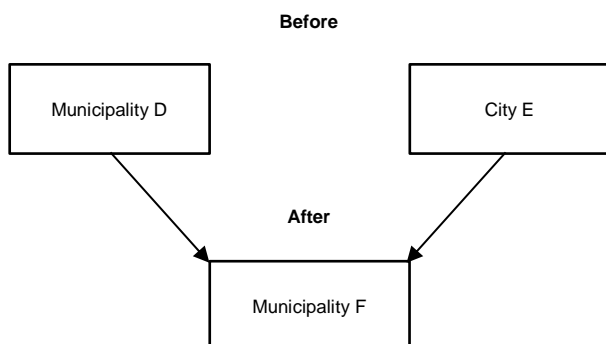
- IE3. The following diagram illustrates the creation of a new municipality by combining some operations from two existing municipalities.



- IE4. In this scenario, the territorial boundaries of two existing municipalities, Municipality A and Municipality B, are redrawn by Parliament through legislation; neither Parliament nor Central Government controls Municipality A or Municipality B. Responsibility for part of each municipality's former territory is transferred to a new municipality, Municipality C. Operations in respect of the transferred territory are combined to form Municipality C. A ~~PBEpublic sector~~ combination occurs.
- IE5. Municipality A and Municipality B remain otherwise unchanged and retain their governing bodies. A new governing body (unrelated to the governing bodies of Municipality A and Municipality B) is elected for Municipality C to manage the operations that are transferred from the other municipalities.
- IE6. The creation of Municipality C is a ~~PBEpublic sector~~ combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.
- IE7. Municipality C has a newly elected governing body, unrelated to the governing bodies of Municipality A and Municipality B. Neither Municipality A nor Municipality B has power over the Municipality C. Neither do they have exposure, or rights, to variable benefits from any involvement with Municipality C.
- IE8. Neither Municipality A nor Municipality B have gained control over Municipality C as a result of the ~~PBEpublic sector~~ combination. Consequently the combination is classified as an amalgamation.

*Scenario 2: Reorganisation of Local Government by Combining Municipalities into a New Legal Entity*

- IE9. The following diagram illustrates the creation of a new municipality by combining all of the operations of two existing municipalities into a new legal entity.



- IE10. In this scenario, a ~~PBE public sector~~ combination occurs in which Municipality F is formed to combine the operations (and the related assets, liabilities and components of net assets/equity) of Municipality D and City E. Prior to the combination, Municipality D and City E are not under common control. The combination is imposed by the provincial government (a third party) through legislation. The provincial government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.
- IE11. The legislation that creates Municipality F provides for the formation of a new governing body with no links to Municipality D or City E. Municipality D and City E have no role in determining the terms of the combination. After the combination, Municipality D and City E cease to exist.
- IE12. The creation of Municipality F is a ~~PBE public sector~~ combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.
- IE13. Municipality F has a newly formed governing body, unrelated to the governing bodies of Municipality D and City E. Neither Municipality D nor City E has power over Municipality F. Neither do they have exposure, or rights, to variable benefits from any involvement with Municipality F.
- IE14. Neither Municipality D nor City E have gained control over Municipality F as a result of the ~~PBE public sector~~ combination. Consequently the combination is classified as an amalgamation.

**Scenario 2: Variation**

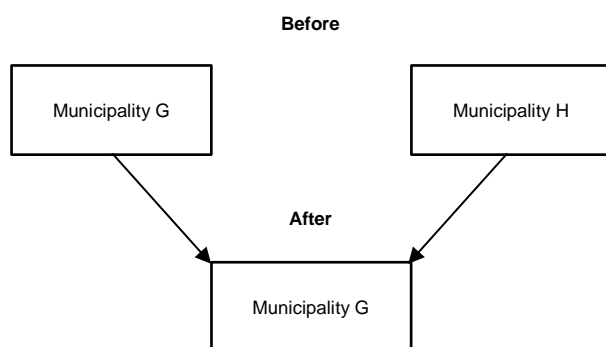
- IE15. In scenario 2, the legislation that creates Municipality F provides for the formation of a new governing body with no links to Municipality D or City E. In this variation, the legislation that creates Municipality F provides for the governing body of Municipality D to become the governing body of Municipality F.
- IE16. This suggests that as part of the ~~PBE public sector~~ combination that creates Municipality F, Municipality D is gaining control of the operations of City E. However, the assessment as to whether Municipality D is gaining control is based on the substance of the combination, not its legal form. In preparing its first financial statements, Municipality F considers the guidance in paragraphs 7–8 and AG10–AG18 of PBE IPSAS 40.
- IE17. In this variation, it is assumed that the legislation that provides for the governing body of Municipality D to become the governing body of Municipality F results in Municipality D gaining:
- Power over the operations of City E;
  - Exposure, or rights, to variable benefits from its involvement with those operations; and
  - The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.
- IE18. Municipality F concludes that, as a result of the ~~PBE public sector~~ combination, Municipality D has gained control of City E. Municipality F considers the guidance in paragraphs 9–14 and AG19–AG50

of PBE IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

- IE19. ~~[Not used] In considering the economic substance of the public sector combination, Municipality F notes that the combination does not result in a controlling entity/controlled entity relationship between Municipality D and City E. This is consistent with both an amalgamation and an acquisition. Municipality F also notes that Municipality D obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but is not conclusive.~~
- IE20. In considering the indicators relating to consideration, Municipality F notes that the ~~public sector~~PBE combination does not include the payment of consideration and the reasons for the absence of consideration do not provide evidence of an acquisition because there is no party with an entitlement to the net assets of City E (i.e., there are no former owners of City E with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.
- IE21. In considering the indicators relating to the decision-making process, Municipality F notes that the ~~public sector~~PBE combination was imposed by the provincial government (a third party) and that Municipality D and City E had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.
- IE22. ~~Taking these factors together, On balance these factors suggest Municipality F considers that the public sector~~PBE combination should be classified as an amalgamation. ~~In coming to this decision, Municipality F considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.~~

*Scenario 3: Reorganisation of Local Government by Combining Municipalities into an Existing Legal Entity*

- IE23. The following diagram illustrates the combining of all of the operations of two existing municipalities into an existing legal entity.



- IE24. In this scenario, a ~~PBE~~public sector combination occurs in which the operations of Municipality G and Municipality H (and their related assets, liabilities and components of net assets/equity) are combined into the legal entity of Municipality G. Prior to the combination, Municipality G and Municipality H are not under common control. The combination is imposed by Central Government (a third party) through legislation. Central Government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.
- IE25. The legislation that effects the combination provides for the governing body of Municipality G to continue as the governing body of the combined entity. Municipality G and Municipality H have no role in determining the terms of the combination. After the ~~PBE~~public sector combination, Municipality H ceases to exist.
- IE26. These facts suggest that as part of the ~~PBE~~public sector combination, Municipality G is gaining control of the operations of Municipality H. However, the assessment as to whether Municipality G is gaining control is based on the substance of the combination, not its legal form. Municipality G considers the guidance in paragraphs 7–8 and AG10–AG18 of ~~IPSAS 40~~PBE IPSAS 40 in determining whether to classify the combination as an amalgamation or an acquisition.

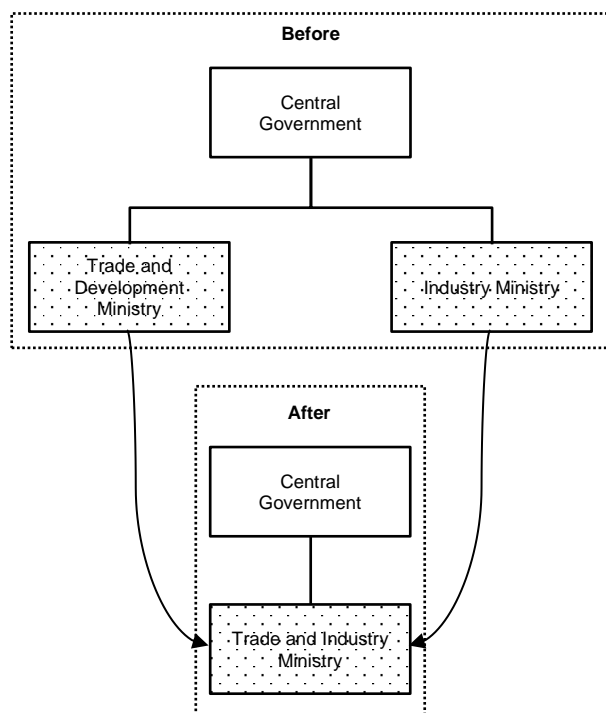
- IE27. In this scenario, it is assumed that the legislation that provides for the governing body of Municipality G to continue as the governing body of combined entity results in Municipality G gaining:
- (a) Power over the operations of Municipality H;
  - (b) Exposure, or rights, to variable benefits from its involvement with those operations; and
  - (c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.
- IE28. Municipality G concludes that, as a result of the ~~PBE public-sector~~ combination, it has gained control of Municipality H. Municipality G considers the guidance in paragraphs 9–14 and AG19–AG50 of PBE IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.
- IE29. ~~[Not used] In considering the economic substance of the public-sector combination, Municipality G notes that the combination does not result in a controlling entity/controlled entity relationship between Municipality G and Municipality H. This is consistent with both an amalgamation and an acquisition. Municipality G also notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but is not conclusive.~~
- IE30. In considering the indicators relating to consideration, Municipality G notes that the ~~PBE public-sector~~ combination does not include the payment of consideration and the reasons for the absence of consideration do not provide evidence of an acquisition because there is no party with an entitlement to the net assets of Municipality H (i.e., there are no former owners of Municipality H with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.
- IE31. In considering the indicators relating to the decision-making process, Municipality G notes that the ~~public-sector entity~~ combination was imposed by Central Government (a third party) and that Municipality G and Municipality H had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.
- IE32. ~~Taking these factors together, On balance these factors suggest Municipality G considers that the public sector PBE combination should be classified as an amalgamation. In coming to this decision, Municipality G considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.~~

#### Scenario 3: Variation

- IE33. In scenario 3, the legislation provides for the governing body of Municipality G to become the governing body of the combined entity. In this variation, the legislation provides for a new governing body to be formed that has no links to Municipality G or Municipality H.
- IE34. In determining whether this ~~PBE public-sector~~ combination should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.
- IE35. Despite its legal form continuing, Municipality G has a newly formed governing body, unrelated to its previous governing body or that of Municipality H. Consequently, the previous Municipality G does not gain power over Municipality H. Neither does it have exposure, or rights, to variable benefits from any involvement with Municipality H.
- IE36. Municipality G has not gained control over Municipality H as a result of the ~~PBE public-sector~~ combination. Consequently the combination is classified as an amalgamation.

#### Scenario 4: Restructuring of Central Government Ministries

- IE37. The following diagram illustrates the reorganisation of Central Government ministries by combining the Trade and Development Ministry and the Industry Ministry into the newly formed Trade and Industry Ministry.



- IE38. In this scenario, a PBE-public-sector combination occurs in which the Trade and Industry Ministry is formed to combine the operations (and the related assets, liabilities and components of net assets/equity) of the Trade and Development Ministry and the Industry Ministry. All the ministries, both prior to and after the combination, are controlled by Central Government. The combination is imposed by Central Government using this control. The Trade and Development Ministry and the Industry Ministry have no role in determining the terms of the combination.
- IE39. In effecting the combination, Central Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. After the combination, the Trade and Development Ministry and the Industry Ministry cease to exist.
- IE40. As Central Government controls the same operations both before and after the PBE-public-sector combination, Central Government does not report a combination in its consolidated financial statements. The combination is reported by the Trade and Industry Ministry.
- IE41. The creation of the Trade and Industry Ministry is a PBE-public-sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.
- IE42. Central Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. This suggests that as part of the PBE-public-sector combination that creates the new Trade and Industry Ministry, the Industry Ministry is gaining control of the operations of the Trade and Development Ministry. However, the assessment as to whether the Industry Ministry is gaining control is based on the substance of the combination, not its form. In determining whether the combination should be classified as an amalgamation or an acquisition, the Trade and Industry Ministry considers the guidance in paragraphs 7–8 and AG10–AG18 of PBE IPSAS 40.
- IE43. In this scenario, it is assumed that the decision of Central Government to give responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry results in the Industry Ministry gaining:
- Power over the operations of the Trade and Development Ministry;
  - Exposure, or rights, to variable benefits from its involvement with those operations; and

- (c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.
- IE44. The Trade and Industry Ministry concludes that, as a result of the PBE public-sector combination, the Industry Ministry has gained control of the Trade and Development Ministry. The Trade and Industry Ministry considers the guidance in paragraphs 9–14 and AG19–AG50 of PBE IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.
- IE45. ~~[Not used] In considering the economic substance of the public-sector combination, the Trade and Industry Ministry notes that the combination does not result in a controlling entity/controlled entity relationship between the Trade and Development Ministry and the Industry Ministry. This is consistent with both an amalgamation and an acquisition. The Trade and Development Ministry also notes that the Industry Ministry obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition.~~
- IE46. In considering the indicators relating to consideration, the Trade and Industry Ministry notes that the PBE public-sector combination does not include the payment of consideration because the combination took place under common control, and Central Government, the controlling entity, did not specify any consideration in the terms of the combination. ~~Consequently, A~~although the absence of consideration ~~(and the reasons for the absence of consideration)~~ may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.
- IE47. In considering the indicators relating to the decision-making process, the Trade and Industry Ministry notes that the PBE public-sector combination takes place under common control. The combination was directed by Central Government and the Trade and Development Ministry and the Industry Ministry had no role in determining the terms of the combination. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Central Government, the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.
- IE48. ~~On balance Taking~~these factors ~~suggest together, the Trade and Industry Ministry considers~~ that the PBE public-sector combination should be classified as an amalgamation. In coming to this decision, the fact that the PBE public-sector combination takes place under common control is considered to be the most significant factor in determining the economic substance of the combination.

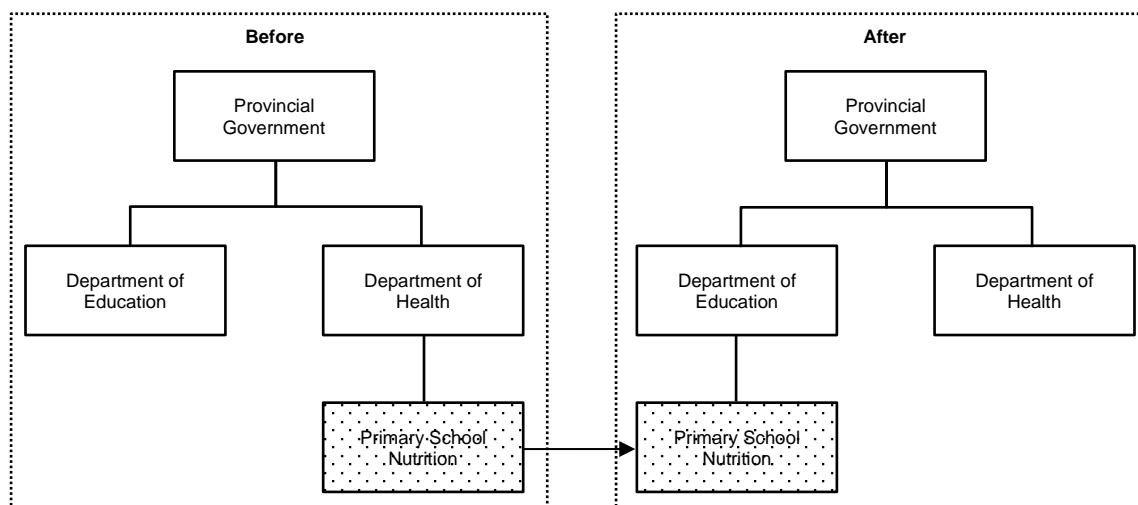
#### Scenario 4: Variation

- IE49. In scenario 4, Central Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. In this variation, Central Government appoints a new Minister and governing body.
- IE50. The creation of the Trade and Industry Ministry is a PBE public-sector combination under common control. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.
- IE51. The Trade and Industry Ministry has a new Minister and a newly formed governing body, unrelated to the governing bodies of the Trade and Development Ministry and the Industry Ministry. Neither the Trade and Development Ministry or the Industry Ministry has gained power over the operations of the other ministry. Neither do they have exposure, or rights, to variable benefits from any involvement with the operations of the other ministry.
- IE52. Neither of the Trade and Development Ministry nor the Industry Ministry has gained control over the Trade and Industry Ministry as a result of the PBE public-sector combination. Consequently the combination is classified as an amalgamation.



*Scenario 5: Transfer of Operations under Common Control*

IE53. The following diagram illustrates the transfer of operations between two public sector entities that are under common control.



IE54. In this scenario, a ~~PBE-public-sector~~ combination occurs in which the Primary School Nutrition operation is transferred from the Provincial Government's Department of Health to its Department of Education. Both departments are controlled by the Provincial Government prior to and after the combination.

IE55. As the Provincial Government controls the same operations both before and after the ~~PBE-public-sector~~ combination, the Provincial Government does not report a combination in its consolidated financial statements. The combination is reported by the Department of Education.

IE56. The transfer of the Primary School Nutrition operation is a ~~PBE-public-sector~~ combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Department of Education considers is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE57. In this scenario, the Department of Education gains:

- Power over the Primary School Nutrition operation;
- Exposure, or rights, to variable benefits from its involvement with that operation; and
- The ability to use its power over that operation to affect the nature or amount of the benefits from its involvement with that operation.

IE58. The Department of Education concludes that, as a result of the ~~PBE-public-sector~~ combination, it has gained control of the Primary School Nutrition operation. The Department of Education considers the guidance in paragraphs 9–14 and AG19–AG50 of ~~IPSAS 40~~PBE IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

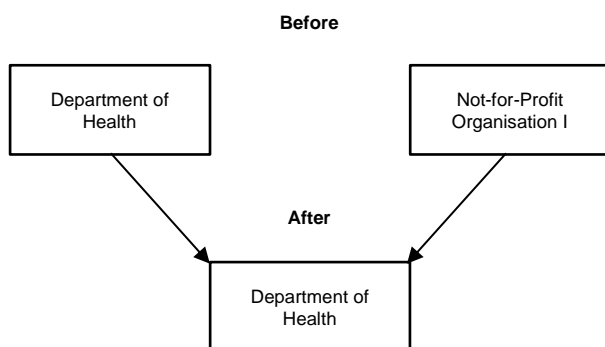
IE59. ~~[Not used] In considering the economic substance of the public sector combination, the Department of Education notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained in a voluntary transaction; this may suggest that the economic substance of the combination is that of an acquisition.~~

IE60. In considering the indicators relating to consideration, the Department of Education notes that the ~~PBE-public-sector~~ combination does not include the payment of consideration because the combination took place under common control, and the Provincial Government, the controlling entity, did not specify any consideration in the terms of the combination. ~~Consequently, Although the absence of consideration (and the reasons for the absence of consideration) may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.~~

- IE61. In considering the indicators relating to the decision-making process, the Department of Education notes that the ~~PBE public sector~~ combination takes place under common control. The combination was directed by the Provincial Government. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Provincial Government, the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.
- IE62. ~~On balance Taking these factors suggest together, the Department of Education considers that the PBE public sector~~ combination should be classified as an amalgamation. In coming to this decision, the fact that the ~~PBE public sector~~ combination takes place under common control is considered to be the most significant factor in determining the economic substance of the combination.

*Scenario 6: Combination of a Public Sector Entity with a Not-For-Profit Organisation*

- IE63. The following diagram illustrates the combination of a public sector entity with a not-for-profit organisation providing similar services.



- IE64. In this scenario, a ~~PBE public sector~~ combination occurs in which Not-for-Profit Organisation I, a charity which provides paramedic services, voluntarily agrees to combine with the Department of Health in order to improve the delivery of services to the public. The operations of Not-for-Profit Organisation I are integrated with similar operations provided by the Department of Health. Prior to the combination, the Department of Health has provided funding for Not-for-Profit Organisation I. The Department of Health meets the cost of transferring the title to the assets and liabilities of Not-for-Profit Organisation I incurred by the trustees of the charity.
- IE65. The combination of the Department of Health and Not-for-Profit Organisation I is a ~~PBE public sector~~ combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Department of Health considers is whether it has gained control of operations as a result of the combination.
- IE66. In this scenario, the Department of Health gains:
- Power over Not-for-Profit Organisation I and its operations;
  - Exposure, or rights, to variable benefits from its involvement with those operations; and
  - The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.
- IE67. The Department of Health concludes that, as a result of the ~~PBE public sector~~ combination, it has gained control of Not-for-Profit Organisation I. The Department of Health considers the guidance in paragraphs 9–14 and AG19–AG50 of PBE IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.
- IE68. ~~[Not used] In considering the economic substance of the public sector combination, the Department of Health notes that the combination does not result in a controlling entity/controlled entity relationship between the Department and Not for Profit Organisation I. This is consistent with both an amalgamation and an acquisition.~~
- IE69. In considering the indicators relating to consideration, the Department of Health notes that the ~~PBE public sector~~ combination does not include the payment of consideration that is intended to

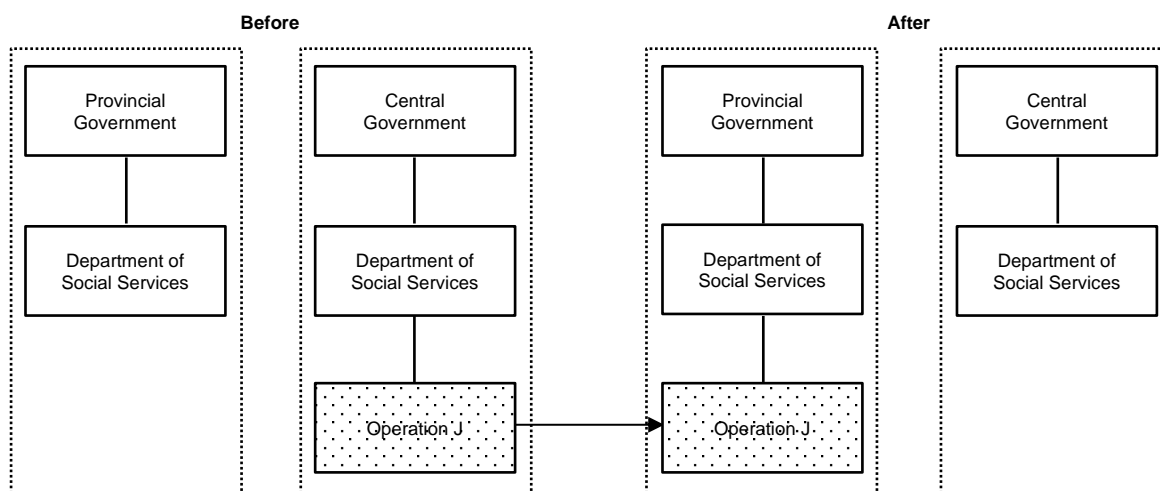


compensate ~~the Not-for-Profit Organisation Iseller~~ for giving up ~~its~~~~their~~ entitlement to ~~the-its~~ net assets ~~of an operation~~. Although the Department of Health makes a payment to Not-for-Profit Organisation I ~~the trustees, the payment this~~ is to compensate Not-for-Profit Organisation I ~~them~~ for costs incurred in effecting the combination, ~~not to compensate them for giving up their entitlement to the net assets of Not for Profit Organisation I. Although Not for Profit Organisation I has a Board of Trustees, these individuals are not entitled to the net assets of the operation. This means there is no party with an entitlement to the net assets of Not for Profit Organisation I (i.e., there are no former owners of Not for Profit Organisation I with quantifiable ownership interests). Not-for-Profit Organisation I has voluntarily given up the rights to its net assets and donated them to the Department of Health because the Department of Health will provide an improved delivery of services to the public. This suggests that the economic substance of the combination is that of an acquisition~~ amalgamation. ~~In this scenario, this is confirmed by the fact that the purpose of the combination is to improve the delivery of services to the public.~~

- IE70. In considering the indicators relating to the decision-making process, the Department of Health notes that the PBE public sector combination was a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
- IE71. ~~Taking these factors together, On balance these factors suggest the Department of Health considers that the public sector PBE combination should be classified as an acquisition~~ amalgamation. ~~In coming to this decision, the Department of Health considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination. In this scenario, this view is reinforced by the fact that that Board of Trustees is voluntarily giving up control over the operations to improve the delivery of services to the public.~~

*Scenario 7: Transfer of an Operation between Levels of Government*

- IE72. The following diagram illustrates the transfer of an operation between levels of government.



- IE73. In this scenario, Central Government adopts a policy of devolving responsibility for some social services to the Provincial Government. Consequently, it proposes transferring Operation J, which provides residential care services, from Central Government's Department of Social Services to the Provincial Government's Department of Social Services. The Provincial Government supports the policy and agrees to accept Operation J. Operation J has net assets of CU1,000<sup>16</sup>. There is no transfer of consideration by the Provincial Government to the Central Government. However, the transfer agreement imposes an obligation on the Provincial Government to continue to provide the residential care services for a minimum of 10 years. Operation J does not recover all its costs from charges; the Provincial Government therefore assumes the responsibility for providing resources to meet the

<sup>16</sup> In these examples monetary amounts are denominated in 'currency units (CU)'.

shortfall. Following the transfer, the Provincial Government operates Operation J as a stand-alone entity (i.e., there is a controlling entity/controlled entity relationship between the Provincial Government and Operation J), although it plans to integrate the operation with its other operations at a later date, which would remove the controlling entity/controlled entity relationship.

- IE74. The transfer of Operation J is a ~~PBE-public-sector~~ combination that will need to be reported in both the Provincial Government's financial statements and those of the Provincial Government's Department of Social Services. As the analysis required will be the same for both entities, this example uses the term Provincial Government to refer to both entities.
- IE75. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Provincial Government considers is whether it has gained control of operations as a result of the combination.
- IE76. In this scenario, the Provincial Government gains:
- (a) Power over Operation J;
  - (b) Exposure, or rights, to variable benefits from its involvement with Operation J; and
  - (c) The ability to use its power over Operation J to affect the nature or amount of the benefits from its involvement with the operation.
- IE77. The Provincial Government concludes that, as a result of the ~~PBE-public-sector~~ combination, it has gained control of Operation J. The Provincial Government considers the guidance in paragraphs 9–14 and AG19–AG50 of PBE IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.
- IE78. In considering the economic substance of the ~~PBE-public-sector~~ combination, the Provincial Government notes that the combination results in a controlling entity/controlled entity relationship between the Provincial Government and Operation J. This is inconsistent with the economic substance of an amalgamation.
- IE79. In considering the indicators relating to consideration, the Provincial Government notes that the ~~PBE-public-sector~~ combination does not include the payment of consideration that is intended to compensate ~~Central Government~~~~the seller~~ for giving up ~~its~~~~their~~ entitlement to the net assets of an operation. However, the transfer agreement requires the Provincial Government to continue to provide the services. As Operation J does not recover all its costs from charges, the Provincial Government will need to provide the necessary resources to cover the shortfall. The Provincial Government considers that the cost of providing services for the agreed 10 year period is likely to be approximately equal to the value of the net assets received. It therefore considers that a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be zero. Although no consideration is transferred, this reflects the fair value of the combination. The Provincial Government concludes that, in this case the absence ~~indicators relating to~~ consideration does not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
- IE80. In considering the indicators relating to the decision-making process, the Provincial Government notes that the ~~PBE-public-sector~~ combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
- IE81. Taking these factors together, the Provincial Government concludes that there is no evidence that economic substance of the combination is that of an amalgamation, and that the ~~PBE-public-sector~~ combination should, therefore, be classified as an acquisition.

#### Scenario 7: Variation

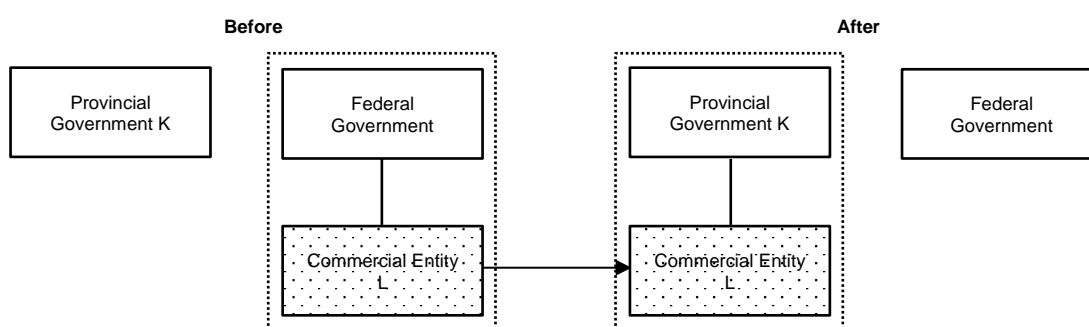
- IE82. In scenario 7, the Provincial Government considers that a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be zero. This is the reason that no consideration is paid. In this variation, Operation J is assumed to cover its costs from charges. Consequently, a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be greater than zero.
- IE83. In these circumstances, the fact that the combination does not include the payment of consideration that is intended to compensate ~~Central Government~~~~the seller~~ for giving up ~~its~~~~their~~ entitlement to the net assets of an operation may provide evidence that the economic substance of the combination is that of

an amalgamation. However, the reasons for the absence of consideration need to be considered. There is nothing specific in the fact pattern about the reasons for the absence of consideration to support the classification as an amalgamation or an acquisition.

- IE84. In determining the classification of the ~~PBEpublic-sector~~ combination, the Provincial Government considers which factor or factors are the most significant. The Provincial Government considers the fact that it has gained control of Operation J and the fact that the combination does not involve the integration of its operations and those of Operation J to be the most significant factors in determining the economic substance of the combination. This suggests that the combination should be classified as an acquisition. The indicators relating to the decision-making process also support ~~theis~~ classification as an acquisition; ~~only the indicators relating to consideration suggest that the economic substance of the combination may be an amalgamation.~~ The Provincial Government therefore classifies the combination as an acquisition.

*Scenario 8: Transfer of a Commercial Entity between Levels of Government*

- IE85. The following diagram illustrates the transfer of a commercial entity between levels of government.

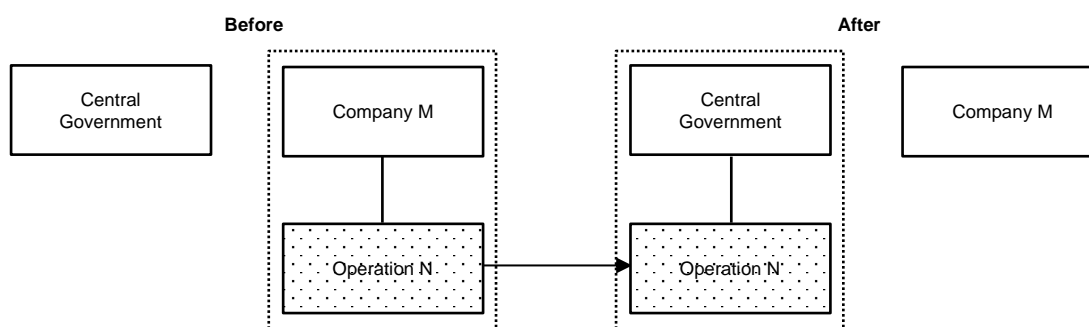


- IE86. In this scenario, the Federal Government agrees to transfer Commercial Entity L to Provincial Government K. Provincial Government K pays consideration to the Federal Government in respect of the transfer. Following the combination, Provincial Government K operates Commercial Entity L as an arms-length, stand-alone entity.
- IE87. The transfer of Commercial Entity L is a ~~PBEpublic-sector~~ combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Provincial Government K considers is whether it has gained control of operations as a result of the combination.
- IE88. In this scenario, Provincial Government K gains:
- Power over Commercial Entity L and its operations;
  - Exposure, or rights, to variable benefits from its involvement with those operations; and
  - The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.
- IE89. Provincial Government K concludes that, as a result of the ~~PBEpublic-sector~~ combination, it has gained control of Commercial Entity L. Provincial Government K considers the guidance in paragraphs 9–14 and AG19–AG50 of ~~IPSAS 40~~PBE IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.
- IE90. In considering the economic substance of the ~~PBEpublic-sector~~ combination, Provincial Government K notes that the combination results in a controlling entity/controlled entity relationship between the Provincial Government and Commercial Entity L. This is inconsistent with the economic substance of an amalgamation. Provincial Government K also notes that the combination has commercial substance, which is suggestive of an acquisition.
- IE91. In considering the indicators relating to consideration, Provincial Government K notes that the ~~PBEpublic-sector~~ combination includes the payment of consideration that is intended to compensate the seller for giving up ~~its~~their entitlement to the net assets of an operation. Provincial Government K concludes that the indicators relating to consideration ~~does~~ not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

- IE92. In considering the indicators relating to the decision-making process, Provincial Government K notes that the ~~PBE-public-sector~~ combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
- IE93. Taking these factors together, Provincial Government K concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the ~~PBE-public-sector~~ combination should, therefore, be classified as an acquisition.

*Scenario 9: Purchase of a Private Sector Operation*

- IE94. The following diagram illustrates the purchase of a private sector operation by a public sector entity.



- IE95. In this scenario, Central Government purchases Operation N from Company M. Central Government pays the market value of Operation N, and Company M acts voluntarily. Following the purchase, Operation N is managed as an arms-length, stand-alone entity.
- IE96. The purchase of Operation N is a ~~PBE-public-sector~~ combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Central Government considers is whether it has gained control of operations as a result of the combination.
- IE97. In this scenario, Central Government gains:
- Power over Operation N;
  - Exposure, or rights, to variable benefits from its involvement with Operation N; and
  - The ability to use its power over Operation N to affect the nature or amount of the benefits from its involvement with that operation.
- IE98. Central Government concludes that, as a result of the ~~PBE-public-sector~~ combination, it has gained control of Operation N. Central Government considers the guidance in paragraphs 9–14 and AG19–AG50 of PBE IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.
- IE99. In considering the economic substance of the ~~PBE-public-sector~~ combination, Central Government notes that the combination results in a controlling entity/controlled entity relationship between Central Government and Operation N. This is inconsistent with the economic substance of an amalgamation. Central Government also notes that the combination has commercial substance, which is suggestive of an acquisition.
- IE100. In considering the indicators relating to consideration, Central Government notes that the ~~PBE-public-sector~~ combination includes the payment of consideration that is intended to compensate the seller for giving up ~~its~~~~their~~ entitlement to the net assets of an operation. Central Government concludes that the indicators relating to consideration ~~does~~ not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
- IE101. In considering the indicators relating to the decision-making process, Central Government notes that the ~~PBE-public-sector~~ combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

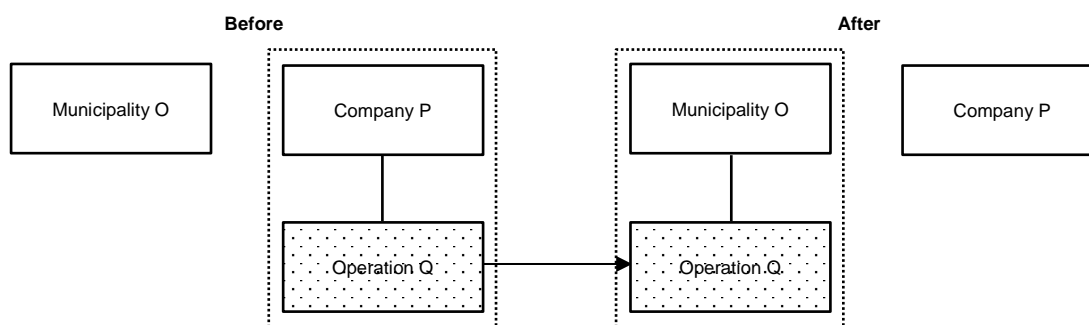
- IE102. Taking these factors together, Central Government concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the ~~PBE-public-sector~~ combination should, therefore, be classified as an acquisition.

Scenario 9: Variation

- IE103. In scenario 9, Company M enters into the transaction voluntarily. In this variation, Central Government nationalises Operation N through a compulsory purchase. The purchase is still effected at the market value of Operation N.
- IE104. The change from a voluntary transaction to a compulsory purchase does not affect the assessments of control or the indicators related to consideration.
- IE105. In considering the indicators relating to the decision-making process, Central Government notes that Company M does not act voluntarily. The fact that Central Government (a party to the combination) is able to impose the ~~PBE-public-sector~~ combination on Company M provides evidence that the economic substance of the combination is that of an acquisition.
- IE106. Consequently, Central Government classifies the ~~PBE-public-sector~~ combination as an acquisition.

Scenario 10: Bargain purchase

- IE107. The following diagram illustrates a bargain purchase by a public sector entity.



- IE108. In this scenario, Municipality O purchases Operation Q from Company P in a bargain purchase. Company P is seeking to sell Operation Q quickly to release cash for its other operations, and is willing to accept a price below the market value of Operation Q for an early sale. In entering into the bargain purchase, Company P acts voluntarily. Following the purchase, Operation Q is managed as an arms-length, stand-alone entity by Municipality O.
- IE109. The bargain purchase of Operation Q is a ~~PBE-public-sector~~ combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Municipality O considers is whether it has gained control of operations as a result of the combination.
- IE110. In this scenario, Municipality O gains:
- Power over Operation Q;
  - Exposure, or rights, to variable benefits from its involvement with Operation Q; and
  - The ability to use its power over Operation Q to affect the nature or amount of the benefits from its involvement with that operation.
- IE111. Municipality O concludes that, as a result of the ~~PBEpublic-sector~~ combination, it has gained control of Operation Q. Municipality O considers the guidance in paragraphs 9–14 and AG19–AG50 of PBE IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.
- IE112. In considering the economic substance of the ~~PBEpublic-sector~~ combination, Municipality O notes that the combination results in a controlling entity/controlled entity relationship between Municipality O and Operation Q. This is inconsistent with the economic substance of an amalgamation. Municipality O also notes that the combination has commercial substance (even though the price paid was below the market price of Operation Q), which is suggestive of an acquisition.

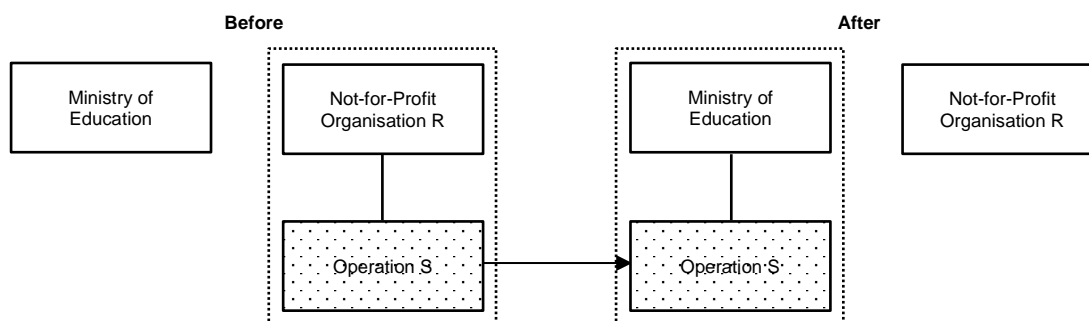
- IE113. In considering the indicators relating to consideration, Municipality O notes that the ~~PBEpublic-sector~~ combination includes the payment of consideration that is intended to compensate the seller for giving up ~~its~~~~their~~ entitlement to the net assets of an operation, even though that price was below market value. Company P voluntarily accepted a lower price for a quick sale, and the purpose of the consideration paid was to provide Company P with the level of compensation for giving up its entitlement to the net assets of Operation Q that it was willing to accept. Municipality O concludes that the indicators relating to consideration does not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
- IE114. In considering the indicators relating to the decision-making process, Municipality O notes that the ~~PBEpublic-sector~~ combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
- IE115. Taking these factors together, Municipality O concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the ~~PBEpublic-sector~~ combination should, therefore, be classified as an acquisition.

#### Scenario 10: Variation

- IE116. In scenario 10, Company P enters into the transaction voluntarily. In this variation, Municipality O seizes Operation Q through a compulsory purchase. The purchase is still effected at a price below the market value of Operation Q. Company P would not have sold Operation Q for a price below market value voluntarily.
- IE117. The change from a voluntary transaction to a compulsory purchase does not affect the assessment of control.
- IE118. In considering the indicators relating to consideration, Municipality O notes that the ~~PBEpublic-sector~~ combination includes consideration that is intended to compensate the seller for giving up ~~its~~~~their~~ entitlement to the net assets of an operation. However, the level of compensation is less than Company P would have accepted voluntarily. Consequently, ~~thi~~~~ese~~ indicators provides only weak evidence that the economic substance of the combination is that of an acquisition, and greater reliance is placed on other factors.
- IE119. In considering the indicators relating to the decision-making process, Municipality O notes that Company P does not act voluntarily. The fact that Municipality O (a party to the combination) is able to impose the ~~PBEpublic-sector~~ combination on Company P provides evidence that the economic substance of the combination is that of an acquisition.
- IE120. Taking all the factors into account, Municipality O classifies the ~~PBEpublic-sector~~ combination as an acquisition.

#### Scenario 11: Donated Operations

- IE121. The following diagram illustrates the receipt of a donated operation by a public sector entity.



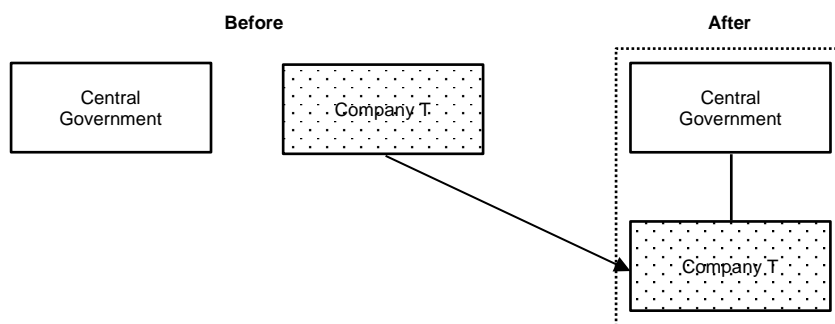
- IE122. In this scenario, Not-for-Profit Organisation R, a charity providing education services, voluntarily transfers Operation S, a school, to the Ministry of Education at no cost. Not-for-Profit Organisation R does this because it considers that this will result in improved services to the public, and enable it to meet its objectives.



- IE123. The donation of Operation S is a ~~PBE-public-sector~~ combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Ministry of Education considers is whether it has gained control of operations as a result of the combination.
- IE124. In this scenario, the Ministry of Education gains:
- Power over Operation S;
  - Exposure, or rights, to variable benefits from its involvement with Operation S; and
  - The ability to use its power over Operation S to affect the nature or amount of the benefits from its involvement with that operation.
- IE125. The Ministry of Education concludes that, as a result of the ~~PBE-public-sector~~ combination, it has gained control of Operation S. The Ministry of Education considers the guidance in paragraphs 9–14 and AG19–AG50 of PBE IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.
- IE126. In considering the economic substance of the ~~PBE-public-sector~~ combination, the Ministry of Education notes that the combination has commercial substance (even though no price was paid for Operation S), which is suggestive of an acquisition.
- IE127. In considering the indicators relating to consideration, the Ministry of Education notes that the ~~PBE-public-sector~~ combination does not include the payment of consideration that is intended to compensate ~~Not-for-Profit Organisation R the seller~~ for giving up ~~its~~~~their~~ entitlement to ~~its~~~~the~~ net assets ~~of an operation~~. However, the reason for this is that Not-for-Profit Organisation R voluntarily surrendered those rights. The situation is similar to that of a bargain purchase. In a bargain purchase, a seller may be willing to accept a price below market value where this meets their needs, for example in enabling a quick sale. With a donated operation, the former owner is willing to transfer the operation for no consideration to their preferred counterparty. In this scenario, Not-for-Profit Organisation R is willing to transfer Operation S to the Ministry of Education because this will provide improved services to the public. Consequently, the Ministry of Education concludes that the indicators of consideration ~~does~~ not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
- IE128. In considering the indicators relating to the decision-making process, the Ministry of Education notes that the ~~PBE-public-sector~~ combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
- IE129. Taking these factors together, the Ministry of Education concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the ~~PBE-public-sector~~ combination should, therefore, be classified as an acquisition.

*Scenario 12: Nationalisation of a Private Sector Entity–Forced Seizure*

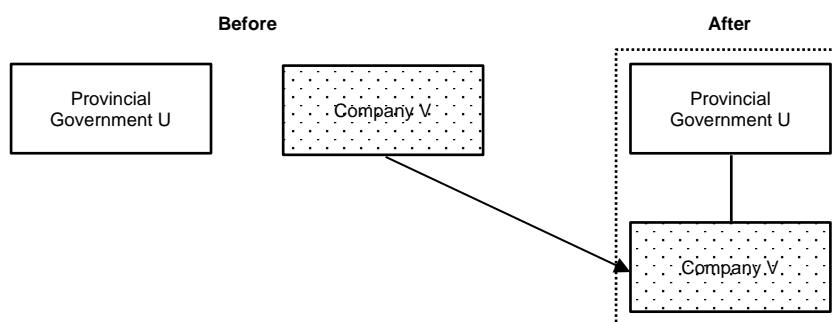
- IE130. The following diagram illustrates the nationalisation of a private sector entity by a public sector entity by means of a forced seizure.



- IE131. In this scenario, Central Government nationalizes Company T through legislation. Central Government does not pay any consideration to the shareholders of Company T. Following the purchase, Company T is managed as an arms-length, stand-alone entity.
- IE132. The nationalisation of Company T is a ~~PBE-public-sector~~ combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Central Government considers is whether it has gained control of operations as a result of the combination.
- IE133. In this scenario, Central Government gains:
- Power over Company T;
  - Exposure, or rights, to variable benefits from its involvement with Company T; and
  - The ability to use its power over Company T to affect the nature or amount of the benefits from its involvement with Company T.
- IE134. Central Government concludes that, as a result of the ~~PBE-public-sector~~ combination, it has gained control of Company T. Central Government considers the guidance in paragraphs 9–14 and AG19–AG50 of PBE IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.
- IE135. In considering the economic substance of the ~~PBE-public-sector~~ combination, Central Government notes that the combination results in a controlling entity/controlled entity relationship between Central Government and Company T. This is inconsistent with the economic substance of an amalgamation. Central Government also notes that, by depriving the former shareholders of their rights to Company T, the combination has commercial substance, which is suggestive of an acquisition.
- IE136. In considering the indicators relating to consideration, Central Government notes that the ~~PBE-public-sector~~ combination does not include the payment of consideration that is intended to compensate the former shareholders of Company T ~~seller~~ for giving up their entitlements to the net assets of an operation. However, the former shareholders of Company T have had their entitlements extinguished through compulsion, which provides evidence that the economic substance of the combination is that of an acquisition. Central Government concludes that the indicators relating to consideration does not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
- IE137. In considering the indicators relating to the decision-making process, Central Government notes that Company T does not act voluntarily. The fact that Central Government (a party to the combination) is able to impose the ~~public-sector~~ combination on Company T provides evidence that the economic substance of the combination is that of an acquisition.
- IE138. Taking these factors together, Central Government concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the ~~PBE-public-sector~~ combination should, therefore, be classified as an acquisition.

*Scenario 13: Nationalisation of a Private Sector Entity–Bailout*

- IE139. The following diagram illustrates the nationalisation of a private sector entity by a public sector entity by means of a bailout.



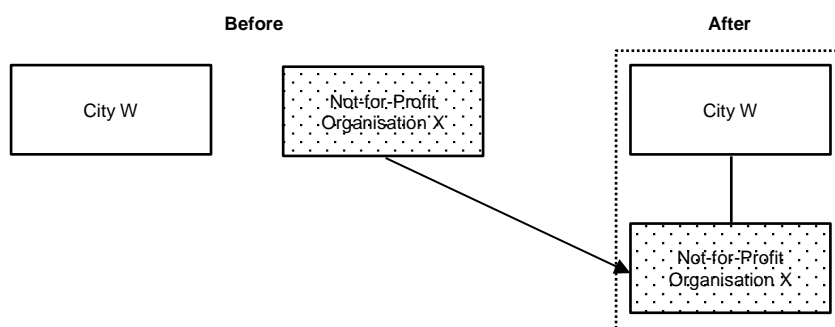


- IE140. In this scenario, Provincial Government U nationalizes Company V through legislation as a result of a bailout. Prior to the nationalisation, Company V was in financial distress. Provincial Government U does not pay any consideration to the shareholders of Company V but does assume Company V's net liabilities. Following the purchase, Company V is managed as an arms-length, stand-alone entity.
- IE141. The nationalisation of Company V is a ~~PBE-public-sector~~ combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Provincial Government U considers is whether it has gained control of operations as a result of the combination.
- IE142. In this scenario, Provincial Government U gains:
- (a) Power over Company V;
  - (b) Exposure, or rights, to variable benefits from its involvement with Company V; and
  - (c) The ability to use its power over Company V to affect the nature or amount of the benefits from its involvement with Company V.
- IE143. Provincial Government U concludes that, as a result of the ~~PBEpublic-sector~~ combination, it has gained control of Company V. Provincial Government U considers the guidance in paragraphs 9–14 and AG19–AG50 of PBE IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.
- IE144. In considering the economic substance of the ~~PBEpublic-sector~~ combination, Provincial Government U notes that the combination results in a controlling entity/controlled entity relationship between Provincial Government U and Company V. This is inconsistent with the economic substance of an amalgamation. Provincial Government U also notes that, by assuming the net liabilities of Company V, the combination has commercial substance, which is suggestive of an acquisition.
- IE145. In considering the indicators relating to consideration, Provincial Government U notes that the ~~PBEpublic-sector~~ combination does not include the payment of consideration ~~that is intended to compensate the seller for giving up their entitlement to the net assets of an operation~~. However, Company V has net liabilities that are assumed by Provincial Government U as part of the combination. The lack of consideration reflects the fair value of Company V rather than suggesting that the economic substance of the combination is that of an amalgamation. Provincial Government U concludes that the indicators relating to consideration does not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
- IE146. In considering the indicators relating to the decision-making process, Provincial Government U notes that Company V does not act voluntarily. The fact that Provincial Government U (a party to the combination) is able to impose the ~~PBE-public-sector~~ combination on Company V provides evidence that the economic substance of the combination is that of an acquisition.
- IE147. Taking these factors together, Provincial Government U concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the ~~PBEpublic-sector~~ combination should, therefore, be classified as an acquisition.

*Scenario 14: Nationalisation of a Not-For-Profit Organisation–Bailout*

- IE148. The following diagram illustrates the nationalisation of a not-for-profit organisation by a public sector entity by means of a bailout.

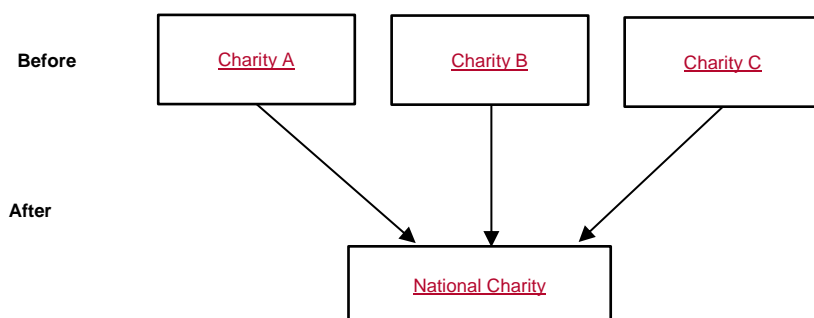
## PBE COMBINATIONS



- IE149. In this scenario, City W nationalizes Not-for-Profit Organisation X (a charity) as a result of a voluntary bailout. Prior to the nationalisation, Not-for-Profit Organisation X was in financial distress and approached City W for support. City W assumes Not-for-Profit Organisation X's net liabilities. Following the purchase, Not-for-Profit Organisation X is managed as an arms-length, stand-alone entity.
- IE150. The nationalisation of Not-for-Profit Organisation X is a PBE~~public sector~~ combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question City W considers is whether it has gained control of operations as a result of the combination.
- IE151. In this scenario, City W gains:
- Power over Not-for-Profit Organisation X;
  - Exposure, or rights, to variable benefits from its involvement with Not-for-Profit Organisation X; and
  - The ability to use its power over Not-for-Profit Organisation X to affect the nature or amount of the benefits from its involvement with Not-for-Profit Organisation X.
- IE152. City W concludes that, as a result of the PBE~~public sector~~ combination, it has gained control of Not-for-Profit Organisation X. City W considers the guidance in paragraphs 9–14 and AG19–AG50 of PBE IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.
- IE153. In considering the economic substance of the PBE~~public sector~~ combination, City W notes that the combination results in a controlling entity/controlled entity relationship between City W and Not-for-Profit Organisation X. This is inconsistent with the economic substance of an amalgamation. City W also notes that, by assuming the net liabilities of Not-for-Profit Organisation X, the combination has commercial substance, which is suggestive of an acquisition.
- IE154. In considering the indicators relating to consideration, City W notes that the PBE~~public sector~~ combination does not include the payment of consideration ~~that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. This is because there is no party with an entitlement to the net assets of Not for Profit Organisation X (i.e., there is no former owner) as the trustees have no entitlement to the net assets.~~ This would usually provide evidence that the economic substance of the combination is that of an amalgamation. However, in this scenario Not-for-Profit Organisation X has net liabilities that are assumed by City W as part of the combination. By assuming the net liabilities, City W relieves the trustees of Not-for-Profit Organisation X of the responsibility for settling the liabilities, therefore no payment of consideration by City W is necessary which is analogous to paying consideration. City W concludes, therefore, that the indicators relating to consideration does not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
- IE155. In considering the indicators relating to the decision-making process, City W notes that Not-for-Profit Organisation X voluntarily initiated the combination. City W concludes that the indicators relating to decision-making do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
- IE156. Taking these factors together, City W concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the ~~public sector~~PBE combination should, therefore, be classified as an acquisition.

Scenario 15: Combination of Three Charities

IE156.1 The following diagram illustrates the combination of three charities providing similar services in different parts of the country.



IE156.2 Charity A covers the South Island, Charity B covers the lower North Island and Charity C covers the upper North Island. To gain operational efficiencies and make it easier to obtain grants, donations and other funding, the three charities decide to unite their resources and activities by forming a new national registered charity, National Charity. They establish National Charity at the time of the combination.

IE156.3 The governing body of National Charity is formed through the appointment of trustees from the governing bodies of charities A, B and C. The former trustees of any one of the three charities do not constitute a majority of the governing body of the National Charity.

IE156.4 All of the resources and activities of charities A, B and C are transferred to National Charity for nil consideration, whereupon charities A, B and C are wound up.

IE156.5 In determining whether the combination of charities A, B and C should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties has gained control of operations as a result of the combination. National Charity is a newly formed entity that did not exist prior to the combination taking place. None of the existing charities (A, B and C) gained control of the other charities, nor do they have exposure, or rights, to variable benefits from their involvement with National Charity.

IE156.6 Taking these factors together, National Charity concludes that the PBE combination should be classified as an amalgamation because no party to the combination has gained control of the other parties.

## Accounting for Amalgamations

### Eliminating Transactions between the Combining Operations – Loans

*Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of PBE IPSAS 40*

- IE157. The following example illustrates the process for eliminating a loan between two combining operations not under common control.
- IE158. On 30 June 20X5 Resulting Entity (RE) is formed by an amalgamation of two municipalities, Combining Operation A (COA) and Combining Operation B (COB). Four years previously, COA had provided COB with a ten year, fixed interest rate loan of CU250. Interest on the loan is payable annually, with the principal repayable on maturity.
- IE159. COB has recently experienced financial difficulties, and at the amalgamation date was in arrears on making the interest payments. The carrying amount of the financial liability (the amortized cost of the loan) in its financial statements at the amalgamation date is CU260.
- IE160. Because of the arrears and the fact that COB was experiencing financial difficulties, COA had impaired the loan. The carrying amount of the financial asset (the loan) in its financial statements at the amalgamation date is CU200.

- IE161. At the amalgamation date, RE eliminates the financial asset received from COA and the financial liability assumed from COB and credits components of net assets/equity with CU60, the difference between the carrying amounts of the financial asset and the financial liability associated with the loan.

### Eliminating Transactions between the Combining Operations – Transfers

#### *Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of PBE IPSAS 40*

- IE162. The following example illustrates the process for eliminating a transfer between two combining operations not under common control.
- IE163. On 30 June 20X9, Resulting Entity (RE) is formed by an amalgamation of two government agencies, Combining Operation A (COA) and Combining Operation B (COB). On 1 January 20X9, COA had provided COB with a grant of CU700 to be used in the provision of an agreed number of training courses.
- IE164. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the amalgamation date, COB had delivered half of the agreed number of courses, and recognised a liability of CU350 in respect of its performance obligation, in accordance with PBE IPSAS 23 *Revenue from Non-Exchange Transactions* (~~Taxes and Transfers~~). Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognise an asset in respect of the grant, but accounted for the full CU700 as an expense.
- IE165. At the amalgamation date, the transaction is eliminated. There is no longer an obligation to an external party. The resulting entity does not recognise a liability for the CU350, but instead recognises this amount in net assets/equity.

### Adjusting the Carrying Amounts of the ~~Identifiable~~ Assets and Liabilities of the Combining Operations to Conform to the Resulting Entity's Accounting Policies in an Amalgamation

#### *Illustrating the Consequences of Applying Paragraphs 26–27 and 36 of PBE IPSAS 40*

- IE166. The following example illustrates the process for adjusting the carrying amounts of the ~~identifiable~~ assets and liabilities of the combining operations to conform to the resulting entity's accounting policies in an amalgamation under common control.
- IE167. On 1 October 20X5 RE is formed by an amalgamation of two government departments, COA and COB. COA has previously adopted an accounting policy of measuring property, plant and equipment using the cost model in PBE IPSAS 17 *Property, Plant and Equipment*. COB has previously adopted an accounting policy of measuring property, plant and equipment using the revaluation model in PBE IPSAS 17.
- IE168. RE adopts an accounting policy of measuring property, plant and equipment using the revaluation model. RE seeks an independent valuation for the items of property, plant and equipment previously controlled by COA.
- IE169. On receiving the independent valuation for the items of property, plant and equipment previously controlled by COA, RE adjusts the carrying amounts of the items of property, plant and equipment as follows, with the corresponding entry being made to components of net assets/equity:

Class of Asset	Carrying Amount (CU)	Valuation (CU)	Adjustment (CU)
Land	17,623	18,410	787
Buildings	35,662	37,140	1,478
Vehicles	1,723	1,605	(118)

- IE170. RE also reviews the carrying amounts of the items of property, plant and equipment previously controlled by COB to ensure the amounts are up to date as at 1 October 20X5. The review confirms the

carrying amounts of the items of property, plant and equipment previously controlled by COB are up to date and that no adjustment is required.

- IE171. RE recognises the items of property, plant and equipment previously controlled by COB at their carrying amounts. In accordance with paragraph 67 of PBE IPSAS 17, RE will review the residual values and useful lives of the plant and equipment previously controlled by both COA and COB at least at each annual reporting date. If expectations differ from previous estimates, RE will account for these changes as changes in accounting estimates, in accordance with PBE IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

### Forgiveness of amounts of tax due in an amalgamation

*Illustrating the Consequences of Accounting for Tax Forgiveness in an Amalgamation by Applying Paragraphs 33–34 and AG57–AG58 of PBE IPSAS 40*

- IE172. The following example illustrates the accounting for an amalgamation not under common control in which the resulting entity's tax liability is forgiven as part of the terms of the amalgamation.
- IE173. On 1 January 20X6 RE is formed by an amalgamation of two public sector entities, COA and COB. The amalgamation is directed by the national government. RE, COA and COB have the same accounting policies; no adjustment to the carrying amounts of the ~~identifiable~~ assets and liabilities of the COA and COB to conform to the resulting entity's accounting policies is required. At the date of the amalgamation, there are no amounts outstanding between COA and COB.
- IE174. In its statement of financial position as at 1 January 20X6, RE recognises and measures the assets and liabilities of COA and COB at their carrying amounts in their respective financial statements as of the amalgamation date:

Statement of Financial Position:	COA (CU)	COB (CU)	RE (CU)
Financial assets	1,205	997	2,202
Inventory	25	42	67
Property, plant and equipment	21,944	18,061	40,005
<del>Identifiable</del> Intangible assets	0	3,041	3,041
Financial liabilities	(22,916)	(22,020)	(44,936)
Tax liabilities	(76)	(119)	(195)
Total net assets	182	2	184
Net Assets/Equity	182	2	184

- IE175. Suppose that the terms of the amalgamation include the Ministry of Finance (MF) (the tax authority) forgiving RE's tax liability. RE would derecognise the tax liability and make the adjustment to net assets/equity. The statement of financial position as at 1 January 20X6 for RE would be as follows:

<b>Statement of Financial Position:</b>	<b>RE (CU)</b>
Financial assets	2,202
Inventory	67
Property, plant and equipment	40,005
Intangible assets	3,041
Financial liabilities	(44,936)
Tax liabilities	0
Total net assets	379
Net Assets/Equity	379

- IE176. MF **would recognise an adjustment for the tax forgiven, and** accounts for **the remaining** tax receivable in accordance with PBE IPSAS 23, ~~and would recognise an adjustment for the tax forgiven.~~

### **Recognising and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation**

#### *Illustrating the Consequences of Applying Paragraphs 37–39 of PBE IPSAS 40*

- IE177. The following example illustrates the accounting for recognising and measuring components of net assets/equity in an amalgamation.
- IE178. On 1 June 20X4, a new municipality RE is formed by the amalgamation of operations COA and COB relating to two geographical areas of other municipalities, not previously under common control.
- IE179. COB has previously performed services for COA for which it was to be paid CU750. Payment was outstanding at the amalgamation date. This transaction formed part of the carrying amount of financial liabilities for COA and part of the carrying amount of financial assets for COB.
- IE180. COA has previously adopted an accounting policy of measuring property, plant and equipment using the cost model. COB has previously adopted an accounting policy of measuring property, plant and equipment using the revaluation model. RE has adopted an accounting policy of measuring property, plant and equipment using the revaluation model. RE obtains an independent valuation for the items of property, plant and equipment previously controlled by COA. As a result, it increases its carrying amount for those items of the property, plant and equipment by CU5,750 and makes the corresponding adjustment to components of net assets/equity.

PBE COMBINATIONS

IE181. The carrying amounts of the assets, liabilities and components of net assets/equity transferred are summarised below. Adjustments to eliminate transactions between COA and COB (see paragraph 22), and to conform the carrying amounts to the resulting entity's accounting policies are also shown.

	COA (CU)	COB (CU)	Elimination Adjustments (CU)	Accounting Policy Adjustments (CU)	RE Opening Balance (CU)
Financial Assets	11,248	17,311	(750)		27,809
Inventory	1,072	532			1,604
Property, plant and equipment	5,663	12,171		5,750	23,584
Intangible assets	0	137			137
Financial liabilities	(18,798)	(20,553)	750		(38,601)
Total net assets/(liabilities)	(815)	9,598		5,750	14,533
Revaluation surplus	0	6,939		5,750	12,689
<del>Accumulated surpluses or deficits</del> <u>Accumulate d comprehensive revenue and expense</u>	(815)	2,659			1,844
Total net assets/equity	(815)	9,598	0	5,750	14,533

IE182. In accordance with paragraphs 37–39 of PBE IPSAS 40, RE may present net assets/equity as either a single opening balance of CU14,533 or as the separate components shown above.

IE183. The other municipalities that, prior to the amalgamation, controlled COA and COB would derecognise the assets, liabilities and components of net assets/equity transferred to RE in accordance with other PBE Standards.

### Measurement Period in an Amalgamation

#### *Illustrating the Consequences of Applying Paragraphs 40–44 of PBE IPSAS 40.*

IE184. If the initial accounting for an amalgamation is not complete at the end of the financial reporting period in which the amalgamation occurs, paragraph 40 of PBE IPSAS 40 requires the resulting entity to recognise in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity recognises adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognised as of that date. Paragraph 43 of PBE IPSAS 40 requires the resulting entity to recognise such adjustments as if the accounting for the amalgamation had been completed at the amalgamation date. Measurement period adjustments are not included in surplus or deficit.

IE185. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation,

COA had an accounting policy of using the revaluation model for measuring land and buildings, whereas COB's accounting policy was to measure land and buildings using the cost model. RE adopts an accounting policy of measuring land and buildings using the revaluation model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorised for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognised provisional values for the land and buildings of CU150,000 and CU275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as CU160,000 and the amalgamation-date value of the buildings as CU365,000.

- IE186. In its financial statements for the year ended 31 December 20X4, RE retrospectively adjusts the 20X3 prior year information as follows:
- (a) The carrying amount of the land as of 31 December 20X3 is increased by CU10,000. As the land has an indefinite life, no depreciation is charged.
  - (b) The carrying amount of the buildings as of 31 December 20X3 is increased by CU89,500. That adjustment is measured as the valuation adjustment at the amalgamation date of CU90,000 less the additional depreciation that would have been recognised if the asset's value at the amalgamation date had been recognised from that date (CU500 for one month's depreciation).
  - (c) An adjustment of CU100,000 is recognised in net assets/equity as of 31 December 20X3.
  - (d) Depreciation expense for 20X3 is increased by CU500.
- IE187. In accordance with paragraph 56 of PBE IPSAS 40, RE discloses:
- (a) In its 20X3 financial statements, that the initial accounting for the amalgamation has not been completed because the valuation of land and buildings previously controlled by COB has not yet been received.
  - (b) In its 20X4 financial statements, the amounts and explanations of the adjustments to the provisional values recognised during the current reporting period. Therefore, RE discloses that the 20X3 comparative information is adjusted retrospectively to increase the value of the land and buildings by CU99,500 (CU100,000 at the amalgamation date), an increase in depreciation expense of CU500 and an increase in net assets/equity of CU100,000.

### **Subsequent Measurement of a Transfer Received by a Combining Operation on the Basis of Criteria that may Change as a Result of an Amalgamation**

*Illustrating the Consequences of Applying the Requirements in Paragraphs 48 and AG61–AG63 of PBE IPSAS 40.*

- IE188. The following example illustrates the subsequent accounting for a transfer received by a combining operation on the basis of criteria that may change as a result of an amalgamation.
- IE189. On 1 January 20X3, a national government provides an annual grant to those municipalities where the average household income is below a threshold. On 1 June 20X3, RE, a new municipality, is formed by the amalgamation of two existing municipalities, COA and COB. COA had previously received a grant of CU1,000, based on its average household income. COB has received no grant as its average household income was above the threshold.
- IE190. Following the amalgamation on 1 June 20X3, the average household income of RE is above the threshold that the government had set when allocating grants.
- IE191. On 1 July 20X3, the national government requires RE to repay a portion (CU200) of the grant previously paid to COA. RE recognises a liability and an expense of CU200 on 1 July 20X3.

### **Disclosure Requirements Relating to Amalgamations**

*Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of PBE IPSAS 40.*

- IE192. The following example illustrates some of the disclosure requirements relating to amalgamations of PBE IPSAS 40; it is not based on an actual transaction. The example assumes that RE is a newly created municipality formed by amalgamating the former municipalities COA and COB. The illustration presents



the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

**Paragraph  
reference**

54(a)–(c) On 30 June 20X2 RE was formed by an amalgamation of the former municipalities COA and COB. Neither COA nor COB gained control of RE in the amalgamation. The amalgamation was mutually agreed by COA and COB, and enacted by the Government through legislation. The amalgamation aims to reduce costs through economies of scale, and to provide improved services to residents.

54(d) **Amounts recognised for each major class of assets and liabilities transferred as at 30 June 20X2**

	CU
Financial assets	1,701
Inventory	5
Property, plant and equipment	74,656
Intangible assets	42
Financial liabilities	(2,001)
Total net assets	74,403

54(e) The following adjustments have been made to the carrying amounts of assets and liabilities recorded by COA and COB as at 30 June 20X2 prior to the amalgamation:

		Original Amount (CU)	Adjustment (CU)	Revised Amount (CU)
54(e)(i)	Restatement of financial assets recorded by COA to eliminate transactions with COB	822	(25)	797
54(e)(i)	Restatement of financial liabilities recorded by COB to eliminate transactions with COA	(1,093)	25	(1,068)
54(e)(ii)	Restatement of property plant and equipment recorded by COA to measure the items using the revaluation model	12,116	17,954	30,070

Paragraph  
reference

54(f)

## Amounts recognised in Net Assets/Equity as at 30 June 20X2

	COA (CU)	COB (CU)	Adjustment (CU)	RE (CU)
Revaluation surplus	0	18,332	17,954	36,286
<del>Accumulated surpluses or deficits</del> <u>Accumulated comprehensive revenue and expense</u>	12,047	26,070	0	38,117
Total net assets/equity	12,047	44,402	17,954	74,403

54(h)

At the time these financial statements were authorised for issue, the last reporting date for COA and COB was 31 December 20X1. The revenue and expense, and surplus or deficit for COA and COB from 1 January 20X2 to the amalgamation date (30 June 20X2), and the amounts reported by COA and COB for each major class of assets and liabilities, and for components of net assets/equity, is shown below:

	COA (CU)	COB (CU)
54(h)(i) <b>Revenue</b>		
Property taxes	45,213	70,369
Revenue from exchange transactions	2,681	25,377
Transfers from other government entities	32,615	19,345
<b>Total revenue</b>	80,509	115,091
54(h)(i) <b>Expenses</b>		
Wages, salaries and employee benefits	(51,263)	(68,549)
Grants and other transfer payments	(18,611)	(26,445)
Supplies and consumables used	(7,545)	(13,391)
Depreciation expense	(677)	(2,598)
Impairment of property, plant and equipment	(17)	(33)
Finance costs	(2)	(3)
<b>Total expenses</b>	(78,115)	(111,019)
54(h)(i) <b>Surplus or (deficit) for the period 1 January 20X2 to 30 June 20X2</b>	2,394	4,072

54(h)(ii)	<b>Assets as at 30 June 20X2</b>		
	Financial assets	822	904
	Inventory	0	5
	Property, plant and equipment	12,116	44,586
	Intangible assets	42	0
	<b>Total Assets</b>	<b>12,980</b>	<b>45,495</b>
54(h)(ii)	<b>Liabilities as at 30 June 20X2</b>		
	Financial liabilities	(933)	(1,093)
	<b>Total liabilities</b>	<b>(933)</b>	<b>(1,093)</b>
54(h)(iii)	<b>Net assets as at 30 June 20X2</b>	<b>12,047</b>	<b>44,402</b>
	<b>Net assets/equity as at 30 June 20X2</b>		
	Revaluation surplus	0	18,332
	<del>Accumulated surpluses or deficits</del> <u>Accumulated comprehensive revenue and expense</u>	12,047	26,070
	<b>Total net assets/equity as at 30 June 20X2</b>	<b>12,047</b>	<b>44,402</b>

In considering the disclosures related to an amalgamation, an entity may find it helpful to refer to the discussion of materiality in PBE IPSAS 1 *Presentation of Financial Reports*.

## Accounting for Acquisitions

### Reverse Acquisitions

*Illustrating the Consequences of Recognising a Reverse Acquisition by Applying Paragraphs AG66–AG71 of PBE IPSAS 40*

- IE193. This example illustrates the accounting for a reverse acquisition in which Entity B, the legal controlled entity, acquires Entity A, the entity issuing equity instruments and therefore the legal controlling entity, in a reverse acquisition on 30 September 20X6. This example ignores the accounting for any income tax effects.
- IE194. The statements of financial position of Entity A and Entity B immediately before the acquisition are:

	<b>Entity A</b> <b>(legal controlling</b> <b>entity, accounting</b> <b>acquired operation)</b> <b>CU</b>	<b>Entity B</b> <b>(legal controlled</b> <b>entity, accounting</b> <b>acquirer)</b> <b>CU</b>
Current assets	500	700
Non-current assets	1,300	3,000
Total assets	<u>1,800</u>	<u>3,700</u>

	Entity A (legal controlling entity, accounting acquired operation) CU	Entity B (legal controlled entity, accounting acquirer) CU
Current liabilities	300	600
Non-current liabilities	400	1,100
Total liabilities	700	1,700
Shareholders' equity		
<del>Accumulated surplus</del> <u>Accumulated comprehensive revenue and expense or deficit</u>	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	1,100	2,000
Total liabilities and shareholders' equity	1,800	3,700

IE195. This example also uses the following information:

- On 30 September 20X6 Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. Entity B's sole shareholder, a government, exchanges its shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B.
- The fair value of each ordinary share of Entity B at 30 September 20X6 is CU40. The quoted market price of Entity A's ordinary shares at that date is CU16.
- The fair values of Entity A's identifiable assets and liabilities at 30 September 20X6 are the same as their carrying amounts, except that the fair value of Entity A's non-current assets at 30 September 20X6 is CU1,500.

*Calculating the Fair Value of the Consideration Transferred*

IE196. As a result of Entity A (legal controlling entity, accounting acquired operation) issuing 150 ordinary shares, Entity B's shareholder (the government) owns 60 percent of the issued shares of the combined entity (i.e., 150 of 250 issued shares). The remaining 40 percent are owned by Entity A's shareholders. If the acquisition had taken the form of Entity B issuing additional ordinary shares to Entity A's shareholders in exchange for their ordinary shares in Entity A, Entity B would have had to issue 40 shares for the ratio of ownership interest in the combined entity to be the same. Entity B's shareholder (the government) would then own 60 of the 100 issued shares of Entity B—60 percent of the combined entity. As a result, the fair value of the consideration effectively transferred by Entity B and the group's interest in Entity A is CU1,600 (40 shares with a fair value per share of CU40).

IE197. The fair value of the consideration effectively transferred should be based on the most reliable measure. In this example, the quoted price of Entity A's shares in the principal (or most advantageous) market for the shares provides a more reliable basis for measuring the consideration effectively transferred

than the fair value of the shares in Entity B, and the consideration is measured using the market price of Entity A's shares—100 shares with a fair value per share of CU16.

### *Measuring Goodwill*

- IE198. Goodwill is measured as the excess of the fair value of the consideration effectively transferred (the group's interest in Entity A) over the net amount of Entity A's recognised identifiable assets and liabilities, as follows:

	CU	CU
Consideration effectively transferred		1,600
Net recognised values of Entity A's identifiable assets and liabilities		
Current assets	500	
Non-current assets	1,500	
Current liabilities	(300)	
Non-current liabilities	(400)	(1,300)
Goodwill		<u>300</u>

### *Consolidated statement of financial position at 30 September 20X6*

- IE199. The consolidated statement of financial position immediately after the acquisition is:

	CU
Current assets [CU700 + CU500]	1,200
Non-current assets [CU3,000 + CU1,500]	4,500
Goodwill	<u>300</u>
Total assets	<u>6,000</u>
Current liabilities [CU600 + CU300]	900
Non-current liabilities [CU1,100 + CU400]	<u>1,500</u>
Total liabilities	<u>2,400</u>
Shareholders' equity	
<del>Accumulated surplus</del> Accumulated comprehensive revenue and expense or deficit	1,400
Issued equity	
250 ordinary shares [CU600 + CU1,600]	<u>2,200</u>
Total shareholders' equity	<u>3,600</u>
Total liabilities and shareholders' equity	<u>6,000</u>

- IE200. The amount recognised as issued equity interests in the consolidated financial statements (CU2,200) is determined by adding the issued equity of the legal controlled entity immediately before the acquisition (CU600) and the fair value of the consideration effectively transferred (CU1,600). However, the equity structure appearing in the consolidated financial statements (i.e., the number and type of equity interests issued) must reflect the equity structure of the legal controlling entity, including the equity interests issued by the legal controlling entity to effect the combination.

*Non-controlling interest*

- IE201. Assume the same facts as above, except that Entity B has more than one shareholder, and that only 56 of Entity B's 60 ordinary shares are exchanged. Because Entity A issues 2.5 shares in exchange for each ordinary share of Entity B, Entity A issues only 140 (rather than 150) shares. As a result, Entity B's shareholders own 58.3 percent of the issued shares of the combined entity (140 of 240 issued shares). The fair value of the consideration transferred for Entity A, the accounting acquired operation, is calculated by assuming that the combination had been effected by Entity B issuing additional ordinary shares to the shareholders of Entity A in exchange for their ordinary shares in Entity A. That is because Entity B is the accounting acquirer, and paragraph AG67 of PBE IPSAS 40 requires the acquirer to measure the consideration exchanged for the accounting acquired operation.
- IE202. In calculating the number of shares that Entity B would have had to issue, the non-controlling interest is excluded from the calculation. The majority shareholder (the government) owns 56 shares of Entity B. For that to represent a 58.3 percent equity interest, Entity B would have had to issue an additional 40 shares. The majority shareholder (the government) would then own 56 of the 96 issued shares of Entity B and, therefore, 58.3 percent of the combined entity. As a result, the fair value of the consideration transferred for Entity A, the accounting acquired operation, is CU1,600 (i.e., 40 shares, each with a fair value of CU40). That is the same amount as when Entity B's sole shareholder tenders all 60 of its ordinary shares for exchange. The recognised amount of the group's interest in Entity A, the accounting acquired operation, does not change if some of Entity B's shareholders do not participate in the exchange.
- IE203. The non-controlling interest is represented by the four shares of the total 60 shares of Entity B that are not exchanged for shares of Entity A. Therefore, the non-controlling interest is 6.7 percent. The non-controlling interest reflects the proportionate interest of the non-controlling shareholders in the pre-combination carrying amounts of the net assets of Entity B, the legal controlled entity. Therefore, the consolidated statement of financial position is adjusted to show a non-controlling interest of 6.7 percent of the pre-combination carrying amounts of Entity B's net assets (i.e., CU134 or 6.7 percent of CU2,000).
- IE204. The consolidated statement of financial position at 30 September 20X6, reflecting the non-controlling interest, is as follows:

	CU
Current assets [CU700 + CU500]	1,200
Non-current assets [CU3,000 + CU1,500]	4,500
Goodwill	300
Total assets	<u>6,000</u>
Current liabilities [CU600 + CU300]	900
Non-current liabilities [CU1,100 + CU400]	1,500
Total liabilities	<u>2,400</u>
Shareholders' equity	
Accumulated <del>comprehensive revenue and expense surplus or deficit</del> [CU1,400 × 93.3 percent]	1,306
Issued equity	
240 ordinary shares [CU560 + CU1,600]	2,160
Non-controlling interest	134
Total shareholders' equity	<u>3,600</u>
Total liabilities and shareholders' equity	<u>6,000</u>

- IE205. The non-controlling interest of CU134 has two components. The first component is the reclassification of the non-controlling interest's share of the accounting acquirer's retained earnings immediately before the acquisition ( $\text{CU}1,400 \times 6.7$  percent or CU93.80). The second component represents the reclassification of the non-controlling interest's share of the accounting acquirer's issued equity ( $\text{CU}600 \times 6.7$  percent or CU40.20).

### Identifiable Intangible Assets in an Acquisition

#### *Illustrating the Consequences of Applying Paragraphs 64–68 and AG75–AG84 of PBE IPSAS 40*

- IE206. The following are examples of identifiable intangible assets acquired in an acquisition. Some of the examples may have characteristics of assets other than intangible assets. The acquirer should account for those assets in accordance with their substance. The examples are not intended to be all-inclusive.
- IE207. Intangible assets identified as having a 'binding arrangement' basis are those that arise from binding arrangements (including rights from contracts or other legal rights). Those designated as having a 'no binding arrangement' basis do not arise from binding arrangements but are separable. Intangible assets identified as having a binding arrangement basis might also be separable but separability is not a necessary condition for an asset to meet the binding arrangement criterion.

#### *Marketing-Related Intangible Assets*

- IE208. Marketing-related intangible assets are used primarily in the marketing or promotion of products or services. Examples of marketing-related intangible assets are:

Class	Basis
Trademarks, trade names, service marks, collective marks and certification marks	Binding arrangement
Trade dress (unique colour, shape or package design)	Binding arrangement
Newspaper mastheads	Binding arrangement
Internet domain names	Binding arrangement
Non-competition agreements	Binding arrangement

#### Trademarks, Trade Names, Service Marks, Collective Marks and Certification Marks

- IE209. Trademarks are words, names, symbols or other devices used in trade to indicate the source of a product and to distinguish it from the products of others. A service mark identifies and distinguishes the source of a service rather than a product. Collective marks identify the goods or services of members of a group. Certification marks certify the geographical origin or other characteristics of a good or service.
- IE210. Trademarks, trade names, service marks, collective marks and certification marks may be protected legally through registration with governmental agencies, continuous use in commerce or by other means. If it is protected legally through registration or other means, a trademark or other mark acquired in an acquisition is an intangible asset that meets the binding arrangement criterion. Otherwise, a trademark or other mark acquired in an acquisition can be recognised separately from goodwill if the separability criterion is met, which normally it would be.
- IE211. The terms *brand* and *brand name*, often used as synonyms for trademarks and other marks, are general marketing terms that typically refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. PBE IPSAS 40 does not preclude an entity from recognising, as a single asset separately from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar useful lives.

## Internet Domain Names

- IE212. An Internet domain name is a unique alphanumeric name that is used to identify a particular numeric Internet address. Registration of a domain name creates an association between that name and a designated computer on the Internet for the period of the registration. Those registrations are renewable. A registered domain name acquired in an acquisition meets the binding arrangement criterion.

*Service User or Customer-Related Intangible Assets*

- IE213. Examples of service user or customer-related intangible assets are:

<b>Class</b>	<b>Basis</b>
Lists of users of a service	No binding arrangement
Order or production backlog	Binding arrangement
Customer binding arrangements and the related customer relationships	Binding arrangement
Customer relationships arising through means other than binding arrangements	No binding arrangement

## Lists of Users of a Service

- IE214. A list of users of a service consists of information about service users, such as their names and contact information. A list of users of a service also may be in the form of a database that includes other information about the users, such as their service use histories and demographic information. A list of users of a service does not usually arise from a binding arrangement (including rights from contracts or other legal rights). However, lists of users of a service are often leased or exchanged. Therefore, a list of users of a service acquired in an acquisition normally meets the separability criterion.

## Order or Production Backlog

- IE215. An order or production backlog arises from binding arrangements such as purchase or sales orders. An order or production backlog acquired in an acquisition meets the binding arrangement criterion even if the purchase or sales orders can be cancelled.

## Customer Binding Arrangements and the Related Customer Relationships

- IE216. If an entity establishes relationships with its customers through binding arrangements, those customer relationships arise from binding arrangement rights. Therefore, customer binding arrangements and the related customer relationships acquired in an acquisition meet the binding arrangement criterion, even if confidentiality or other terms of the binding arrangement prohibit the sale or transfer of a binding arrangement separately from the acquired operation.
- IE217. A customer binding arrangement and the related customer relationship may represent two distinct intangible assets. Both the useful lives and the pattern in which the economic benefits of the two assets are consumed may differ.
- IE218. A customer relationship exists between an entity and its customer if (a) the entity has information about the customer and has regular contact with the customer and (b) the customer has the ability to make direct contact with the entity. Customer relationships meet the binding arrangement criterion if an entity has a practice of establishing binding arrangements with its customers, regardless of whether a binding arrangement exists at the acquisition date. Customer relationships may also arise through means other than binding arrangements, such as through regular contact by sales or service representatives.
- IE219. As noted in paragraph IE215, an order or a production backlog arises from binding arrangements such as purchase or sales orders and is therefore considered a binding arrangement right. Consequently, if an entity has relationships with its customers through these types of binding arrangements, the customer relationships also arise from binding arrangement rights and therefore meet the binding arrangement criterion.



## Examples

IE220. The following examples illustrate the recognition of customer binding arrangement and customer relationship intangible assets acquired in an acquisition.

- (a) Acquirer Entity (AE) acquires Target Entity (TE) in an acquisition on 31 December 20X5. TE has a five-year agreement to supply goods to Customer. Both TE and AE believe that Customer will renew the agreement at the end of the current binding arrangement. The agreement is not separable.

The agreement, whether cancellable or not, meets the binding arrangement criterion. Additionally, because TE establishes its relationship with Customer through a binding arrangement, not only the agreement itself but also TE's customer relationship with Customer meet the binding arrangement criterion.

- (b) AE acquires TE in an acquisition on 31 December 20X5. TE manufactures goods in two distinct lines of business: sporting goods and electronics. Customer purchases both sporting goods and electronics from TE. TE has a binding arrangement with Customer to be its exclusive provider of sporting goods but has no binding arrangement for the supply of electronics to Customer. Both TE and AE believe that only one overall customer relationship exists between TE and Customer.

The binding arrangement to be Customer's exclusive supplier of sporting goods, whether cancellable or not, meets the binding arrangement criterion. Additionally, because TE establishes its relationship with Customer through a binding arrangement, the customer relationship with Customer meets the binding arrangement criterion. Because TE has only one customer relationship with Customer, the fair value of that relationship incorporates assumptions about TE's relationship with Customer related to both sporting goods and electronics. However, if AE determines that the customer relationships with Customer for sporting goods and for electronics are separate from each other, AE would assess whether the customer relationship for electronics meets the separability criterion for identification as an intangible asset.

- (c) AE acquires TE in an acquisition on 31 December 20X5. TE does business with its customers solely through purchase and sales orders. At 31 December 20X5, TE has a backlog of customer purchase orders from 60 percent of its customers, all of whom are recurring customers. The other 40 percent of TE's customers are also recurring customers. However, as of 31 December 20X5, TE has no open purchase orders or other binding arrangements with those customers.

Regardless of whether they are cancellable or not, the purchase orders from 60 percent of TE's customers meet the binding arrangement criterion. Additionally, because TE has established its relationship with 60 percent of its customers through binding arrangements, not only the purchase orders but also TE's customer relationships meet the binding arrangement criterion. Because TE has a practice of establishing binding arrangements with the remaining 40 percent of its customers, its relationship with those customers also arises through binding arrangement rights and therefore meets the binding arrangement criterion even though TE does not have binding arrangements with those customers at 31 December 20X5.

- (d) AE acquires TE, an insurer, in an acquisition on 31 December 20X5. TE has a portfolio of one-year motor insurance contracts that are cancellable by policyholders.

Because TE establishes its relationships with policyholders through insurance contracts, the customer relationship with policyholders meets the binding arrangement criterion. PBE IPSAS 26 *Impairment of Cash-Generating Assets* and PBE IPSAS 31 *Intangible Assets* apply to the customer relationship intangible asset.

## Customer Relationships arising through Means other than Binding Arrangements

IE221. A customer relationship acquired in an acquisition that does not arise from a binding arrangement may nevertheless be identifiable because the relationship is separable. Exchange transactions for the same asset or a similar asset that indicate that other entities have sold or otherwise transferred a particular type of customer relationship arising through means other than binding arrangements would provide evidence that the relationship is separable.

*Artistic-Related Intangible Assets*

IE222. Examples of artistic-related intangible assets are:

<b>Class</b>	<b>Basis</b>
Plays, operas and ballets	Binding arrangement
Books, magazines, newspapers and other literary works	Binding arrangement
Musical works such as compositions, song lyrics and advertising jingles	Binding arrangement
Pictures and photographs	Binding arrangement
Video and audio-visual material, including motion pictures or films, music videos and television programmes	Binding arrangement

IE223. Artistic-related assets acquired in an acquisition are identifiable if they arise from binding arrangements (including rights from contracts) or legal rights such as those provided by copyright. The holder can transfer a copyright, either in whole through an assignment or in part through a licensing agreement. An acquirer is not precluded from recognising a copyright intangible asset and any related assignments or licence agreements as a single asset, provided they have similar useful lives.

*Binding Arrangement-Based Intangible Assets*

IE224. Binding arrangement-based intangible assets represent the value of rights that arise from binding arrangements. Binding arrangements with customers are one type of binding arrangement-based intangible asset. If the terms of a binding arrangement give rise to a liability (for example, if the terms of an operating lease or binding arrangement with a customer are unfavourable relative to market terms), the acquirer recognises it as a liability assumed in the acquisition. Examples of binding arrangement-based intangible assets are:

<b>Class</b>	<b>Basis</b>
Licensing, royalty and standstill agreements	Binding arrangement
Advertising, construction, management, service or supply binding arrangements	Binding arrangement
Lease agreements (whether the acquired operation is the lessee or the lessor)	Binding arrangement
Construction permits	Binding arrangement
Franchise agreements	Binding arrangement
Operating and broadcast rights	Binding arrangement
Servicing binding arrangements, such as mortgage servicing binding arrangements	Binding arrangement
Binding arrangements for employment	Binding arrangement
Use rights, such as drilling, water, air, timber cutting and route authorities	Binding arrangement

## Servicing Binding Arrangements, such as Mortgage Servicing Binding Arrangements

- IE225. Binding arrangements to service financial assets are one type of binding arrangement-based intangible asset. Although servicing is inherent in all financial assets, it becomes a distinct asset (or liability) by one of the following:
- (a) When separated in the binding arrangement from the underlying financial asset by sale or securitisation of the assets with servicing retained;
  - (b) Through the separate purchase and assumption of the servicing.
- IE226. If mortgage loans, credit card receivables or other financial assets are acquired in an acquisition with servicing retained, the inherent servicing rights are not a separate intangible asset because the fair value of those servicing rights is included in the measurement of the fair value of the acquired financial asset.

## Binding Arrangements for Employment

- IE227. Binding arrangements for employment that are beneficial binding arrangements from the perspective of the employer because the pricing of those binding arrangements is favourable relative to market terms are one type of binding arrangement-based intangible asset.

## Use Rights

- IE228. Use rights include rights for drilling, water, air, timber cutting and route authorities. Some use rights are binding arrangement-based intangible assets to be accounted for separately from goodwill. Other use rights may have characteristics of tangible assets rather than of intangible assets. An acquirer should account for use rights on the basis of their nature.

*Technology-Based Intangible Assets*

- IE229. Examples of technology-based intangible assets are:

<b>Class</b>	<b>Basis</b>
Patented technology	Binding arrangement
Computer software and mask works	Binding arrangement
Unpatented technology	No binding arrangement
Databases, including title plants	No binding arrangement
Trade secrets, such as secret formulas, processes and recipes	Binding arrangement

## Computer Software and Mask Works

- IE230. Computer software and programme formats acquired in an acquisition that are protected legally, such as by patent or copyright, meet the binding arrangement criterion for identification as intangible assets.
- IE231. Mask works are software permanently stored on a read-only memory chip as a series of stencils or integrated circuitry. Mask works may have legal protection. Mask works with legal protection that are acquired in an acquisition meet the binding arrangement criterion for identification as intangible assets.

## Databases, Including Title Plants

- IE232. Databases are collections of information, often stored in electronic form (such as on computer disks or files). A database that includes original works of authorship may be entitled to copyright protection. A database acquired in an acquisition and protected by copyright meets the binding arrangement criterion. However, a database typically includes information created as a consequence of an entity's normal operations, such as lists of service users, or specialised information, such as scientific data or credit information. Databases that are not protected by copyright can be, and often are, exchanged, licensed or leased to others in their entirety or in part. Therefore, even if the future economic benefits from a database do not arise from legal rights, a database acquired in an acquisition meets the separability criterion.

- IE233. Title plants constitute a historical record of all matters affecting title to parcels of land in a particular geographical area. Title plant assets are bought and sold, either in whole or in part, in exchange transactions or are licensed. Therefore, title plant assets acquired in an acquisition meet the separability criterion.

Trade Secrets, such as Secret Formulas, Processes and Recipes

- IE234. A trade secret is 'information, including a formula, pattern, recipe, compilation, programme, device, method, technique, or process that (a) derives independent economic value, actual or potential, from not being generally known and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.'<sup>17</sup> If the future economic benefits from a trade secret acquired in an acquisition are legally protected, that asset meets the binding arrangement criterion. Otherwise, trade secrets acquired in an acquisition are identifiable only if the separability criterion is met, which is likely to be the case.

### **Measurement of Non-Controlling Interest (NCI) in an Acquisition**

*Illustrating the Consequences of Applying Paragraph 73 of PBE IPSAS 40.*

- IE235. The following examples illustrate the measurement of components of NCI at the acquisition date in an acquisition.

*Measurement of NCI Including Preference Shares*

- IE236. TE has issued 100 preference shares, which are classified as equity. The preference shares have a nominal value of CU1 each. The preference shares give their holders a right to a preferential dividend in priority to the payment of any dividend to the holders of ordinary shares. Upon liquidation of TE, the holders of the preference shares are entitled to receive out of the assets available for distribution the amount of CU1 per share in priority to the holders of ordinary shares. The holders of the preference shares do not have any further rights on liquidation.
- IE237. AE acquires all ordinary shares of TE. The transaction gives AE control of TE, and an analysis of the economic substance of the combination using the guidance in paragraphs 9–14 and AG19–AG50 of PBE IPSAS 40 confirms the transaction is an acquisition. The acquisition-date fair value of the preference shares is CU120.
- IE238. Paragraph 73 of PBE IPSAS 40 states that for each acquisition, the acquirer shall measure at the acquisition date components of non-controlling interest in the acquired operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the acquired operation's recognised amounts of the identifiable net assets. All other components of non-controlling interest must be measured at their acquisition-date fair value, unless another measurement basis is required by PBE Standards.
- IE239. The non-controlling interests that relate to TE's preference shares do not qualify for the measurement choice in paragraph 73 of PBE IPSAS 40 because they do not entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. The acquirer measures the preference shares at their acquisition-date fair value of CU120.

*First Variation*

- IE240. Suppose that upon liquidation of TE, the preference shares entitle their holders to receive a proportionate share of the assets available for distribution. The holders of the preference shares have equal right and ranking to the holders of ordinary shares in the event of liquidation. Assume that the acquisition-date fair value of the preference shares is now CU160 and that the proportionate share of TE's recognised amounts of the identifiable net assets that is attributable to the preference shares is CU140.
- IE241. The preference shares qualify for the measurement choice in paragraph 73 of PBE IPSAS 40. AE can choose to measure the preference shares either at their acquisition-date fair value of CU160 or at their

<sup>17</sup> Melvin Simensky and Lanning Bryer, *The New Role of Intellectual Property in Commercial Transactions* (New York: John Wiley & Sons, 1998), page 293.

proportionate share in the acquired operation's recognised amounts of the identifiable net assets of CU140.

### *Second Variation*

- IE242. Suppose also that TE has issued share options as remuneration to its employees. The share options are classified as equity and are vested at the acquisition date. They do not represent present ownership interest and do not entitle their holders to a proportionate share of TE's net assets in the event of liquidation. The fair value of the share options in accordance with the relevant international or national accounting standard dealing with share-based payments at the acquisition date is CU200. The share options do not expire on the acquisition date and AE does not replace them.
- IE243. Paragraph 73 of PBE IPSAS 40 requires such share options to be measured at their acquisition-date fair value, unless another measurement basis is required by PBE Standards. Paragraph 84 of PBE IPSAS 40 states that the acquirer shall measure an equity instrument related to share-based payment transactions of the acquired operation in accordance with the relevant international or national accounting standard dealing with share-based payments.
- IE244. The acquirer measures the non-controlling interests that are related to the share options at their fair value of CU200.

### **Forgiveness of Amounts of Tax Due in an Acquisition**

*Illustrating the Consequences of Accounting for Tax Forgiveness in an Acquisition by Applying Paragraphs 78–79 and AG85 and AG87 of PBE IPSAS 40*

- IE245. The following example illustrates the accounting for an acquisition in which part of the acquired operation's tax liability is forgiven as part of the terms of the acquisition.
- IE246. On 1 January 20X4 AE, a government ministry acting on behalf of the government, acquires TE, a private entity in exchange for cash of CU575. As a result of the acquisition, AE expects to reduce costs through economies of scale. The fair value of the assets acquired and liabilities assumed are as follows:

<b>Assets acquired and liabilities assumed:</b>	<b>CU</b>
Financial assets	265
Inventory	5
Property, plant and equipment	640
Identifiable intangible assets	12
Financial liabilities	(320)
Tax liabilities	(40)
Total net assets	562

- IE247. AE recognises goodwill of CU13, the difference between the price paid to acquire TE (CU575) and the net assets of TE (CU562).

- IE248. Suppose that as part of the terms of the acquisition, the government requires MF (the tax authority) to forgive 50 percent of TE's tax liability. The fair value of the assets acquired and liabilities assumed would now be as follows:

<b>Assets acquired and liabilities assumed:</b>	<b>CU</b>
Financial assets	265
Inventory	5
Property, plant and equipment	640
Identifiable intangible assets	12
Financial liabilities	(320)
Tax liabilities	(20)
Total net assets	582

- IE249. AE recognises a gain of CU7, the difference between the price paid to acquire TE (CU575) and the net assets of TE (CU582). AE would account for the remaining tax liability in accordance with PBE IAS 12 ~~the relevant international or national accounting standard~~ dealing with income taxes.
- IE250. MF would recognise an adjustment for the tax forgiven, and accounts for the remaining tax receivable in accordance with PBE IPSAS 23, ~~and would recognise an adjustment for the tax forgiven.~~

### **Gain on a Bargain Purchase in an Acquisition**

*Illustrating the Consequences of Recognising and Measuring a Gain from a Bargain Purchase in an Acquisition by Applying Paragraphs 85–90 of PBE IPSAS 40*

- IE251. The following example illustrates the accounting for an acquisition in which a gain on a bargain purchase is recognised.
- IE252. On 1 January 20X5 AE acquires 80 percent of the equity interests of TE, a private entity, in exchange for cash of CU150. Because the former owners of TE needed to dispose of their investments in TE by a specified date, they did not have sufficient time to market TE to multiple potential buyers. The management of AE initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirements of PBE IPSAS 40. The identifiable assets are measured at CU250 and the liabilities assumed are measured at CU50. AE engages an independent consultant, who determines that the fair value of the 20 percent non-controlling interest in TE is CU42.
- IE253. The amount of TE's identifiable net assets (CU200, calculated as CU250 – CU50) exceeds the fair value of the consideration transferred plus the fair value of the non-controlling interest in TE. Therefore, AE reviews the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in TE and the consideration

transferred. After that review, AE decides that the procedures and resulting measures were appropriate. AE measures the gain on its purchase of the 80 percent interest as follows:

		CU
Amount of the identifiable net assets acquired (CU250 – CU50)		200
Less: Fair value of the consideration transferred for AE's 80 percent interest in TE; plus	150	
Fair value of non-controlling interest in TE	42	
		192
Gain on bargain purchase of 80 percent interest		8
IE254. AE would record its acquisition of TE in its consolidated financial statements as follows:		

	CU	CU
Dr Identifiable assets acquired	250	
Cr Cash		150
Cr Liabilities assumed		50
Cr Gain on the bargain purchase		8
Cr Equity—non-controlling interest in TE		42

- IE255. If the acquirer chose to measure the non-controlling interest in TE on the basis of its proportionate interest in the identifiable net assets of the acquired operation, the recognised amount of the non-controlling interest would be CU40 ( $\text{CU}200 \times 0.20$ ). The gain on the bargain purchase then would be CU10 ( $\text{CU}200 - (\text{CU}150 + \text{CU}40)$ ).

### Measurement Period in an Acquisition

*Illustrating the Consequences of Applying Paragraphs 103–108 of PBE IPSAS 40.*

- IE256. If the initial accounting for an acquisition is not complete at the end of the financial reporting period in which the combination occurs, paragraph 103 of PBE IPSAS 40 requires the acquirer to recognise in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer recognises adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. Paragraph 107 of PBE IPSAS 40 requires the acquirer to recognise such adjustments as if the accounting for the acquisition had been completed at the acquisition date. Measurement period adjustments are not included in surplus or deficit.
- IE257. Suppose that AE acquires TE on 30 September 20X7. AE seeks an independent valuation for an item of property, plant and equipment acquired in the combination, and the valuation was not complete by the time AE authorised for issue its financial statements for the year ended 31 December 20X7. In its 20X7 annual financial statements, AE recognised a provisional fair value for the asset of CU30,000. At the acquisition date, the item of property, plant and equipment had a remaining useful life of five years. Five months after the acquisition date, AE received the independent valuation, which estimated the asset's acquisition-date fair value as CU40,000.

- IE258. In its financial statements for the year ended 31 December 20X8, AE retrospectively adjusts the 20X7 prior year information as follows:
- (a) The carrying amount of property, plant and equipment as of 31 December 20X7 is increased by CU9,500. That adjustment is measured as the fair value adjustment at the acquisition date of CU10,000 less the additional depreciation that would have been recognised if the asset's fair value at the acquisition date had been recognised from that date (CU500 for three months' depreciation).
  - (b) The carrying amount of goodwill as of 31 December 20X7 is decreased by CU10,000.
  - (c) Depreciation expense for 20X7 is increased by CU500.
- IE259. In accordance with paragraph 124 of PBE IPSAS 40, AE discloses:
- (a) In its 20X7 financial statements, that the initial accounting for the acquisition has not been completed because the valuation of property, plant and equipment has not yet been received.
  - (b) In its 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognised during the current reporting period. Therefore, AE discloses that the 20X7 comparative information is adjusted retrospectively to increase the fair value of the item of property, plant and equipment at the acquisition date by CU9,500, offset by a decrease to goodwill of CU10,000 and an increase in depreciation expense of CU500.

### **Determining what is Part of the Acquisition Transaction**

#### *Settlement of a Pre-Existing Relationship —Loan*

##### *Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of PBE IPSAS 40.*

- IE260. AE provides TE with a five year, fixed rate loan of CU100. Interest is payable quarterly, with the principal repaid on maturity. With two years remaining under the loan agreement, AE acquires TE.
- IE261. Included in the total fair value of TE is a CU90 financial liability for the fair value of the loan arrangement with AE. At the acquisition date, the carrying amount of the corresponding financial asset in AE's financial statements (the amortized cost of the loan) is CU100.
- IE262. In this example, AE calculates a loss of CU10. The loss is calculated as the difference between the fair value of the financial liability assumed and carrying amount of the corresponding financial asset previously recognised by AE. In its consolidated financial statements, AE will eliminate its financial asset (CU100) against the fair value of TE's financial liability (CU90), the difference representing the loss to AE.

#### *Settlement of a Pre-Existing Relationship —Transfers*

##### *Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of PBE IPSAS 40.*

- IE263. On 1 January 20X7, AE acquires TE. Previously, on 1 October 20X6, AE provided TE with a grant of CU800 to be used in the provision of an agreed number of training courses.
- IE264. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the acquisition date, TE had delivered a quarter of the agreed number of courses, and recognised a liability of CU600 in respect of its performance obligation, in accordance with PBE IPSAS 23. Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognise an asset in respect of the grant, but accounted for the full CU800 as an expense.
- IE265. In this example, AE calculates a gain of CU600. The gain is calculated as the liability assumed that is derecognised because, as a result of the acquisition, there is no longer an obligation owed to a third party.
- IE266. In this example, no corresponding asset had been recognised by AE; if AE had previously recognised a corresponding asset, this would be derecognised at the acquisition date, and the derecognised amount would be included in the calculation of the gain or loss.



*Settlement of a Pre-Existing Relationship —Supply Contract**Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of PBE IPSAS 40.*

- IE267. AE purchases electronic components from TE under a five-year supply contract at fixed rates. Currently, the fixed rates are higher than the rates at which AE could purchase similar electronic components from another supplier. The supply contract allows AE to terminate the contract before the end of the initial five-year term but only by paying a CU6 million penalty. With three years remaining under the supply contract, AE pays CU50 million to acquire TE, which is the fair value of TE based on what other market participants would be willing to pay.
- IE268. Included in the total fair value of TE is CU8 million related to the fair value of the supply contract with AE. The CU8 million represents a CU3 million component that is ‘at market’ because the pricing is comparable to pricing for current market transactions for the same or similar items (selling effort, customer relationships and so on) and a CU5 million component for pricing that is unfavourable to AE because it exceeds the price of current market transactions for similar items. TE has no other identifiable assets or liabilities related to the supply contract, and AE has not recognised any assets or liabilities related to the supply contract before the acquisition.
- IE269. In this example, AE calculates a loss of CU5 million (the lesser of the CU6 million stated settlement amount and the amount by which the contract is unfavourable to the acquirer) separately from the acquisition. The CU3 million ‘at-market’ component of the contract is part of goodwill.
- IE270. Whether AE had recognised previously an amount in its financial statements related to a pre-existing relationship will affect the amount recognised as a gain or loss for the effective settlement of the relationship. Suppose that PBE Standards had required AE to recognise a CU6 million liability for the supply contract before the acquisition. In that situation, AE recognises a CU1 million settlement gain on the contract in surplus or deficit at the acquisition date (the CU5 million measured loss on the contract less the CU6 million loss previously recognised). In other words, AE has in effect settled a recognised liability of CU6 million for CU5 million, resulting in a gain of CU1 million.

*Contingent Payments to Employees in an Acquisition**Illustrating the Consequences of Applying Paragraphs 109–110, AG98 and AG102–AG103 of PBE IPSAS 40.*

- IE271. TE appointed a candidate as its new CEO under a ten-year contract. The contract required TE to pay the candidate CU5 million if TE is acquired before the contract expires. AE acquires TE eight years later. The CEO was still employed at the acquisition date and will receive the additional payment under the existing contract.
- IE272. In this example, TE entered into the employment agreement before the negotiations of the combination began, and the purpose of the agreement was to obtain the services of CEO. Thus, there is no evidence that the agreement was arranged primarily to provide benefits to AE or the combined entity. Therefore, the liability to pay CU5 million is included in the application of the acquisition method.
- IE273. In other circumstances, TE might enter into a similar agreement with CEO at the suggestion of AE during the negotiations for the acquisition. If so, the primary purpose of the agreement might be to provide severance pay to CEO, and the agreement may primarily benefit AE or the combined entity rather than TE or its former owners. In that situation, AE accounts for the liability to pay CEO in its post-combination financial statements separately from application of the acquisition method.

**Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or an Acquired Operation on the Basis of Criteria that may Change as a Result of an Acquisition***Illustrating the Consequences of Applying Paragraphs 114 and AG109–AG111 of PBE IPSAS 40.*

- IE274. The following example illustrates the subsequent accounting for a transfer received by an acquirer on the basis of criteria that may change as a result of an acquisition.
- IE275. On 1 January 20X6, a national government provides an annual grant to those municipalities where their revenue per head of population is below a threshold. On 1 June 20X3 AE, a municipality, acquires TE, a shopping complex that will generate revenue for AE. AE had previously received a grant of CU500, based on its revenue per head of population.

- IE276. As a result of its acquisition of TE on 1 June 20X3, the revenue per head of population of AE increases above the threshold that the government had set when allocating grants.
- IE277. On 1 July 20X3, the national government requires AE to repay a portion (CU100) of the grant previously received by AE. AE recognises a liability and an expense of CU100 on 1 July 20X3.

### Disclosure Requirements Relating to Acquisitions

*Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 119–125 of PBE IPSAS 40.*

- IE278. The following example illustrates some of the disclosure requirements relating to acquisitions; it is not based on an actual transaction. The example assumes that AE is a public sector entity with responsibility for healthcare in its region and that TE is a listed entity. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

#### Paragraph reference

- 120(a)–(d) On 30 June 20X2 AE acquired 75 percent of the ordinary shares of TE and obtained control of TE. An analysis of the economic substance of the combination confirms the transaction is an acquisition. TE is a provider of medical supplies. As a result of the acquisition, AE is expected to deliver improved healthcare to its residents. It also expects to reduce costs through economies of scale.
- 120(e) The goodwill of CU2,500 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of AE and TE.
- 120(k) None of the goodwill recognised is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for TE and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in TE.

#### At 30 June 20X2

	Consideration	CU
120(f)(i)	Cash	11,000
120(f)(iii); 120(g)(i)	Contingent consideration arrangement	1,000
120(f)	<b>Total consideration transferred</b>	<b>12,000</b>
120(m)	<b>Acquisition-related costs</b> (included in selling, general and administrative expenses in AE's statement of comprehensive income for the year ended 31 December 20X2)	1,250
120(i)	<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>	
	Financial assets	3,500
	Inventory	1,000
	Property, plant and equipment	10,000

**Paragraph  
reference**

	Identifiable intangible assets	3,300
	Financial liabilities	(4,000)
	Contingent liability	(1,000)
	Total identifiable net assets	12,800
120(p)(i)	<b>Non-controlling interest in TE</b>	(3,300)
	<b>Goodwill</b>	2,500
		12,000
120(f)(iii)	<p>The contingent consideration arrangement requires AE to pay the former owners of TE 5 percent of the revenues of XE, an unconsolidated equity investment owned by TE, in excess of CU7,500 for 20X3, up to a maximum amount of CU2,500 (undiscounted).</p> <p>The potential undiscounted amount of all future payments that AE could be required to make under the contingent consideration arrangement is between CU0 and CU2,500.</p> <p>The fair value of the contingent consideration arrangement of CU1,000 was estimated by applying an income approach. Key assumptions include a discount rate range of 20–25 percent and assumed probability-adjusted revenues in XE of CU10,000–20,000.</p> <p>As of 31 December 20X2, neither the amount recognised for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimates had changed.</p>	
120(g)		
124(b)		
120(h)	<p>The fair value of the financial assets acquired includes receivables with a fair value of CU2,375. The gross amount due under the contracts is CU3,100, of which CU450 is expected to be uncollectible.</p>	
124(a)	<p>The fair value of the acquired identifiable intangible assets of CU3,300 is provisional pending receipt of the final valuations for those assets.</p>	
120(j)	<p>A contingent liability of CU1,000 has been recognised for expected warranty claims on products sold by TE during the last three years. We expect that the majority of this expenditure will be incurred in 20X3 and that all will be incurred by the end of 20X4.</p>	
124(c)		
PBE IPSAS 19 .97, 98	<p>The potential undiscounted amount of all future payments that AE could be required to make under the warranty arrangements is estimated to be between CU500 and CU1,500. As of 31 December 20X2, there has been no change since 30 June 20X2 in the amount recognised for the liability or any change in the range of outcomes or assumptions used to develop the estimates.</p>	
120(p)	<p>The fair value of the non-controlling interest in TE, a listed entity, was measured using the closing market price of TE's ordinary shares on the acquisition date.</p>	
120(r)(i)	<p>The revenue included in the consolidated statement of comprehensive income since 30 June 20X2 contributed by TE was CU4,090. TE also contributed profit of CU1,710 over the same period.</p>	
120(r)(ii)	<p>Had TE been consolidated from 1 January 20X2 the consolidated statement of comprehensive income would have included revenue of CU27,670 and profit of CU12,870.</p>	

In considering the disclosures related to an acquisition, an entity may find it helpful to refer to the discussion of materiality in PBE IPSAS 1.

## Comparison with IPSAS 40

PBE IPSAS 40 *PBE Combinations* is drawn from IPSAS 40 *Public Sector Combinations*.

The significant differences between PBE IPSAS 40 and IPSAS 40 are:

- (a) PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSAS require the presentation of a statement of financial performance.
- (b) PBE IPSAS 40 treats the existence or absence of consideration as a single indicator of whether a combination is an amalgamation or an acquisition. IPSAS 40 identifies three indicators relating to consideration. PBE IPSAS 40 reclassifies scenario 6 in the illustrative examples from an amalgamation to an acquisition.
- (c) PBE IPSAS 40 modifies the definitions of equity interests and owners to broadly align with PBE IFRS 3 *Business Combinations*. The revised definitions reflect the New Zealand PBEs' broader view of equity interests and owners.
- (d) PBE IPSAS 40 uses the terms new reporting entity and continuing reporting entity to identify the requirements that apply in various circumstances. IPSAS 40 uses the terms "new entity" and "continuing entity".
- (e) PBE IPSAS 40 contains additional guidance on how to apply the modified of pooling interests method if one of the combining operations had not applied PBE Standards prior to the amalgamation. PBE IPSAS 40 also requires the resulting entity to recognise all assets and liabilities of the combining operations in accordance with PBE Standards, irrespective of whether or not the combining operations had recognised the assets and liabilities prior to the amalgamation. IPSAS 40 does not permit the recognition of previously unrecognised assets/liabilities of the combining operations.
- (f) PBE IPSAS 40 requires the continuing reporting entity to provide comparatives in the first set of financial statements following an amalgamation and clarifies that a new reporting entity shall not present comparatives. PBE IPSAS 40 also clarifies that combining operations provide comparative information up to the amalgamation date. IPSAS 40 permits but does not require that a resulting entity present comparative information.
- (g) PBE IPSAS 40 contains guidance on identifying the acquirer when a new reporting entity is formed. IPSAS 40 does not have such guidance.
- (h) The transitional guidance in PBE IPSAS 40 reflects the fact that most PBEs would have applied PBE IFRS 3 to any recent combinations falling within the scope of that standard. The transitional guidance in IPSAS 40 is based on that in IFRS 3.
- (i) PBE IPSAS 40 contains additional guidance and an additional illustrative example on voluntary combinations not under common control.
- (j) PBE IPSAS 40 omits some guidance in IPSAS 40 on the recognition and measurement of income taxes following acquisitions and amalgamations and how to account for taxes forgiven as a result of a combination.

## History of Amendments

PBE IPSAS 40 *PBE Combinations* was issued in [date].

This table lists the pronouncements establishing and substantially amending PBE IPSAS 40.

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
PBE IPSAS 40 <i>PBE Combinations</i>	[date]	Early application is permitted	[date]



NZ ACCOUNTING  
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## Memorandum

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**Date:** 15 June 2018

**To:** NZASB Members

**From:** Joanne Scott and Vanessa Sealy-Fisher

**Subject:** Service Performance Reporting – Update on Guidance

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### Purpose and introduction

1. The purpose of this agenda item is to seek the Board's feedback on the draft guidance on service performance reporting.

### Recommendation

2. We recommend that the Board PROVIDES FEEDBACK on the draft guidance on PBE FRS 48 *Service Performance Reporting*.

### Structure of the memo

3. This memo has three sections.
  - (a) Background
  - (b) What we would like feedback on
  - (c) Next steps

### Background

4. The Board has previously suggested that the guidance should:
  - (a) be aimed at smaller Tier 2 not-for-profit entities; and
  - (b) give examples of how different types of organisations could meet the requirements in the standard. These examples should be generic rather than actual and illustrate aspects of the standard rather than trying to develop comprehensive examples.
5. Two Board members have agreed to assist with drafting the guidance. We will seek feedback from these Board members and constituents with a good understanding of the target audience as the project progresses. At this stage, we have been focused on developing preliminary content.
6. The Board last saw the draft guidance in February 2018. The introductory material in that draft drew on *Improved Annual Reporting by Not-for-Profit Organizations* (CPA Canada Guide). The Board suggested that we focus more directly on the requirements of PBE FRS 48 and remove the discussion of planning and reporting cycles.

7. Since February we have rewritten the initial sections of the guidance, incorporated feedback received directly from Board members and added some more content, including making a start on the section dealing with disclosure of judgements. We have started looking in the annual reports of entities that entered the 2017 NZ Charity Reporting Awards for ideas and will work our way through some more of those reports.

**What we would like feedback on**

8. We would like high level feedback on each section of the draft. We are happy to receive detailed feedback on drafting and layout outside the meeting.
9. There will obviously need to be further work on the guidance and examples. At this stage we would like to get general agreement on some sections of text and examples so that we have a platform to build on. We're aware that there is currently some duplication in the draft. Once we have agreement about some of the underlying material we can work on refining the material and the layout.

Guidance	Feedback sought
Introduction	Is this section on the right track?
Overview of PBE FRS 48	Is this section on the right track?
Contextual information	<p>Is the narrative on the right track?</p> <p>Are there any examples we should keep/ delete?</p> <ul style="list-style-type: none"> <li>(a) Story of Impact</li> <li>(b) NFP A (One-stop shop Youth Charity)</li> <li>(c) Native Bird Trust</li> <li>(d) Patient and Family Support</li> <li>(e) Outdoors Trust</li> <li>(f) Foodbank</li> <li>(g) How USEFOOD works</li> <li>(h) One stop shop Youth Charity</li> <li>(i) Housing Trust</li> </ul> <p>Is the section on evaluation worth keeping?</p>
Reporting on performance	<p>Is the introductory narrative (paragraphs 33 to 43) on the right track?</p> <p>Are there any examples we should keep/ delete?</p> <ul style="list-style-type: none"> <li>(a) One-stop shop Youth Charity</li> <li>(b) Housing Trust</li> <li>(c) Grantor X</li> <li>(d) Various infographics</li> <li>(e) Helpline</li> <li>(f) ABC Counselling</li> </ul> <p>Is the section on <i>Linking to the financial statements</i> on the right track?</p>
Presentation	<p>Which bits should we keep/delete?</p> <p>What should we add?</p>
Comparative information and consistency of reporting	Is the section on the right track?

Guidance	Feedback sought
Disclosure of judgements	Which bits should we keep/delete? What should we add? Examples: (a) Read-aid (b) Nature Loving (c) Healthy Foundation
Appendix A Planning Prompts	Is this list of questions a good idea?

10. We would also like feedback on (i) the proposed structure of the guidance and (ii) any sections that should be added.
11. We have found it difficult deciding where to locate some examples because some examples illustrate more than one aspect of the standard. The draft includes a number of extracts from the standard. We can decide at a later date which of these extracts to keep.

### Next steps

12. We will incorporate feedback from the Board and seek feedback from NZAuASB staff and external parties.
13. Once we are reasonably happy with the draft content we would like to look at how to turn it into an engaging read. The draft is currently set out in the form of an Explanatory Guide – these are quite formal and look much like a standard.
14. The NZAuASB has recently issued two booklets which are presented in a much more attractive and easy to read style. They are *A guide for prescribers of assurance engagements* and *Small charities' assurance needs* (see agenda items 9.3 and 9.4 in the supporting papers). We think that this style of publication would work well for service performance.

### Attachments

Agenda item 9.2: Draft guidance

Agenda item 9.3: *A guide for prescribers of assurance engagements* (in supporting papers)

Agenda item 9.4: *Small charities' assurance needs* (in supporting papers)





NZ ACCOUNTING  
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## 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

Draft for NZASB June 2018 – work in progress.

This draft outlines the requirements of PBE FRS 48 and sets out examples of how an entity could meet those requirements.

As indicated in the cover memo, we would like direction from the Board on (i) tone and direction; and (ii) what we should keep, delete and add.

This review is about content – we will continue to work on layout and wordsmithing as the project progresses.

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## Introduction

### New Requirements

1. From 2021 all not-for-profit entities reporting in accordance with PBE Standards will have to report on their service performance in accordance with PBE FRS 48 *Service Performance Reporting*. PBE FRS 48 forms part of the Tier 1 and Tier 2 PBE Accounting Requirements (PBE Standards).
2. PBE FRS 48 reflects the NZASB's view that service performance information is an essential component of a general purpose financial report (annual report) and should be reported alongside an entity's financial statements. Not-for-profit entities often talk about "telling their story". Service performance information is a critical part of that story. Reporting on service performance in an annual report allows entities to tell their non-financial story alongside the financial story and explain the links between the two.

### Who is this Guide for?

3. The primary audience for this Guide are Tier 2 not-for-profit PBEs, particularly smaller entities that have not previously reported service performance information in their annual report. It is intended to help those entities think about what they will report and how they will satisfy the requirements in PBE FRS 48. The thinking of not-for-profit PBEs that have previously reported on their service performance is likely to have moved on beyond the matters covered this Guide, but the Guide could still give a useful overview of the standard.
4. This Guide also might be of interest to smaller public sector PBEs, but they are not the primary audience as they are generally already reporting on their service performance in accordance with legislation. Public sector PBEs will need to consider whether their current reporting practices would satisfy all of the requirements in the standard.
5. The Guide is not intended for entities reporting in accordance with the Tier 3 and Tier 3 PBE Accounting Requirements as set out in the Simple Format Reporting Standards. Those requirements are less detailed than the requirements in PBE FRS 48 and much simpler. Separate guidance accompanies the Simple Format Reporting Standards.

### Getting Started

6. This Guide is intended to help you understand PBE FRS 48 and help you think about how you could meet the requirements in the standard. It does this by working through the sections in the standard, but that doesn't mean service performance information has to be organised that way. You can choose how to organise and present the information required by PBE FRS 48. Some entities organise their service performance information under headings such as the following.

*Who are we?*

*Why do we exist?*

*What did we do?*

*How did we perform?*

7. As you work through the requirements in the standard you may need to make decisions about how to meet those requirements or identify some previous decisions that should be acknowledged in the service performance information. It is a good idea to document key decisions – this will help in future years and inform discussions with your auditors. Key decisions could include the selection of performance measures and/or indicators, whether you're going to report against targets (and if so, which targets), what evidence you need to report on performance measures and/or indicators and how you will obtain that evidence.
8. As with all information that is going to be audited, it makes sense to talk to your auditor at the start of the year about what you intend to report and how you are going to collect the underlying information. This will allow you to identify any processes or steps that need to occur during the year so that the audit can be completed in a timely manner.
9. Some entities will already have much of the information they need to report on service performance, although it might not be in an appropriate format for reporting to external parties. It may be a question of pulling it together, connecting the dots, highlighting the important elements, and making it appealing and accessible to readers.

10. Once you have read through the Guide, Appendix A has some questions to help you pull your thoughts together (in terms of what you need to do, and making a note of key things you want to tell readers).
11. This Guide is intended to help you get started on reporting service performance information in your annual report. Just as what you do is likely to change over time, the way in which you report is likely to evolve over time. Feedback from others can provide useful ideas. Ideas for getting feedback include:
  - (a) Asking readers to submit feedback and providing information on how to do this;
  - (b) Seeking advice from independent experts; and
  - (c) Entering annual reporting contests.
12. PBE FRS 48 acknowledges that reports will evolve and allows for this, but it does require that you explain changes (see *Comparative Information and Consistency of Reporting*).

## Overview of PBE FRS 48

### High-level Principles and Flexibility

13. PBE FRS 48 establishes principles and high-level requirements. This high-level approach was deliberate because the NZASB had to develop a standard that was suitable for, and could be applied by a wide range of PBEs. PBEs differ in size and organisational form, and undertake a wide range of activities. They are subject to a range of external reporting requirements and use differing terminology and frameworks to explain what they do. The NZASB agreed that, when it comes to reporting on service performance, “one size does not fit all.”
14. PBE FRS 48 needed to work for the smallest of the Tier 2 entities and the largest of the Tier 1 entities. It needed to work for public sector entities and not-for-profits. It needed to work for entities whose activities are agreed in advance with external parties and entities that do what they can with the resources that they acquire through the year. All of these factors led to PBE FRS 48 being a flexible standard that focuses on principles rather than establishing detailed requirements.
15. The flip side of this flexibility is that each entity will need to think carefully about how best to meet the requirements of the standard. Each entity will have to make decisions about what information to report, how the quality and reliability of information affects what it reports and how to present that information.
16. Although PBE FRS 48 is flexible, it also establishes important requirements to ensure that entities present a complete and balanced picture of what they have done. The standard stresses the importance of thinking about some fundamental matters that underpin good reporting. These include the objectives of general purpose financial reporting (accountability and decision making), users and their information needs, the qualitative characteristics of information (for example, relevance) and the pervasive constraints on information (for example, materiality). All of these matters are discussed in the standard and are also discussed in the *Public Benefit Entities’ Conceptual Framework* (PBE Conceptual Framework). These issues might sound theoretical but they underpin the requirements in the standard – especially those relating to the selection and presentation of service performance information. PBE FRS 48 also uses the phrase ‘appropriate and meaningful’ in a number of places. The NZASB deliberately used this phrase to act as a focus for debates about what to report in accordance with the standard.

### Key Requirements

17. The *Information to be Reported* section in PBE FRS 48 establishes the key reporting requirements in the standard. It has three subsections:
  - (a) Reporting Entity and Reporting Period;
  - (b) Service Performance Information; and
  - (c) Performance Measures and Descriptions.
18. The standard requires that service performance information cover the same reporting entity and the same time period as the financial statements. This is because the two sets of information should be available for users to get a complete and consistent picture of the entity’s performance for the period.
19. The standard discusses two types of information – contextual information and information about service performance during the period. It requires an entity to provide users with 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. It also requires that an entity provide users with information about what it has done during the period in working towards its broader aims and objectives.

20. Although the standard allows some flexibility in what and how an entity reports on what it has done, the standard sets out factors that must be considered in deciding what to report. It explains that in some cases an entity's service performance information is likely to focus on the delivery of the specified goods or services and in other cases an entity may focus more on whether particular improvements in the health, education, welfare and/or social or economic well-being of individuals or a segment of society have occurred. Each entity therefore needs to consider whether its service performance information should focus more on the goods and services it has delivered during the period, or more on the effects of its work. Entities can decide which focus and mix of information is most appropriate. The entities for whom this Guide is written (smaller not-for-profit Tier 2 entities) are likely to focus their reporting, at least initially, on the goods and services they have delivered during the period.
21. In reporting on what it has done during the reporting period, an entity is required to present "an appropriate and meaningful mix of performance measures and/or descriptions". The standard explains that measures and descriptions may be quantitative measures, qualitative measures and qualitative descriptions.
22. If an entity is reporting on the goods and services it has delivered, typical measures include descriptions of quantity, quality, timeframe, delivery location and cost. The standard highlights the importance of linking the service performance information with the financial statements – reporting on the cost of goods and services is the main way this is done.
23. The standard also establishes a number of general requirements and principles that apply to service performance information, many of which are similar to the general requirements that apply to financial statements. These general requirements are as follows.
  - (a) Service performance information must be presented in the same general purpose report as the financial statements (often referred to as the annual report).
  - (b) Comparative information for the previous period is required.
  - (c) Although comparisons against prospective service performance information (such as targets or forecasts) can be really useful in showing whether the entity has done what it set out to do, the standard requires comparisons against forecasts or targets only if the entity has previously published forecasts or targets in a general purpose financial report. The standard is designed this way because not all not-for-profit entities publish forecasts and targets.
  - (d) Some service performance information may be provided by way of cross-referencing to other reports. This is to avoid unnecessary duplication of information between reports, but there are requirements in place to make sure that the complete set of information being reported in accordance with the standard can be identified.
24. The standard also establishes disclosure requirements, including disclosure of the judgements made by an entity in applying the standard.
25. The next few sections in this Guide discuss the information required in more detail and give some examples of how entities might meet these requirements. The final sections discuss presentation, comparatives and disclosure of judgements.

## Contextual Information

26. Contextual information is important because the reader needs a general understanding of the entity, the environment within which it operates and the way it works. Paragraph 15 of PBE FRS 48 requires that an entity provide "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". Paragraphs 17 to 19 give more detail. Relevant extracts from PBE FRS 48 are shown below.

### Extracts from PBE FRS 48

15. An entity's service performance information shall:
  - (a) Provide users with 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)	<b>Provide users with information about what the entity has done during the reporting period in working towards its broader aims and objectives, as described in (a) above.</b>
...	
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: <ul style="list-style-type: none"> <li data-bbox="264 663 1246 685">(a) Delivering goods and services directly to individuals, entities or groups (including members);</li> <li data-bbox="264 707 991 730">(b) Working together with other entities that share common objectives;</li> <li data-bbox="264 752 1102 775">(c) Contracting with other entities to deliver goods and services on their behalf; or</li> <li data-bbox="264 786 783 808">(d) Making grants to other individuals or entities.</li> </ul>

*Drawn from the Relevant Documents*

27. The standard says that 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 when putting together its contextual information. An entity's contextual information should explain what the entity is currently doing. If the constitution was created some time ago, or is worded in a very general way, then the entity's website or more recent documents might have a better explanation of what the entity is currently doing.
28. Not-for-profit entities do things because they have a reason – generally they want to help others or make some sort of difference to individuals, society or the environment. The standard is designed to allow an entity to tell its story – this involves explaining to readers why the entity is doing what it does or how it assesses its performance. In some cases, particularly where an entity undertakes a limited number of activities, all of which are clearly linked to its mission, this may be obvious and no further explanation may be necessary. In other cases an entity may have chosen to focus its efforts on certain activities or do things in a certain way (when it could equally well have done other things or done them in other ways) and an explanation would be helpful. Entities may even be trying out new activities or new ways of doing things with no evidence of the potential outcome. In such cases an upfront acknowledgement of this gives useful context.
29. Although the standard requires contextual information about an entity's rationale for doing things, it does not require evidence of the entity's contribution to outcomes. Some entities will have evidence of how their activities and programmes over the past year have moved the entity closer to delivering on its mission or achieving its vision and will choose to report that information. Others will not have such information.
30. The standard states that "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." All three of these terms may be used in practice. These frameworks, theories of change or intervention logics can be expressed as diagrams, charts or narratives. Essentially the standard is asking entities to articulate what it is that they do and why: what is the entity trying to achieve, and what strategies does it have to do that. To put it another way, what need is the entity trying to address, what changes does it want to bring about, and what does it plan to do. This information sets the scene for readers and helps them understand what the entity is reporting.
31. Frameworks, theories of change and intervention logics often develop over time as entities learn about what works and doesn't work from their own experiences, the experiences of others and research.<sup>1</sup> Contextual

<sup>1</sup> An example of shared learning is What Works, a site run by Community Research. This site aims to build research capacity in the Tangata Whenua, Community and Voluntary Sector, by sharing research and good practice and connecting people.  
<http://whatworks.org.nz/>

information can be provided in various ways, including infographics, narrative and numbers. Contextual information doesn't have to include quantities, but a combination of narrative and numbers can work well.

32. Some examples of contextual information are shown below. The first one is set up as a prompt rather than as an example.

### **Story of Impact<sup>2</sup>**

Describe the difference you are seeking to achieve, the activities you will undertake to lead to this difference and why you believe these activities will lead to the resulting outcomes. Include any outcomes frameworks/theory of change you work with. Consider whether to include any population level indicators you are working towards and trends/changes in results.

#### **NFP A (One-stop shop Youth Charity)**

The mission of NFP A is to reduce suicide among young people in the ABC region.

The entity works to fulfil this mission through three 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.

#### **Native Bird Trust**

The mission of Native Bird 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.

#### **Patient and Family Support**

Our mission is to support patients and families with a serious illness.

We offer wish-granting programmes, camping programmes, housing or travel assistance and other services for family members and patients that are diagnosed with a serious illness. We operate across New Zealand and have branches in each of the main areas. We organise most of our activities ourselves, but we sometimes partner with other organisations to assist people with a specific illness.

#### **Outdoors Trust**

Our mission is to help young people enjoy the great outdoors and develop the skills to do this safely.

We provide grants to young people aged 15 to 25 to participate in outdoor activities such as school camps and outdoor programmes and to obtain qualifications relating to outdoor activities.








#### **Foodbank**

Our mission is to provide nourishment and hope to those we serve.

We collect money and food from the local community, including local businesses, and distribute food to local families in need. We work with other agencies to ensure that the food hampers get to those who most need them. We donate surplus food to 10 other community groups in the ABC region who provide drop-in services and shelter services.

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<sup>2</sup> This "Story of Impact" is based on a suggestion in a comment letter to the NZASB.

How USEFOOD works						Fighting hunger, reducing waste
						
5 suppliers	2 tonnes	20 volunteers	1 tonne	80% reused 10 groups		500 people helped
Donated surplus food	We collect surplus food	Volunteers sort the food	We compost unusable food	We distribute food to community groups	..who cook meals ...	...for people in need

### One stop shop Youth Charity<sup>3</sup>

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]. 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 and groups...

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 the last two years 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 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.

<sup>3</sup> Based in part on Kapiti Youth Support – combined with material from other one-stop shops.



### Housing Trust

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 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. Studies how the value of communal space to residents' lives and the importance of social interaction on quality of life (cite studies).

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.

### Evaluation

33. Most entities want to know whether what they do works, or what they could do differently or better. They might also want to know if there are better ways of assessing their influence on others. An entity can refer to research that supports its intervention logic in its contextual information (see the One-stop Shop Youth Charity example above).
34. If an entity also has other ways of assessing its effectiveness or learning from experience, this can be useful contextual information.
35. Readers might want to know:
  - (a) Does the entity regularly carry out its own evaluations, participate in evaluations with others or consider evaluations of similar entities or activities?
  - (b) When are future evaluations expected to occur?
  - (c) Is the entity trialling new activities or innovations which it thinks might work but which are not (yet) backed up by evidence?
36. An example of how an entity might comment on effectiveness or evaluative activity is shown below.

### Breakfast Club

*Breakfast Club sets up breakfast clubs in schools in XX City and helps the schools run the clubs for the first year.*

Last year we participated in an independent evaluation of breakfast clubs in the XX Region. One of the objectives of the study was to explore schools' perceptions of whether breakfast club provision has achieved the intended outcomes for children. The researchers carried out phone interviews, and face to face interviews with school staff (those involved in running the breakfast club, teachers, support staff, the head teacher or other members of the senior leadership team), partners (governors, school caterers or other partners), and pupils who attended the breakfast clubs. Parents were also invited to take part in a survey.

The study concluded that ....

## Reporting on Performance

37. PBE FRS 48 requires an entity to report what it has done during the reporting period in working towards its broader aims and objectives. This is achieved by reporting both quantitative and qualitative service performance information.
38. Extracts from the standard are shown below.

15.	<b>An entity's service performance information shall:</b>
(a)	<b>Provide users with 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>
(b)	<b>Provide users with information about what the entity has done during the reporting period in working towards its broader aims and objectives, as described in (a) above.</b>
...	
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)	<i>What it is accountable/responsible for.</i> 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)	<i>What it intended to achieve during the reporting period.</i> 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)	<i>How it went about achieving its service performance objectives.</i> 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)	<i>Other factors</i> 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).

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.

39. In order to report against these requirements an entity needs to decide how it is going to describe (and group) its activities in its service performance information, including the level of detail that it is going to go into. An entity that provides disability services might have a range of activities including accommodation support, therapy, counselling, respite care and advocacy.
40. An entity that advocates for a particular cause could have the following activities:
  - (a) National level: make submissions to national groups, participate in national reviews;
  - (b) Regional level: have representation on bodies that are consulted during the development of regional strategies;
  - (c) Leadership: run a leadership group to monitor developments and identify opportunities for advocacy; and
  - (d) Open days: run an annual open day to increase awareness of needs and opportunities.
41. If an entity already has selected performance measures and/or indicators and has a reporting system in place it will need to decide which of these measures and/or indicators will best help it report in accordance with the requirements in the standard. Entities typically collect more service performance information (for internal management and reporting to funders) than is appropriate to include in an annual report. As noted in paragraph 20 of the standard, this involves thinking about how to provide users with sufficient, but not excessive, information. If an entity has a limited number of activities it may be feasible to report on everything. If an entity has a lot of activities or has a multi-pronged strategy to deliver on its mission it is less feasible to report on everything and there is a risk that readers would be overwhelmed by too much information. The standard allows an entity to make judgements about what are the most important aspects of its story. Disclosure of judgements is discussed later in this guide.
42. If an entity has not already selected performance measures and/or indicators it will need to consider which of the possible measures and descriptions are most appropriate, decide how to collect information to report against those measures and descriptions, and think about how to make sure that the information it collects is reliable. This is not a mechanical exercise. Each entity needs to think about what it is trying to measure and why. It also needs to think about how to use performance measures and/or indicators to convey key messages about its service performance to stakeholders.
43. The standard does require consistency in reporting so, ideally, the measures and descriptions that are selected will stand the test of time.
44. In reporting on a particular year an entity will need to identify the key messages that it wants to convey to readers. The following questions might be useful discussion points.
 

What is most material and relevant to the reader?

What are the top 5 things that you are proudest of with respect to the year?

What didn't happen as expected or work as expected?

### **Performance Measures and/or Descriptions**

45. An entity may report against performance measures and/or descriptions that it has developed itself, that it has developed in conjunction with other entities, that are used internationally, that are required by funders, or a mixture of all of the above. An entity is likely to keep track of what it is doing in more detail than is appropriate for an external report.

### **One stop shop Youth Charity**

Possible measures 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 change in behaviour (eg decrease in drug or alcohol use)
- Number of drug and alcohol awareness sessions delivered to the community

Ways of collecting information include:<sup>4</sup>

- 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.<sup>56</sup>
- 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

Information may be collected at various times of the year:

- Quarterly customer feedback surveys
- Biannual Client Satisfaction Survey across all services, together with an ongoing feedback program for compliments, complaints and suggestions
- Surveys and wellbeing data, taken at start and end of project

### Housing Trust

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
- 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, including 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)

### Grantor X

Grantor X supports education and community events across four regions. Types of events include sports event, cultural events, community events, education events. Grantor X could report:

Scholarships by region: Number and/or amount

Scholarships by study type: Number, average amount, total amount

Sponsorship by type of event: Number and total amount

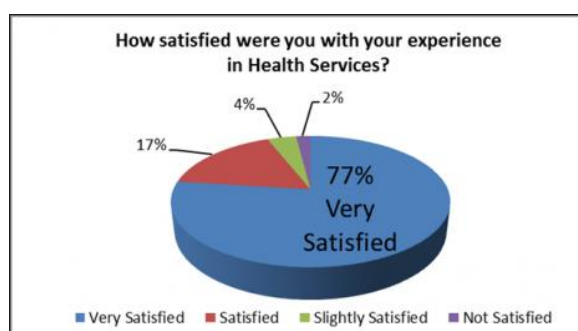
<sup>4</sup> Some information may be useful in reporting on the current year's performance and some may be relevant for longer term assessments.

<sup>5</sup> Some entities offering youth services use a New Zealand-developed tool called TOMM – The Outcomes Measurement Model.

<sup>6</sup> 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.

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

Grants made	Average \$	Total \$
Travel grant (to present at overseas conferences)		
Research grants (for purchase of equipment and consumables)		
XYZ post-graduate scholarship		



### HELPLINE



400

calls from 320 different people

### 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**

90%

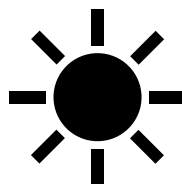
Under 18 years

10%

Over 18 years



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

### More detailed example showing possible layout for quantitative and qualitative information about a service

ABC Counselling		Looking ahead	Our locations
<p>ABC Counselling is one of City X's largest/most long-standing providers of counselling support for young people. Young people aged between 14 and 20 can access free, confidential counselling for a wide range of issues. They are offered 10 weekly session and can re-refer if they need further support.</p> <p>We work closely with GP's, mental health teams and other professionals. Young people who use our services experience significant measured improvements in their emotional wellbeing and give positive feedback about how our support has helped them.</p>		<p>We will continue to deliver our mental health workshops in schools.</p> <p>With the help of new staff and funding from xyz we will also be running workshops to provide information and peer support to parents and offering a new drop-in centre.</p>	<p>Suburb 1 Suburb 2 Suburb 3 School 1 School 2</p>
<p><b>Highlights this year</b></p> <p>We saw xx referrals to the service – up from xx last year.</p> <p>Twenty counsellors offered counselling sessions.</p> <p>We helped Regional Authority X meet its targets to ensure that young people have access to mental health services.</p> <p>With the support of Organisation A we have delivered mental health, wellbeing and early intervention sessions in schools and youth centres.</p> <p>We have had a successful first year of working with ABC Trust delivering counselling to young people in x area.</p>	<div> <p><i>ABC Counselling helped me understand how to cope with my problems</i></p> <p>Male 16</p> </div> <div> <p><i>My counsellor listens to me and that makes all the difference.</i></p> <p>Female 16</p> </div>	<p>Personal story</p> 	
<p>200 young people received free counselling</p> 			

### Linking to the Financial Statements

47. Paragraph 19(d) requires that an entity considers “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).” Paragraph 28 goes on to state that “The service performance information needs to be linked to the financial statements to convey a coherent picture about the performance of an entity. This link is generally made, where practicable and appropriate, by reporting on the cost of goods and services.”
48. The story told by the service performance information and financial statements should be consistent. Readers should be able to understand how the two are linked. The standard says that, “where practicable and appropriate” the two are linked by reporting on the cost of goods and services. If an entity reports the cost of goods and services the standard requires that it reconcile the expenses in the financial statements and the total goods and services costs reported in the service performance information and, where appropriate, acknowledges the use of donated goods or services which have not been recognised in the financial statements. One way of presenting cost information is shown below.

#### Example

The cost of outputs is determined using the cost allocation system outlined below. Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be attributed to a specific output in an economically feasible manner. Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity or usage information. Depreciation and capital charge are charged on the basis of asset utilisation. Personnel costs are charged on the basis of actual time incurred. Property and other premises costs, such as maintenance, are charged on the basis of floor area occupied for the production of each output. Other indirect costs are assigned to outputs based on the proportion of direct staff costs for each output. There have been no changes in cost accounting policies, since the date of the last audited financial statements.<sup>7</sup>

	Current period	Prior period
Output 1		
Output 2		
Output 3		
<b>Total output expenses</b>		
Other expenses		
<b>Total expenses (as per statement of financial performance)</b>		

49. Readers might be interested in the following matters:
- If revenue has gone down, what impact has this had on what the entity can do?
  - If services have been discontinued but revenue was stable, where are resources now being used?
  - Are some services being funded by a new revenue stream?
  - Do any significant changes in assets or liabilities relate to particular activities? For example, are some services now being delivered from a different location.
50. If an entity considers that reporting on the cost of goods and services is not appropriate or practicable it needs to think about other ways of helping readers understand the link between the financial and non-financial information. This might be the case where an entity has significantly changed its activities and has not yet developed costing systems. An entity could explain how its assets support its activities and the staff resource that is required to support various activities.
51. Many not-for-profit entities receive support from volunteers. Although the standard doesn't establish specific requirements to report on the contribution of volunteers, the link between the financial statements

<sup>7</sup> Based on example policy in Ministry of Public Accountability, Audit NZ



and service performance information could be supported by information about volunteers. For example, the work of volunteers could have led to more revenue, lower costs and enabled the entity to deliver more or better services. Information about how volunteers have influenced service performance could be presented as narrative, as narrative and numbers (for example, number of volunteers, number of volunteer hours), a personal story or infographics.

	<b>Volunteers help us by</b>
Helping people	Driving clients to and from appointments/classes Advocating for clients
Education and networking events	Advertising events Catering and running events
Connecting people	Setting up a database
Administration	Record keeping Fundraising

### Working Together and Reporting on Shared Performance

Section not yet drafted

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

### Presentation

52. Paragraph 33 of the standard also permits, in certain circumstances, an entity to incorporate by cross reference service performance information that is presented outside the general purpose financial report.
53. PBE FRS 48 establishes requirements about the information that an entity must report, but it does not prescribe the format for presenting service performance information. Rather an entity develops a format that best meets the information needs of its users. Entities can think about how to present the key messages, what will work best for their readers and how to make the information visually appealing. Service performance information is often presented using a combination of qualitative descriptions, qualitative measures and quantitative measures. Options include:
  - (a) Graphs, charts, tables;
  - (b) Infographics and icons – useful for snapshots of information and linking information;
  - (c) Case studies – used to give personal insights or more in-depth information about an activity or service.
54. The use of colour, charts, tools, etc. can help break up large blocks of text and highlight key facts.
55. Including feedback from users about programs and services helps to heighten readers' interest in the report.
56. This Guide focuses on the requirements in PBE FRS 48. Reporting in accordance with the standard is only part of a bigger picture. Entities generally want their service performance messages to reach as wide an audience as possible. This is more likely if the report looks good and is easy to read. In recent times there has been a focus in financial reporting circles on cutting the clutter in annual reports.<sup>8</sup> Although publications have typically focused on for-profit entities, many of the suggestions in them are relevant for both the financial and non-financial parts of an annual report.
57. Users might want to go from the service performance information in the annual report to other data on the entity's website. Think about sign posting from the service performance information to the website, possibly to case studies or videos on the website.

<sup>8</sup> [Cite one or two reports.]

58. It is important to check that the service performance information is consistent with the financial statements, the notes to the financial statements, and information disclosed elsewhere (such as reports to funders and regulators).
59. It may also be helpful to think about how users will access the entity's service performance information and how to make it look good in that medium. If the accounts will be accessed mainly through the entity's website then consider how information looks on the screen, how user friendly they are and how accessible they are via mobile devices.

### Comparative Information and Consistency of Reporting

60. 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.
61. 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.
62. 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.

Include examples of comparative numerical measures, changed activities, changed measures

#### Example illustrating prior year comparatives

##### Charity X

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

#### Example illustrating reporting against targets

##### Charity X

If Charity X had established targets for the number of dogs that it wanted to be trained it could report as follows.

	20X2		20X1	
Number of dogs trained	Target	Actual	Target	Actual
Diabetes	30	28	30	27

### Example illustrating a 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 Department X. 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) assess dogs that are available for adoption for their suitability to undertake search and rescue activities. Dogs with the appropriate temperament and ability to learn are adopted by a volunteer and trained to search for people lost and/or injured in the outdoors.

Activity		
	20X4	20X3
Training courses for volunteers		
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

63. PBE FRS 48 (paragraph 44) requires that an entity disclose those judgements that have the most significant effect on the selection, measurement, aggregation and presentation of service performance information reported that are relevant to an understanding of the entity's service performance information. It is important that users of the financial statements know what judgments have been made by the governing body in determining the information to be reported.

### Extract from PBE FRS 48

44. **An entity shall disclose those judgements that have the most significant effect on the selection, measurement, aggregation and presentation of service performance information reported in accordance with this Standard that are relevant to an understanding of the entity's service performance information.**
45. In applying the principles in this Standard an entity will need to make a number of judgements, such as those discussed in paragraphs 19, 21 and 22. These judgements reflect the entity's consideration of its specific facts and circumstances, including the information needs of its primary users. An entity therefore needs to identify those judgements that have the most significant effect on the selection, measurement, aggregation and presentation of service performance information and consider their relevance to a user's understanding of the entity's service performance information.
46. In deciding what judgements to disclose in accordance with paragraph 44, an entity considers:
- (a) The extent to which the entity's service performance information is consistent with and clearly linked to the entity's overall purpose and strategies. If it is not, users may need to understand why not.
  - (b) The extent to which the entity's service performance information reported is consistent with that used by the entity for internal decision making. If it is not, users may need to understand why not.
  - (c) How much discretion the entity has over the selection, measurement aggregation and presentation of service performance information. The more discretion the entity has over what it reports, the more users are likely to be interested in the entity's judgements. In situations where there is significant judgement involved, such disclosures shall include the key factors (see paragraph 19) that formed the basis of those judgements. In some cases an entity's service performance information might be largely determined by external requirements or agreements with external parties. In other cases an entity's service performance information may be largely determined internally, or it may be based upon a combination of internal determinations and external contractual determinations or frameworks. In all cases, information about the level of discretion that an entity has, and the judgements it has made, would be relevant to users seeking to understand the entity's service performance information.
  - (d) The extent to which the application of the qualitative characteristics and pervasive constraints on information (see paragraph 10) has influenced its service performance information.
  - (e) The extent to which consultation with users influenced the reporting of service performance information.
  - (f) The judgements made in deciding when to provide comparative narrative and descriptive information.
  - (g) The judgements made about methods used in the selection, measurement, aggregation and presentation of performance measures and/or descriptions.
47. An entity may cross-reference to other documents such as statements of intent or performance frameworks in disclosing information about judgements.
64. The standard does not mandate the disclosure of judgements in all circumstances. Disclosure is required only when an entity exercises judgement in deciding what service performance information to report, how to measure what it reports, whether it reports the information in total or by some form of grouping and how it presents the information to users of the annual report.

65. Smaller Tier 2 not-for-profit entities are likely to have fewer activities and make fewer judgements than larger entities. Where an entity has a specific or narrowly-defined objective and the activity required to meet that objective is clear, the entity is unlikely to have to apply judgement regarding the selection, measurement, aggregation and presentation of service performance information to report. The service performance information to be reported will comprise that activity. For example, the objective of an entity may be the provision and operation of an affordable safe transportation service for the local community: in particular, transport for the disadvantaged and those without private cars for the purpose of education, health and recreation to enable people to remain in the community. In this example, the only activity undertaken is the transportation of children to kindergartens and schools, patients to the local hospital and people in the local community to recreational activities.
66. In some instances, an entity may have communicated its objective and activity(ies) to the public and is, therefore, reporting its achievements against what has been previously communicated. Here again, there is unlikely to be any judgement involved in deciding what service performance information to report.
67. On the other hand, a larger entity may undertake several activities to meet its objectives. Some of those activities are key to the entity achieving its strategies and objectives while other activities are incidental or complementary to those key activities. In cases where an entity undertakes many activities it may be unhelpful to report them all. Reporting too much service performance information can result in the financial report being unnecessarily long, important information not being prominently displayed and some of the information reported not being useful for accountability and decision-making purposes.
68. Disclosures about judgements are more likely to be needed in the following circumstances.
  - (a) Where an entity undertakes a variety of activities, some of which are incidental or complementary to the main activities undertaken to achieve the entity's objectives. an entity applies judgement in deciding which activities to report and how to measure them.
  - (b) Where there is a choice of measurement basis for activities, for example, three or four established performance measures. An entity applies judgement in deciding which measurement basis to apply and why it is the better option.
  - (c) Where an entity has developed its own performance measures and uses those measures rather than an industry or sector norm that was previously applied.
  - (d) Where a national entity undertakes a variety of activities throughout the country. Judgement is exercised in deciding whether to report service performance information by activity, or by region, or whether to report by both activity and region.

#### Selection

69. The service performance information reported should be that which is relevant and material to the entity in achieving its strategies and objectives. The key activities undertaken and the information reported will be specific to the entity reporting, and may change over time if the entity changes its strategies, objectives and/or activities. The governing body exercises judgement in deciding what service performance information to report.
70. It is likely that an entity already reports some form of service performance information internally to its governing body. This information would be the key activities that the entity undertakes to achieve its strategies and objectives, and how the entity is tracking against its targets for the year (if targets have been set).
71. In some cases, this information may relate to only one or two key activities that the entity undertakes. In other cases, an entity might undertake a variety of activities with the key ones being reported in more detail than the incidental ones.
72. Where an entity receives funding to provide goods or services on behalf of another entity (for example, a district health board or local government), targets for the delivery of services it is highly likely that the entity is required to report to the funding organisation on its activities and achievements during the year. An entity may choose to report service performance information in a manner similar to how it reports to the funding organisation.

**Examples****Read-aid**

Read-aid Trust's mission is to encourage reading as a means of improving self-confidence, in particular by young children and immigrants. We do this with the help of volunteers who take their dogs into schools, libraries and community centres to read to groups of people and to give people an opportunity to read stories to the dogs. We also work on a one-to-one basis with children who have behavioural issues.

**Nature Loving**

Nature Loving Charitable Trust promotes, supports and undertakes programmes, actions and initiatives to beautify City A. The following are the key activities that we undertake and, therefore, are included in our service performance information.

- (a) A free annual education event which has a different environmental focus each year. The focus of the event this year was the establishment and maintenance of native flora and fauna. This event is run over a period of three days, with the first two days being for schools and the third day being open to the public as a family-oriented event. We partner with the Council of City A, the local office of the Department of Conservation (DoC) and volunteers in running this annual event. Attendees at the public event are asked to complete a brief satisfaction survey, which also seeks suggestions for future events.
- (b) Community work, such as painting murals, picking up rubbish from town centres and local waterways, and providing educational sessions on environmental issues in schools. The local community and schools are encouraged to participate in the painting of murals and picking up rubbish. This year, we organised the painting of murals in suburbs M and N, and the picking up of rubbish in suburbs W, X Y and Z and Freshwater Stream.
- (c) The removal of tagging on behalf of the Council of City A. Members of the public are encouraged to report tagging and we undertake to remove the tagging within 24 hours of it being reported to us.

We have elected to report on the above activities because they have been identified by the Board of Trustees as the ones that are most relevant for reporting service performance information. They are the most significant activities that contribute to us meeting our mission, and they are having a positive impact on the communities in City A. Involvement in our projects gives the people a sense of pride in those communities (see our website for comments).

We also undertake other incidental activities that support our mission and objectives. These activities are not included in this report because they are insignificant compared to the three key activities outlined above.

For more information on our activities visit our webpage:....

**Healthy Foundation**

The outputs described above give a partial picture of Healthy Foundation's work. They provide some useful information but do not capture all the work undertaken in the last 12 months. For example, the outputs do not include the fact that we have been undertaking significant work researching and developing a new course about healthy living for people living with diabetes. In addition, some of what we do is not easy to measure quantitatively (such as how our courses improve the lives of participants living with diabetes) or in the short-term (such as the impact of the changed lifestyle as a result of attending one of our courses). For this reason, in addition to collecting and recording quantitative data, we collect qualitative data recording participants feedback and their stories about how Healthy Foundation has impacted them and their families.

Stories from some of our participants are available on our website at ....

**Measurement**

- 73. Paragraphs 20–28 of PBE FRS 48 require an entity to provide users with an appropriate and meaningful mix of performance measures and or descriptions when reporting its service performance information.
- 74. In many instances, there is no judgement involved in deciding the measures used to report service performance information. For example, an entity that receives funding to provide a specified number of hours of counselling, reports its service performance information for that activity as hours; an entity that delivers goods reports the quantity of goods delivered; an entity that provides courses and/or workshops

may report both the number of courses/workshops delivered and the number of attendees; and in cases where there are established performance standards or benchmarks for the type of activity undertaken by the entity, the entity reports using those established standards or benchmarks.

75. Disclosure of the judgements that have the most significant impact of the measurement of service performance information are required where, for example, an entity has a choice of metrics to choose from. For example, where an entity has a choice of metrics for reporting its service performance information, the entity discloses why it has chosen the metric used for reporting rather than any of the other metrics. Or disclosure might be appropriate where an entity is undertaking a new activity and is still developing metrics.

**Example**

Data on dimensions of student well-being is obtained from questionnaires filled out by students. Although self-reported responses involve a subjective component, we think they are informative and useful.

Aggregation

76. Another decision that an entity needs to make when reporting service performance information is whether to aggregate some of the information. If an entity operates in several locations which are demographically different, service performance information for each location may be important to users.

**Example**

Entity X has chosen to report separately on each of its four food banks in City M because each foodbank operates independently and the food is supplied by local businesses in each suburb.

77. Similarly a national organisation might choose to report on the activities that it undertakes in each region because the activities might reflect the differing demographic profile of each region.

**Appendix A Planning Prompts**

*This Appendix sets out some questions that could be useful for planning. The questions are intended to help you think about (i) providing context for readers of your service performance information and (ii) collecting and reporting information.<sup>9</sup>*

Do you have a clear mission statement setting out your purpose and reflecting your values?

Can you describe who or what will benefit from your work?

Can you describe the types of positive outcomes you want for recipients of your services?

Do you use evidence to better understand the need for your work?

Do you know what information to collect to show which goods and services have been delivered and to whom?

Do you know what information to collect to provide evidence of outcomes/influence/impact?

Do you know what information you need to collect to report to funders and for internal learning?

Will the information you collect for funders and for internal learning be sufficient to support your annual reporting?

If not, what other information would you need to collect (and why)?

Have you chosen data collection tools that meet your information needs and suit your context?

Do you have a plan for collection of evidence (how, when, by whom)?

Do you check new measures/indicators in advance (and in sufficient time to address problems)?

Do people understand why they are collecting data

Have you addressed any privacy/permission issues for personal data?

Do you analyse your information to see how and why changes occur for service recipients?

Do you look at negative and unexpected outcomes as well as positive outcomes?

Do you think through other factors that might have influenced the outcomes experienced by service recipients?

Do you use your findings to improve the way you do things?

Will the financial statements, service performance information and other sources of information deliver a consistent message?

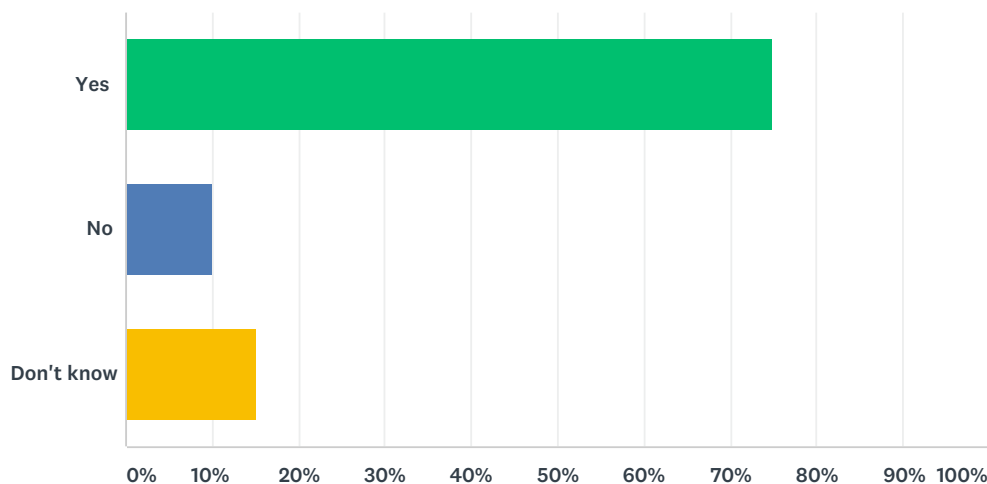
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<sup>9</sup> These questions are based on questions in <https://www.inspiringimpact.org/measuring-up/measuring-up-for-small-organisations/small-organisations-self-assessment/>



## Q1 Do you agree with the proposed amendments to the Tier 3 standards to align terminology and concepts with the PBE Conceptual Framework?

Answered: 20 Skipped: 2

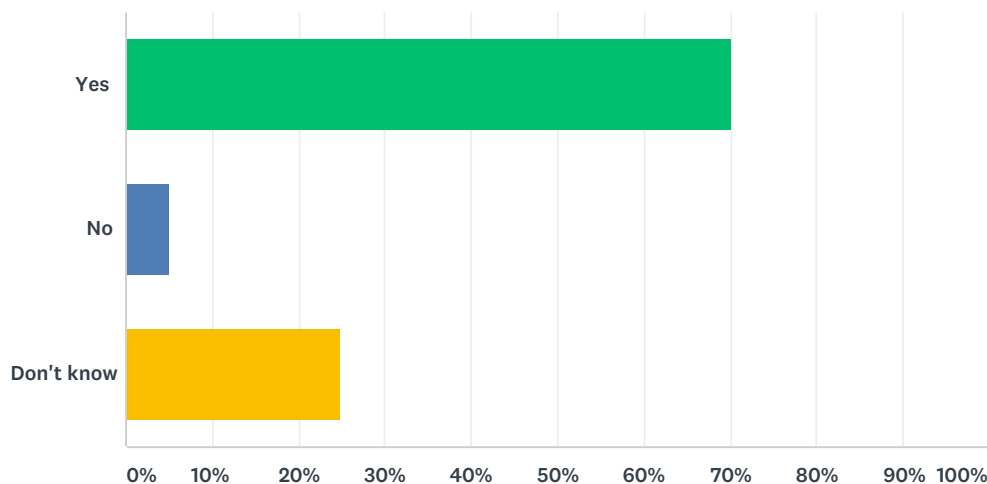


ANSWER CHOICES		RESPONSES
Yes		75.00% 15
No		10.00% 2
Don't know		15.00% 3
TOTAL		20

#	COMMENTS	DATE
1	I am a Tier 4 Charity.	4/19/2018 9:34 PM
2	I don't think this is necessary, and prefer the current terminology, such as "reliability".	3/16/2018 12:22 PM
3	Sensible and we prefer alignment in accounting standards as much as is practically possible to reduce potential for confusion for users.	3/12/2018 2:08 PM

## Q2 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?

Answered: 20 Skipped: 2

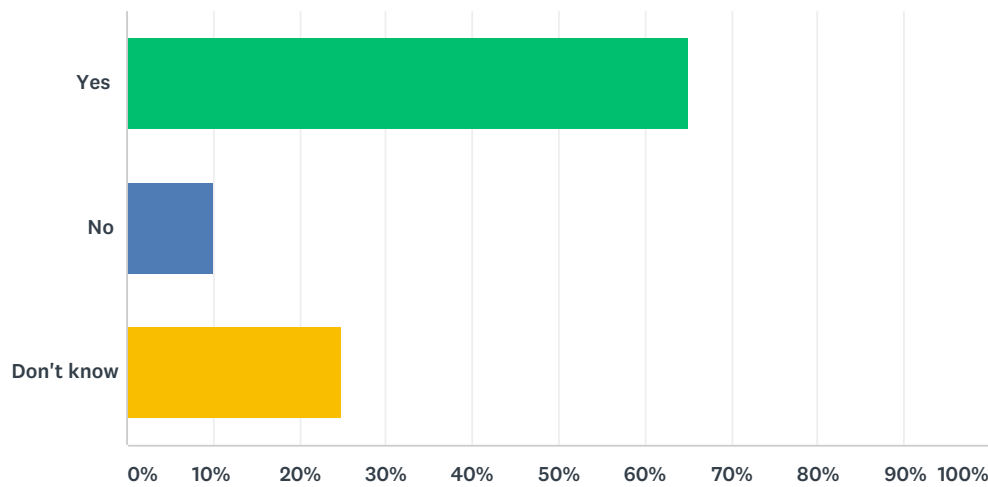


ANSWER CHOICES	RESPONSES	
Yes	70.00%	14
No	5.00%	1
Don't know	25.00%	5
TOTAL		20

#	COMMENTS	DATE
1	We have received queries on this specific aspect from our members, so we are really pleased that this is being explicitly addressed.	5/10/2018 12:56 PM
2	Ditto	4/19/2018 9:34 PM
3	We find the clarification clear and helpful	3/12/2018 2:08 PM

### Q3 Do you agree with the proposed amendments to the Tier 3 standards to clarify the opting-up requirements?

Answered: 20 Skipped: 2

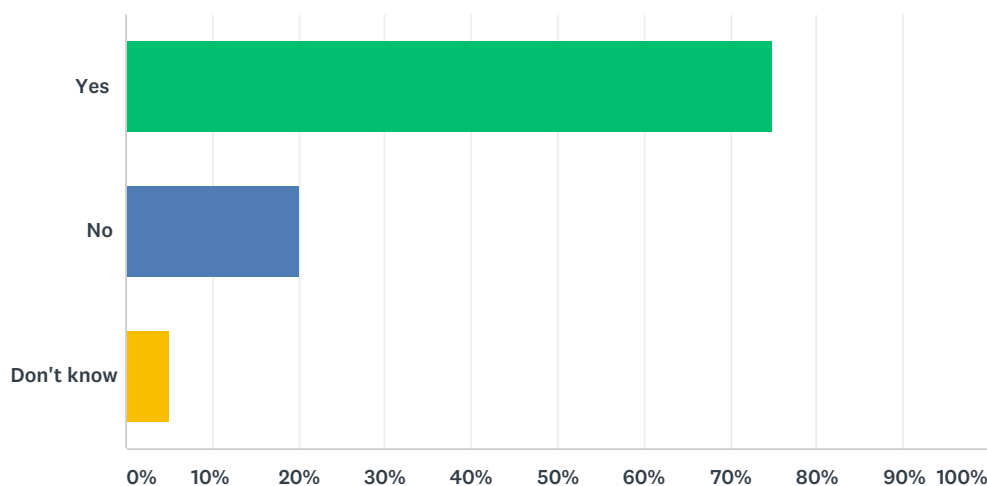


ANSWER CHOICES		RESPONSES	
Yes		65.00%	13
No		10.00%	2
Don't know		25.00%	5
TOTAL			20

#	COMMENTS	DATE
1	Ditto	4/19/2018 9:34 PM
2	This has been an area where we have noted some confusion in practice and it is important that requirements and guidance is clear that applies to a class to avoid 'cherry picking'.	3/12/2018 2:08 PM

## Q4 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?

Answered: 20 Skipped: 2

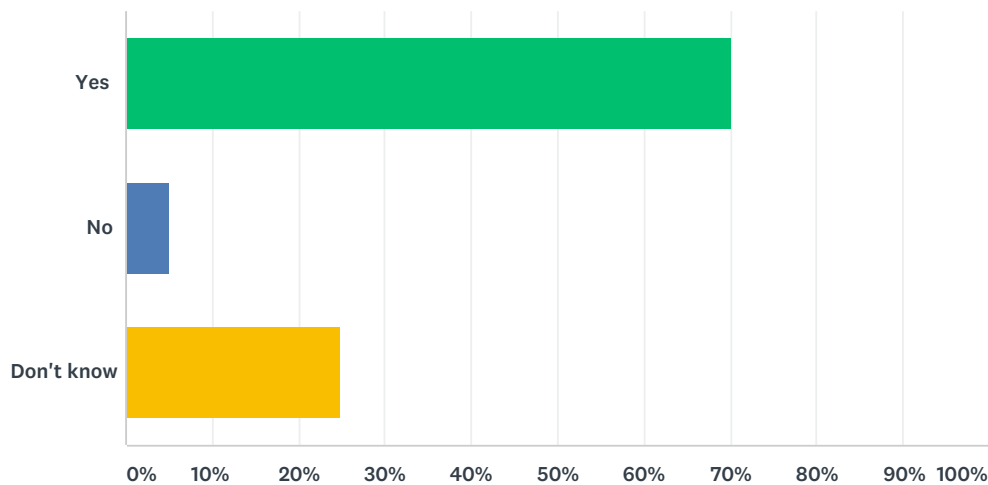


ANSWER CHOICES	RESPONSES	
Yes	75.00%	15
No	20.00%	4
Don't know	5.00%	1
TOTAL		20

#	COMMENTS	DATE
1	Evidencing the approval of the performance report is generally considered as best practice for good governance, hence many entities already do so. Making it mandatory will contribute to consistency across entities. We do note that if the intention is for an individual "to sign" the performance report, then this is not reflected in the wording proposed of "An entity shall disclose ...who gave that authorisation". This implies the name of the individual or body, not a signature.	5/10/2018 12:56 PM
2	It's good governance, no reason not to do it	5/9/2018 11:09 AM
3	Unnecessary. The Tier 4 Performance Report already requires the full name of the person completing the report and when the report is uploaded it is date stamped. So dating the report is yet another duplication in this whole process.	4/19/2018 9:34 PM
4	Yes strong supporters of this. We believe it important that the governing body is formally taking responsibility for the approval of the final performance report. Signing and dating of this by representatives of the governing body is a simple yet very effective way to address this. We note that this is already done by many as a 'best practice' approach. This will also assist auditors who sometimes can be challenged to be sure they are working with the final approved Performance Report.	3/12/2018 2:08 PM

## Q5 Do you agree with the proposed amendment to the Tier 4 standards arising from the 2017 Amendments to XRB A1?

Answered: 20 Skipped: 2



ANSWER CHOICES	RESPONSES	
Yes	70.00%	14
No	5.00%	1
Don't know	25.00%	5
TOTAL		20

#	COMMENTS	DATE
1	In our submission on XRB ED 2017 Proposed Amendments to XRB A1 we were supportive of amending Standard XRB A1 Application of the Accounting Standards Framework so that the Tier 4 criteria was based on the combined operating payments of the entity plus any controlled entities. At that time we raised our concern that there were no consequential amendments to the Tier 4 standards to align them. The clarification that no consolidation is required will be well received. Although we recommend the reference to "financial statements" in proposed paragraphs 2.1 be changed to "performance report".	5/10/2018 12:56 PM
2	The consolidated financial statements are useful for users to know the whole group.	3/16/2018 1:28 PM

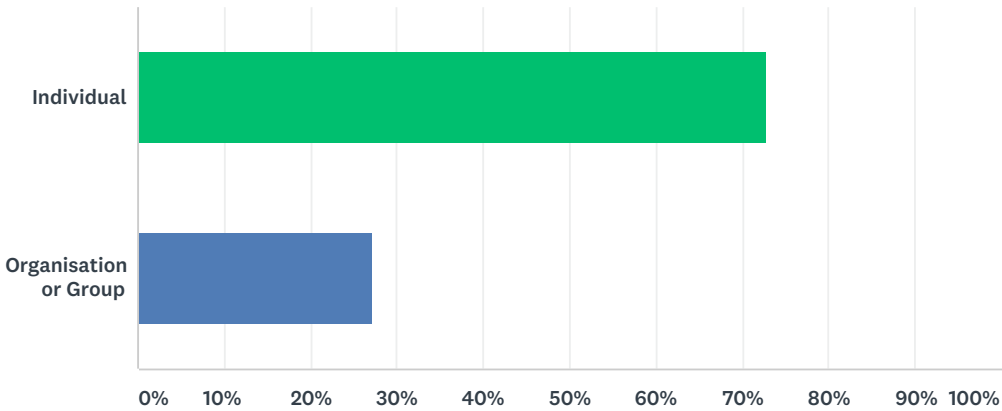
## Q6 Do you have any other comments on ED NZASB 2018-2?

Answered: 9 Skipped: 13

#	RESPONSES	DATE
1	We commend the XRB for making very few changes to the Tier 3 and 4 PBE Standards since they were first issued. This has enabled entities, particularly charities, to become familiar with the new reporting requirements.	5/10/2018 12:56 PM
2	No	5/9/2018 11:09 AM
3	NO	5/2/2018 3:33 PM
4	No, looks straight forward and reasonable.	4/22/2018 7:59 PM
5	The Tier 4 Performance Report is still very onerous for Tier 4 charities many of whom are run solely by volunteers and do no audit their annual financial reports. The Tier 4 Report is NOT a standalone document for the charity. It resides solely on the Charity Services register where all of the descriptive content of the charity already exists. We also upload annual financial statements so frankly most of the Performance Report ends up being a duplication of this material. Therefore the reporting requirements become more onerous and duplication of information is a poor use of anyones resources. Also please note there are formula errors in the Tier 4 template - Bank Balances for end of financial year are not calculated??	4/19/2018 9:34 PM
6	No.	3/16/2018 1:28 PM
7	No	3/16/2018 12:22 PM
8	should paragraph a10 also link in/ be the same or similar with the assertions in the auditing standards in isa315(revised) paragraph A129.	3/16/2018 11:39 AM
9	We think these amendments are worthwhile. We also acknowledge and applaud the NZASB's desire to not substantially change these standards shortly after release before the market has time to become familiar with them. As a general comment we have noted fairly good acceptance and adoption and understanding by our client base (RSM are auditors of a significant number of charities and other entities adopting these tier 3 and 4 standards) and wider contact network of others we provide training and support to. However, this is a sector characterised by many volunteers, pro bono or semi pro-bono efforts, and non-qualified accounting personnel. Hence the gap for a comprehensive post-implementation review is appreciated. We also (rather regrettably) make the comment that it still appears to be the 'qualified' accountants in public practice where knowledge levels are not high. We suspect this is a function of just following previous systems in place set up for old GAAP, rather than setting themselves up to understand and fully comply with the new reporting requirements. This is improving but still appears to be an issue in some quarters. We also applaud this initiative to provide submissions in a simple structured survey format. Easy to use and efficient. Well done.	3/12/2018 2:08 PM

Q7 Is your submission an individual one or on behalf of a group or an organisation?

Answered: 22 Skipped: 0



ANSWER CHOICES		RESPONSES	
Individual		72.73%	16
Organisation or Group		27.27%	6
TOTAL			22

## Q8 Please provide your relevant details below.

Answered: 12 Skipped: 10

ANSWER CHOICES	RESPONSES	
Title (Mr, Ms, Mrs, Miss etc.)	100.00%	12
First Name	100.00%	12
Last Name	100.00%	12
Email Address	91.67%	11
Phone number	91.67%	11
Region, e.g. Auckland	91.67%	11

#	TITLE (MR, MS, MRS, MISS ETC.)	DATE
1	Mrs	5/11/2018 9:26 AM
2	Mrs	4/27/2018 9:57 AM
3	Mr	4/22/2018 7:59 PM
4	Mrs	4/21/2018 6:22 PM
5	Mr	4/3/2018 7:22 PM
6	mr	3/20/2018 3:38 PM
7	Mrs	3/16/2018 1:29 PM
8	Mr	3/16/2018 12:23 PM
9	Mr	3/16/2018 12:23 PM
10	Mr	3/16/2018 11:39 AM
11	Miss	3/14/2018 2:59 PM
12	Mr	3/2/2018 2:16 PM

#	FIRST NAME	DATE
1	Adele	5/11/2018 9:26 AM
2	Michelle	4/27/2018 9:57 AM
3	Aaron	4/22/2018 7:59 PM
4	Dianne	4/21/2018 6:22 PM
5	Allan	4/3/2018 7:22 PM
6	Peter	3/20/2018 3:38 PM
7	Xiaoying	3/16/2018 1:29 PM
8	Gordon	3/16/2018 12:23 PM
9	Aaron	3/16/2018 12:23 PM
10	Bruce	3/16/2018 11:39 AM
11	Kay	3/14/2018 2:59 PM
12	Graeme	3/2/2018 2:16 PM

#	LAST NAME	DATE
1	Hardie	5/11/2018 9:26 AM
2	Collins	4/27/2018 9:57 AM
3	Gale	4/22/2018 7:59 PM
4	Ferguson	4/21/2018 6:22 PM



5	Officer	4/3/2018 7:22 PM
6	rendell	3/20/2018 3:38 PM
7	Zhang	3/16/2018 1:29 PM
8	Hansen	3/16/2018 12:23 PM
9	Higham	3/16/2018 12:23 PM
10	Mcniven	3/16/2018 11:39 AM
11	Lemon	3/14/2018 2:59 PM
12	Harvey	3/2/2018 2:16 PM
#	EMAIL ADDRESS	DATE
1	adele.abs4u@gmail.com	5/11/2018 9:26 AM
2	michelle@poriruawhanau.org.nz	4/27/2018 9:57 AM
3	asgale@hotmail.com	4/22/2018 7:59 PM
4	dfergytf@gmail.com	4/21/2018 6:22 PM
5	aofficer@laidlaw.ac.nz	4/3/2018 7:22 PM
6	peter.rendell3@gmail.com	3/20/2018 3:38 PM
7	xiaoying@heartsandminds.org.nz	3/16/2018 1:29 PM
8	gordon@pkfgf.co.nz	3/16/2018 12:23 PM
9	aaron.higham@bdo.co.nz	3/16/2018 12:23 PM
10	bruce.mcniven@moorestephens.nz	3/16/2018 11:39 AM
11	graeme@audithb.nz	3/2/2018 2:16 PM
#	PHONE NUMBER	DATE
1	0275382987	5/11/2018 9:26 AM
2	021982550	4/27/2018 9:57 AM
3	021354339	4/22/2018 7:59 PM
4	0212367811	4/21/2018 6:22 PM
5	0274781053	4/3/2018 7:22 PM
6	+64273000235	3/20/2018 3:38 PM
7	09-4418989	3/16/2018 1:29 PM
8	033666706	3/16/2018 12:23 PM
9	0220570693	3/16/2018 12:23 PM
10	049101093	3/16/2018 11:39 AM
11	+64272333157	3/2/2018 2:16 PM
#	REGION, E.G. AUCKLAND	DATE
1	Wellington	5/11/2018 9:26 AM
2	Porirua	4/27/2018 9:57 AM
3	Christchurch	4/22/2018 7:59 PM
4	Auckland	4/21/2018 6:22 PM
5	Auckland	4/3/2018 7:22 PM
6	hawkes bay	3/20/2018 3:38 PM
7	Auckland	3/16/2018 1:29 PM
8	Canterbury	3/16/2018 12:23 PM
9	Invercargill	3/16/2018 12:23 PM
10	Wellington	3/16/2018 11:39 AM
11	Wellington	3/14/2018 2:59 PM

## Q9 Please provide all relevant details below.

Answered: 4 Skipped: 18

ANSWER CHOICES	RESPONSES	
Title (Mr, Ms, Mrs, Miss etc.)	75.00%	3
First Name	100.00%	4
Last Name	100.00%	4
Email Address	100.00%	4
Phone number	100.00%	4
Organisation Name	100.00%	4
Job Title	100.00%	4
Region, e.g. Auckland	100.00%	4

#	TITLE (MR, MS, MRS, MISS ETC.)	DATE
1	Mrs	5/7/2018 11:31 AM
2	MRS	5/2/2018 3:34 PM
3	Mr	4/19/2018 9:35 PM
#	FIRST NAME	DATE
1	Ceri-Ann	5/10/2018 12:57 PM
2	Sharon	5/7/2018 11:31 AM
3	VALERIE	5/2/2018 3:34 PM
4	Stephen	4/19/2018 9:35 PM
#	LAST NAME	DATE
1	Ross	5/10/2018 12:57 PM
2	Winduss	5/7/2018 11:31 AM
3	KNIGHT	5/2/2018 3:34 PM
4	Lowe	4/19/2018 9:35 PM
#	EMAIL ADDRESS	DATE
1	ceri-ann.ross@charteredaccountantsanz.com	5/10/2018 12:57 PM
2	admin@alzheimerswhanganui.org.nz	5/7/2018 11:31 AM
3	knightfamily@xtra.co.nz	5/2/2018 3:34 PM
4	stevejlowe@gmail.com	4/19/2018 9:35 PM
#	PHONE NUMBER	DATE
1	+61 2 9290 5712	5/10/2018 12:57 PM
2	06 345 8833	5/7/2018 11:31 AM
3	06 8679457	5/2/2018 3:34 PM
4	+64272144723	4/19/2018 9:35 PM
#	ORGANISATION NAME	DATE
1	Chartered Accountants Australia and New Zealand	5/10/2018 12:57 PM
2	Alzheimers Whanganui Incorporated	5/7/2018 11:31 AM
3	Aers and Crafts Gisborne	5/2/2018 3:34 PM
4	Share & Care Ministries Trust	4/19/2018 9:35 PM

#	JOB TITLE	DATE
1	Reporting Leader	5/10/2018 12:57 PM
2	Office Manager	5/7/2018 11:31 AM
3	Treasurer	5/2/2018 3:34 PM
4	Chairman	4/19/2018 9:35 PM
#	REGION, E.G. AUCKLAND	DATE
1	Sydney, Australia	5/10/2018 12:57 PM
2	Whanganui	5/7/2018 11:31 AM
3	Gisborne	5/2/2018 3:34 PM
4	04	4/19/2018 9:35 PM

## Appendix B

### Examples from Charities Register

#### Tier 3 entities:

Example 1: CC24112, on the bottom of the statement of financial position (Audit report 14/2/18):

Signed for and on behalf of the Committee:

Chairperson  Date 14.2.18

Treasurer  Date 14.2.18

Example 2: CC46995, separate page (Audit report 7 Sept 2017)

Approval of  
Performance  
Report

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THE BELLYFUL NEW ZEALAND TRUST  
*For the year ended 31 March 2017*

The Board of Trustees are pleased to present the approved Performance Report of The Bellyful New Zealand Trust for year ended 31 March 2017.

The Trustees are solely responsible for the information contained in this financial report and have determined that the accounting policies used are appropriate for the purpose that the Performance Report is prepared.

  
**Leigh Taggart**  
Bellyful Board Chair  
7 September 2017

  
**Jennie Wylie**  
Bellyful Board Trustee  
7 September 2017

Example 3: CC27697, separate page (Audit report 11 October 2017)

**Little Company of Mary - New Zealand**  
(Consolidated with Little Company of Mary Foundation)

**Approval Statement**

For the Year Ended 30 June 2017

**Approval and Issue of Performance Report**

On this date the Trustees approve and issue the Consolidated Performance Report for the Little Company of Mary - New Zealand for the year ended 30 June 2017.

11 October 2017

Date

*Sr. Jennifer Barrow.*

Trustee

*Shathleen Cullen*

Trustee

Example 4: CC33514, on the bottom of the statement of service performance (no Audit report)

*[Signature]*

Chairperson

*24.2.17*

*[Signature]*

Board Member

*24.2.17*

Example 5: CC23165, on bottom of statement of financial position (Audit report 11/9/2017)

Signed

*[Signature]*  
*[Signature]*

President

Date

*11/9/2017*

Board Member

Date

*11/9/17*

Example 6: CC44320, on bottom of statement of financial position (Audit report 24 July 2017)

For and on behalf of the Members:

*[Signature]*

Ester Romp  
President

Date: 24 July 2017

*[Signature]*

Lyn Zeederberg  
Treasurer

Example 7: CC47974, on bottom of statement of financial position (Audit report 17 April 2017)

This performance report has been approved by the Trustees, for and on behalf of Kiwi Community Assistance Charitable Trust:

Dated: 17 April 2017

Trustee

Trustee

These statements must be read in conjunction with the notes to the performance report and the audit report

Example 8: CC26471, on bottom of statement of financial position (Audit report 28 June 2017)

This performance report has been approved by the trustees, for and on behalf of Wellington Volunteer Centre:

Dated: 28 June 2017

Trustee

Trustee

Example 9: CC31172, on a separate page (Audit report 30 Oct 2017)

**Baywide Community Law Charitable Trust**

**Statement of Responsibility**

For the year ended  
30 June 2017

- 1 The Baywide Community Law Charitable Trust Board accepts responsibility for the preparation of the performance report and the judgements used therein;
- 2 The Baywide Community Law Charitable Trust Board accepts responsibility for establishing and maintaining a system for internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting;
- 3 In the opinion of the Board, the financial statements for the twelve months ended 30 June 2017 fairly reflect the operations, resources and commitments of Baywide Community Law Charitable Trust.
- 4 In the opinion of the Board, the statement of objectives and service performance fairly reflects the service performance achievements in relation to the performance targets and other measures adopted for the twelve months ended 30 June 2017.

Chairperson

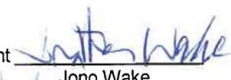
Date

Secretary

Date

Example 10: CC37080, on bottom of statement of financial position (Review report 28 Nov 2017)

The Committee of the Karori Golf Club Incorporated authorised these financial statement  
for issue on 28 November 2017

President   
Jono Wake

Treasurer   
Wayne Cook

### Summary of findings

	Number	Percentage
Statement of Financial Position	6	60%
Statement of Service Performance	1	10%
Separate Approval Statement	3	30%
<b>Total</b>	<b>10</b>	<b>100%</b>

#### Tier 4 entities:

Example1: CC52647, on separate page, compiled by a CA.

#### Approval of Financial Report

The Waikato Society of Potters Inc  
For the year ended 31 March 2017  
Cash Basis

The elected committee is pleased to present the approved financial report including the historical financial statement  
Waikato Society of Potters Inc for year ended 31 March 2017.

APPROVED

\_\_\_\_\_  
President - Caryl Ginever

Date .....

\_\_\_\_\_  
Treasurer - Sylvia Sinel

Date .....

Example 2: CC42856, signed contents page also signed on bottom of statement of resources and commitments. Compiled by a CA.

#### Waikato Korean Association in NZ INC

#### Annual Performance Report for the Year Ended 31 March 2017

<u>Contents</u>	<u>Page</u>
Compilation Report .....	1
Trust Profile .....	2
Statement of Receipts and Payments .....	3
Statement of Resources and Commitments .....	4
Notes to the Accounts .....	5
Entity Information .....	6

The Chairperson is pleased to present the Financial Statements for the period ended 31<sup>st</sup> March 2017.

For and on behalf of the Board of Trustees:

Chairperson:  Date: 6 / 10 / 2017

#### Summary of findings

Of the ten Tier 4 entities we looked at, only two contained signatures, there was no consistency as to where the performance report was signed.





NZ ACCOUNTING  
STANDARDS  
BOARD

## Memorandum

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**Date:** 15 June 2018

**To:** NZASB Members

**From:** Lisa Kelsey

**Subject:** **2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements**

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### Purpose

1. The purpose of this agenda item is to seek approval to issue *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*.

### Recommendations

2. We recommend that the Board:
  - (a) CONSIDERS the feedback received on ED NZASB-2 *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* (the ED) (see agenda item 10.2 for submissions received);
  - (b) APPROVES draft *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* for issue as an amending standard (see agenda item 10.3);
  - (c) APPROVES the draft signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue the amending standard (see agenda item 10.4); and
  - (d) APPROVES the draft amendments to the Explanatory Guides (see agenda item 10.5).

### Structure of this memo

3. This memo is structured as follows:
  - (a) Background;
  - (b) Feedback received;
  - (c) Corrections to glossaries; and
  - (d) Due process.

## Background

4. We have provided a brief project history in Table 1.

<b>Table 1: Project history</b>	
<b>NZASB meeting</b>	<b>Summary of Board discussion/decisions</b>
4 May 2017	<p>The Board received a presentation from Charities Services on the first year of implementing PBE Standards.</p> <p>The Board also discussed implementation issues with the Tier 3 PBE Accounting Requirements that have been brought to its attention over the period of first-time implementation.</p> <p>The Board agreed to make some minor amendments to the Tier 3 not-for-profit standard and to remove inconsistencies between the requirements in the standard and the guidance. The changes will form part of a future Tier 3 PBE Accounting Requirements omnibus ED.</p> <p>The Board also agreed to address other implementation issues, which require consideration of the underlying principles of the Tier 3 not-for-profit standard in a future post-implementation review of the Tier 3 and Tier 4 PBE Accounting Requirements.</p>
13 Sept 2017	<p>The Board agreed that further work be undertaken to determine whether amendments are needed to the Tier 4 standards as a result of <i>2017 Amendments to XRB A1</i> (the amendments to XRB A1 required a public benefit entity (PBE) to determine its eligibility to report in accordance with Tier 4 PBE Accounting Requirements to be based on the total combined operating payments of the entity and any entities that it controlled (that is, on a group basis), which is consistent with the manner in which the size criteria for Tier 1, Tier 2 and Tier 3 PBE Accounting Requirements are determined).</p>
TRG meeting 22 November 2017	<p>The Draft NZASB meeting paper for December 2017 was tabled at the TRG meeting.</p> <p>TRG members were asked to provide feedback on the following Tier 3 issues: (i) opting up to the Tier 2 PBE Accounting Requirements; (ii) reversal of impairment charges; and (iii) accounting for multi-year grants/donation expense.</p> <p>The December 2017 NZASB meeting papers were updated to reflect feedback received from the TRG.</p>
14 December 2017	<p>The Board considered the amendments to include in Exposure Draft <i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i>.</p> <p>The Board approved the amendments agreed at its 4 May 2018 meeting to the Tier 3 and Tier 4 Explanatory Guides.</p> <p>The Board agreed to consider the draft ED and Invitation to Comment at its next meeting.</p>
7 February 2018	<p>The Board approved for issue ED NZASB 2018-2 <i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> and its accompanying Invitation to Comment.</p> <p>The Board noted its intention to clarify existing requirements and to address</p>

Table 1: Project history	
NZASB meeting	Summary of Board discussion/decisions
	<p>minor issues only.</p> <p>The Board noted it is committed to undertaking a post-implementation review once the Tier 3 and Tier 4 standards have been in use for some time.</p> <p>The Board noted that the post-implementation review will involve the Board looking at a number of matters, including (i) whether the objective of the standards has been achieved, (ii) whether the requirements are appropriate, (iii) whether any issues which need to be addressed have emerged since the standards were issued, and (iv) whether the costs of compliance are consistent with expectations.</p> <p>The Board noted that the post-implementation review is planned for 2019-2020 and will give entities the opportunity to provide feedback on any issues or concerns with the Tier 3 and Tier 4 PBE Accounting Requirements.</p>

5. ED NZASB 2018-2 *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* was issued in February 2018 with a closing date for comments of 30 May 2018.
6. At its February 2018 meeting the Board asked staff to contact Charities Services so they could alert registered charities of the issue of the ED. The Board also asked staff to look at options for developing a template or form to make it easier for charities to provide feedback on the proposals.
7. When we issued the ED in February 2018 we also created a survey on SurveyMonkey. The survey included the questions from the invitation to comment, allowing answers of yes, no or don't know. Respondents were also able to include comments. Charities Services included an article on the proposed amendments and a link to the survey in its April 2018 newsletter.
8. The ED was on exposure for three months. The online survey was open for the same period of time.

#### Feedback received

9. We received three submissions on the proposals.
 

<b>Respondent #</b>	<b>Respondent name</b>
R1	BDO
R2	Carolyn Cordery
R3	Peter van Holt, Board of Administration Methodist Church of NZ
10. R1 agreed with all the proposals and had no further comments to make. While also agreeing with all of the proposals, R2 provided some comments. R3 did not agree with all the proposals. For the Board's consideration, we have extracted R2's comments and R3's concerns in Table 2 below. We have also provided a staff response and recommendation in relation to each comment and concern expressed by the respondents.
11. As noted above we also created a survey on SurveyMonkey on which we received 22 responses. Appendix A includes a summary of the results from the survey. The majority of the survey respondents agreed with the proposals. Respondents to the survey were also given

the ability to add comments under each question and question six asked for any other comments on the proposals. In Table 2 below we have extracted comments from the survey responses that we would like the Board to consider and have provided a staff response and recommendation to each of these comments.

Table 2: Comments made by respondents (including survey respondents)		
R#	Respondent comment	Staff response/recommendation
<b>Q1. Do you agree with the proposed amendments to the Tier 3 standards to align terminology and concepts with the PBE Conceptual Framework?</b>		
R2	<p>Yes, however I suggest that paras A182(b) in the not-for-profit standards and A184(b) in the public sector standards allow for an accounting policy change if it provides more faithfully representative <b>and/or</b> more relevant information, rather than mere 'or', as it is likely that more representative information could also help decision-making and therefore be more relevant.</p> <p>The proposed change to paragraph A182 per the ED is shown below.</p> <p>...</p> <p>A182. An entity shall change an accounting policy only if the change:</p> <ul style="list-style-type: none"> <li>(a) Is required by this Standard; or</li> <li>(b) Is in accordance with this Standard and results in the statements providing more <del>reliable</del> <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.</li> </ul> <p>...</p>	<p>We agree with R2's comment that more faithfully representative information could also help decision-making and therefore be more relevant. The PBE Conceptual Framework acknowledges that "each of the qualitative characteristics is integral to, and works with, the other characteristics...". The respondent is correct that faithfully representative and relevant are not always mutually exclusive. In thinking about the respondent's comment, we looked to the Tier 2 PBE Accounting Requirements:</p> <p>Paragraph 17(b) of PBE IPSAS 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> uses "and".</p> <p>...Results in the financial statements providing faithfully representative <b>and</b> more relevant information about the effects of transactions, other events, and conditions on the entity's financial position, financial performance, or cash flows.</p> <p>Paragraph 14(b) of NZ IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> also uses "and".</p> <p>Paragraph 6 of both Tier 3 standards states that where the standard is silent an entity shall use its judgement ....that results in the performance report providing relevant <b>and</b> <del>reliable</del> <u>faithfully representative</u> information...</p> <p>If we were to amend the Tier 3 standards, it would make sense to align with the requirements in PBE Standards and be consistent with paragraph 6 above. However, we believe "and" implies a higher hurdle for an entity to meet to change an accounting policy, and making this amendment</p>

Table 2: Comments made by respondents (including survey respondents)		
R#	Respondent comment	Staff response/recommendation
		<p>could be considered a change in a requirement.</p> <p>We recommend no amendments are made to the proposals in the ED to address this matter at this stage, and that we add this to the list of issues to be considered as part of the PIR.</p>
R3	<p><i>Changes in Terminology</i></p> <p>We understand that the change in terminology that is proposed from “reliability” to “faithful representation” to Tier 3 reporting standards would align the Tier 3 reporting standards back to the PBE Conceptual Framework, but we believe that this does not seem to add value to the final performance reports. We would suggest from a user and preparers point of view, the way they prepare and issue the Performance Report will not change. Our concern also, regarding the wording change, is the legal ramifications associated with the change. It would appear from some commentators that a number of accounting academics do not see the practical need for the change as the outcome to the performance reports does not change. The terms “reliability” and “faithful representation” are, as suggested in the Exposure Draft, qualitative and therefore firstly reliant on the preparer knowing what the users (and possibility an independent reviewer or auditor) believe to be a “faithful representation”. Our submission simply is, if the changes suggested do not add value to the users, then why?</p>	<p>R3 is correct in that the changes in terminology have been made to align the qualitative characteristics with those used in the <i>Public Benefit Entities’ Conceptual Framework</i> (PBE Conceptual Framework). The Board issued the PBE Conceptual Framework in May 2016. It forms part of the Tier 3 PBE Accounting Requirements and supersedes the <i>Public Benefit Entities’ Framework</i> issued in September 2014. Amendments have already been made in the PBE Standards to replace references to the previous qualitative characteristic of “reliability” with references to the qualitative characteristic of “faithful representation”.</p> <p>The terms “reliability” and “faithful representation” describe what is substantially the same concept. As the old framework has been superseded we need to make these changes in the Tier 3 standards to maintain consistency with the new PBE Conceptual Framework.</p> <p>We recommend no changes are made to the amendments proposed in the ED to address this matter.</p>
R3	<p><i>Presentation of the Entity’s Performance</i></p> <p>Clause A10(b)(ii) is being amended on the basis that terminology is being changed from the use of the word “Reliability” to “Faithful representation” and adding to the definition that “Information is complete, neutral and free from material error.” We are concerned that the inclusion of this wording will mean that someone will</p>	<p>The proposed addition of the words “Information is complete, neutral and free from material error” explains faithful representation and comes from the PBE Conceptual Framework (paragraph 3.10). Materiality is not a qualitative characteristic but is a constraint on information.</p>

Table 2: Comments made by respondents (including survey respondents)		
R#	Respondent comment	Staff response/recommendation
	<p>need to make a judgement call on the materiality level for the performance report that then allows for the information presented to be complete. Tier 3 and 4 reporting standards were intended to be used by preparers and users with little or no understanding of the formal accounting processes required by International Public Sector Accounting Standards. There is little understanding about the concept of “materiality” from an accounting perspective within the current preparers of the performance reports as the vast majority of them are not accounting professional. Care needs to be taken when such changes are being made and who the audience is.</p> <p>The proposed change to paragraph A10 per the ED is shown below.</p> <p>...</p> <p><b>Presentation of the Entity’s Performance</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>(a) Select and apply appropriate accounting policies (section 8);</li> <li>(b) Present information in the best way to achieve the following goals: <ul style="list-style-type: none"> <li>(i) <u>Relevance</u>: the information can be used to assess the entity’s performance.</li> <li>(ii) <u>Reliability</u> <u>Faithful representation</u>: the information represents what has happened in a way that most users would see as a fair representation of the situation, <del>with no bias</del>. <u>Information is complete, neutral and free from material error.</u></li> </ul> </li> </ul> <p>...</p>	<p>The Tier 3 and Tier 4 standards already include the notion of significant (material) items. Preparers of performance reports are already making judgements in relation to significance (materiality) when preparing their performance reports.</p> <p>We recommend no changes are made to the amendments proposed in the ED to address this matter.</p>

Table 2: Comments made by respondents (including survey respondents)		
R#	Respondent comment	Staff response/recommendation
<b>Q2. 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?</b>		
R2	<p>Yes, although arguably para A115 does not need the word 'back' in 'revert back'.</p> <p>The proposed change to paragraph A115 per the ED is shown below.</p> <p>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 <del>those assets</del> <u>that class of assets</u> at revalued amounts thereafter (rather than reverting back to asset cost).</p>	<p>We agree with R2's comment and recommend removing the word "back" in paragraph A115 and also removing it from paragraph A117 in the public sector version of the Tier 3 standards.</p>
R3	<p><i>Reversal of Impairment Charges</i></p> <p>The suggested wording in clause A107.1 is confusing for the preparers. We believe that the wording should read:</p> <p>A107.1 If there is any indication that a prior impairment charge which has been recognised in a prior period for an asset no longer exists or that the level of the impairment has decreased (i.e. if it is apparent that an asset is recorded in the performance report at an amount lower than its current net realisable value), an entity shall reverse all or part of the previous impairment charge.</p> <p>Proposed paragraph A107.1 per the ED is shown below.</p> <p>...</p> <p><u><i>Reversal of Impairment Charges</i></u></p> <p><u>A107.1 If there is any indication that an impairment charge recognised in prior periods for an asset may no longer exist or may have decreased (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value), an entity shall reverse all or part of that impairment charge.</u></p> <p>...</p>	<p>Taking on board the comments made by R3 we suggest that we split the requirement into a part (a) and part (b) and that we use the terminology used in the Tier 3 standards (which is recorded rather than recognised).</p> <p>We recommend rewording paragraph A107.1 as follows:</p> <p><i>Reversal of Impairment Charges</i></p> <p>A107.1 If there is any indication that an impairment charge <del>recognised</del> <u>recorded</u> in prior periods for an asset:</p> <ul style="list-style-type: none"> <li>(a) May no longer exist; or</li> <li>(b) May have decreased (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value)</li> </ul> <p>an entity shall reverse all or part of that impairment charge.</p> <p>...</p> <p>We would also reword paragraph A109.1 of the public sector Tier 3 standard.</p>



Table 2: Comments made by respondents (including survey respondents)		
R#	Respondent comment	Staff response/recommendation
R3	<p>We do not understand the requirement in the wording in A107.2 (b). We assume that this wording has been written on the basis that the investment is held on the balance sheet at cost rather than at fair value. We believe that the wording for investments should be similar to the intent of clause A107.2(c) which deals with property, plant and equipment.</p> <p>Proposed paragraph A107.2 per the ED is shown below.</p> <p>...</p> <p><u>A107.2 The reversal of the impairment charge shall:</u></p> <p>(a) <u>In the case of inventories, be limited to the amount of the original write-down;</u></p> <p>(b) <u>In the case of investments, not result in the carrying amount of the asset being recorded at more than its original cost; and</u></p> <p>(c) <u>In the case of property, plant and equipment, not result in the carrying amount of the asset (net of depreciation) being recorded at more than it would have been had the impairment not been recorded.</u></p> <p>...</p>	<p>Investments are recorded at cost under the Tier 3 standards. If investments were measured at fair value (by opting up and applying the Tier 2 PBE Accounting Requirements) impairments would be taken into account when determining the fair value and therefore there would be no impairment charges recorded in prior periods that could be reversed.</p> <p>The proposed requirements for the reversal of impairment charges were based on the PBE Standards. We simplified the language in paragraph A107.2(b) to refer to original cost.</p> <p>We recommend no changes are made to the amendments proposed in the ED to address this matter.</p> <p>We have drafted an example for the reversal of an impairment charge in relation to property, plant and equipment. We are proposing to add this to the Tier 3 explanatory guides, both the NFP and PS versions (see agenda item 10.5).</p>
<b>Q3. Do you agree with the proposed amendments to the Tier 3 standards to clarify the opting up requirements? If you disagree, please provide reasons.</b>		
R3	<p><i>Revaluation of Property, Plant and Equipment</i></p> <p>While this is not being addressed in this Exposure Draft, we feel that parts of clause A114 of the Tier 3 standard needs further clarification. The clause uses the words “the relevant requirements of PBE IPSAS 17”. Who determines which parts of PBE IPSAS 17 are relevant to the performance report of the reporting entity and what are, and what are not relevant? We are unsure whether the words should be in clause A114.</p>	<p>We read paragraph A114 to mean that the reporting entity would apply those requirements in PBE IPSAS 17 relating to the revaluation model (except for the requirement to measure at fair value).</p> <p>We recommend no change to the amendments proposed to paragraph A114 in the ED to address this matter.</p> <p>We recommend that this is added to the list of issues to be considered as part of the PiR.</p>

Table 2: Comments made by respondents (including survey respondents)		
R#	Respondent comment	Staff response/recommendation
	<p>The proposed change to paragraph A114 per the ED is shown below.</p> <p>A114. If an entity wishes to revalue <del>a</del> <u>a class of assets</u>, it shall apply the relevant requirements of PBE IPSAS 17 <i>Property, Plant and Equipment</i>, 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.</p>	
<b>Q4. 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?</b>		
Survey	<p>Evidencing the approval of the performance report is generally considered as best practice for good governance, hence many entities already do so. Making it mandatory will contribute to consistency across entities. We do note that if the intention is for an individual “to sign” the performance report, then this is not reflected in the wording proposed of “An entity shall disclose ...who gave that authorisation”. This implies the name of the individual or body, not a signature.</p> <p>Proposed paragraphs A148.1 and A148.2 per the ED are shown below.</p> <p>...</p> <p><b>Other Information</b></p> <p><u>Date of Finalisation</u></p> <p>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</p> <p><b>Required Information</b></p> <p>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.</p> <p>...</p>	<p>We agree with the comment made by the survey respondent. The proposed wording was taken from PBE IPSAS 14 <i>Events after the Reporting Date</i>. While it will be clear from the guidance notes and the template that we expect a signature, we recommend amending the proposed new paragraph to explicitly state this.</p> <p>We would make the same amendment to paragraph A150.2 of the public sector Tier 3 standard and paragraphs A69.2 and A72.2 of the not-for-profit and public sector Tier 4 standards respectively.</p> <p>See redrafted paragraphs A148.1 and A148.2 below.</p>

Table 2: Comments made by respondents (including survey respondents)		
R#	Respondent comment	Staff response/recommendation
R3	<p><i>Requirement to Sign and Date the Performance Report</i></p> <p>We agree with this amendment as we have had that requirement in place since the introduction of the new financial reporting standards. We believe it is good practice. While the exposure draft seemed to confuse the terminology as to the reasons why the performance report requires a date and signature (see page 11 with references regarding “authorised for issue” and “the date of finalisation”, which seem to be two different concepts). We believe that the correct terminology is the date when the performance report is “authorised for use” and therefore A148.1 and A148.2 (including the heading should reflect that terminology in a consistent manner). It would also helpful to define what the expectations of the XRB are in relation to what that term means.</p>	<p>The terminology “date of finalisation” was used as this is a term that has been used in the Tier 3 standards. Paragraph A33 (see below) explains that this is the date on which the statements have received approval from the individual or body with the authority to authorise those statements for issue.</p> <p>...</p> <p><b>Events After the Balance Date</b></p> <p>A33. Events after the balance date are those events, both favourable and unfavourable, that occur between the balance date and the date when the performance report is finalised. The balance date is the last day of the financial year to which the statements relate. The date of finalisation is the date on which the statements have received approval from the individual or body with the authority to authorise those statements for issue.</p> <p>...</p> <p>We understand R3’s point of view regarding the use to the term the date of finalisation. We recommend amending paragraph A148.1 as follows (proposed changes from those in the ED are underlined):</p> <p>...</p> <p><del><i>Date of Finalisation</i></del> <u><i>Approval and Issue of Performance Report</i></u>  <u><i>Explanation</i></u></p> <p>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. <u>The performance report is authorised for issue when it is signed and dated</u></p>

Table 2: Comments made by respondents (including survey respondents)		
R#	Respondent comment	Staff response/recommendation
R3	We do not agree that the statement of financial performance (as provided in A148.2) or the statement of receipts and payments (as provided in A69.2) is the correct place to have the authorisation. We see no preference in either the Tier 3 or Tier 4 to suggest that one statement has a greater level of importance than any other within the performance report. Given the emphasis in recent years on the need and requirement of the statement of service performance, we believe that is a better place for the authorisation date and signatures.	<p><u>by the body or individuals with the authority to approve the performance report for issue.</u></p> <p>...</p> <p>We would make the same amendment to paragraph A150.1 of the public sector Tier 3 standard and to paragraphs A69.1 and A72.1 of the not-for-profit and public sector Tier 4 standards respectively.</p> <p>Appendix B contains extracts from the performance reports of some Tier 3 and Tier 4 entities to illustrate how those reports have been authorised for issue. Although the majority of Tier 3 entities sign at the bottom of the statement of financial position, practice varies. One Tier 3 entity signed at the bottom of the statement of service performance as suggested by R3. Of the ten Tier 4 entities we looked at, only two contained signatures. There was no consistency as to where the performance report was signed.</p> <p>As we provide templates that sit alongside the Tier 3 and Tier 4 standards we will add the Tier 3 requirement to the statement of financial position and the Tier 4 requirement to the statement of receipts and payments. The positioning of the requirements in the Tier 3 and Tier 4 Standards will also reflect this.</p> <p>However, in light of R3's comments we recommend that we change the requirement in the standards to not specify where in the performance report the date and signature should sit. The important point is that a signature and date be included in the performance report. If an entity wishes to insert a separate page for the approval of the performance report, this option will be available.</p>

Table 2: Comments made by respondents (including survey respondents)		
R#	Respondent comment	Staff response/recommendation
		<p>We recommend the following change to the wording in paragraph A148.2 (proposed changes from those in the ED are underlined):</p> <p>...</p> <p><b>Required Information</b></p> <p>A148.2 An entity shall disclose <u>in the performance report</u> <del>at the bottom of the statement of financial position</del> the date the performance report was approved and authorised for issue, <del>and</del> who gave that authorisation <u>and the relevant signature(s)</u>.</p> <p>...</p> <p>We would make the same amendment to paragraph A150.2 of the public sector Tier 3 standard and to paragraph A69.2 and A72.2 of the not-for-profit and public sector Tier 4 standards respectively.</p>
R3	<p>We also see the need to extend the suggested wording in clauses A148.2 and A69.2 as the requirement is simply to have a date and a name and no more. What does that mean for the users? For example, based upon the wording in clause A69.2, this is wording we would add to the bottom of the statement of receipts and payments:</p> <p>“Date Approved: Name of Person who gave the Authorisation:”</p>	<p>Survey respondent also made this comment, we now explicitly require the signature(s) (see redrafted paragraph A148.2 above).</p>
R3	<p>We believe that the intent and therefore the wording of clause A69.2 is as follows (but on the statement of service performance):</p> <p>The Parish Stewards of ABC Parish have authorised the release of the performance report on pages 1 to x as a faithful representation of its financial performance on 1 May 2018.</p>	<p>The new requirement to sign and date the performance report was based on the requirement in PBE IPSAS 14 <i>Events after the Reporting Date</i>. PBE IPSAS 14 does not include a requirement to state the financial statements are a faithful representation of the performance of the entity.</p> <p>We note from our searches on the Charities Register that some entities are preparing a statement of responsibility. Entities can do this if they wish.</p>

Table 2: Comments made by respondents (including survey respondents)										
R#	Respondent comment	Staff response/recommendation								
R3	For those entities that have an audit or review, the date of authorisation is also discussed and measured with regard to the audit or review process in place to ensure that the date correctly aligns with the date on the audit certificate issued by the independent qualified person (assuming they follow international audit and review standards). However, for those entities that do not require and audit or review, the XRB may wish to provide guidance as to when the authorisation should be given.	<p>The Tier 3 standards require that ...the performance report shall present fairly (or “provide a true and fair view” of) the entity’s service performance, financial performance...</p> <p>We recommend we add the following to the templates:</p> <p>...</p> <p>On this date the [Trustees/Committee/Officers/Board] approve and issue the performance report:</p> <table><tr><td>_____</td><td>Date</td></tr><tr><td>_____Signature</td><td>_____Signature</td></tr><tr><td>_____Name</td><td>_____Name</td></tr><tr><td>_____Position</td><td>_____Position</td></tr></table> <p>...</p> <p>We recommend that we include in the explanatory guide guidance on when authorisation of the performance report should be given (see agenda item 10.5).</p>	_____	Date	_____Signature	_____Signature	_____Name	_____Name	_____Position	_____Position
_____	Date									
_____Signature	_____Signature									
_____Name	_____Name									
_____Position	_____Position									
Q5. Do you agree with the proposed amendments to the Tier 4 standards arising from the 2017 Amendments to XRB A1?										
Survey	In our submission on XRB ED 2017 <i>Proposed Amendments to XRB A1</i> we were supportive of amending Standard XRB A1 <i>Application of the Accounting Standards Framework</i> so that the Tier 4 criteria was based on the combined operating payments of the entity plus any controlled entities. At that time we raised our concern that there were no consequential amendments to the Tier 4 standards to	<p>We partially agree with the survey respondent.</p> <p>Where the total operating payments of the group are more than \$125,000 in each of the two preceding accounting periods, the controlling entity would be required to prepare</p>								

Table 2: Comments made by respondents (including survey respondents)		
R#	Respondent comment	Staff response/recommendation
	<p>align them. The clarification that no consolidation is required will be well received. Although we recommend the reference to “financial statements” in proposed paragraphs 2.1 be changed to “performance report”.</p> <p>Proposed paragraph 2.1 per the ED is shown below.</p> <p><b>Scope</b></p> <p>...</p> <p>2.1 <u>Where an entity controls<sup>1</sup> one or more entities and the total combined operating payments<sup>2</sup> 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.</u></p> <p><sup>1</sup> <u>An entity determines whether it controls another entity in accordance with generally accepted accounting practice (GAAP). Explanatory Guide A9 <i>Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes</i> 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.</u></p> <p><sup>2</sup> <u>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.</u></p>	<p>consolidated financial statements using the appropriate tier of financial reporting requirements (Tier 1, Tier 2 or Tier 3). If the entity reported under Tier 2 then the term used in PBE IPSAS 35 <i>Consolidated Financial Statements</i> is “consolidated financial statements”. However, if the entity reported under Tier 3 the term used in the Tier 3 standards is “consolidated performance report” (a defined term in the glossaries of the Tier 3 standards).</p> <p>To be correct in both of the above instances we recommend the paragraph 2.1 in the Tier 3 standards is amended to read (proposed changes from those in the ED are underlined):</p> <p>2.1 Where an entity controls<sup>1</sup> one or more entities and the total combined operating payments<sup>2</sup> 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/<u>consolidated performance report</u>.</p>
R2	<p>Yes. However, Tier 4 entities which control other entities should be at least reminded that these entities and the relationship should be divulged as part of a related party transaction note at the very least. I can understand that there is reticence to increase the preparation cost to require consolidated cash accounts, but this should not be an excuse to ‘hide’ other entities.</p>	<p>The Board discussed this issue at its December 2017 meeting (agenda item 8.1).<sup>1</sup> At that meeting the Board agreed not to amend the Tier 4 standards to require the disclosure of controlled/controlling entity relationships. Staff had noted at the December 2017 meeting that Controlled/controlling entity relationships <u>could</u> be included in the entity information section of the performance report. The entity information section includes a requirement to provide: “A description of the structure of the entity’s operations (including governance arrangements) ...”. The</p>

<sup>1</sup> <https://www.xrb.govt.nz/information-hub/board-meetings/nzasb/14-december-2017/>

Table 2: Comments made by respondents (including survey respondents)		
R#	Respondent comment	Staff response/recommendation
		<p>accompanying guidance notes include the following:            "...Describe the relationship of the entity to any other body, for example: affiliation with an umbrella group; external related parties; and any other entities with which it co-operates in the pursuit of its objectives.". We acknowledge this does not refer to control directly.</p> <p>In line with the Board's earlier decision, we recommend no amendments are made to the Tier 4 standards at this stage and that we add this to the list of issues to be reconsidered as part of the PiR.</p>
<b>Q6. Do you have any other comments on ED NZASB 2018-2?</b>		
Survey	Should paragraph A10 also link in/ be the same or similar with the assertions in the auditing standards in <u>ISA (NZ) 315 (Revised) Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment</u> paragraph A129.	<p>We do not agree with the survey respondent. The assertions in the auditing standard are not the same as the qualitative characteristics in the PBE Conceptual Framework.</p> <p>We recommend no change to address this matter.</p>
R3	<p>Related Party Transactions We disagree with the removal of the word "significant" from the clauses that relate to Related Party Transactions for Tier 3 and 4 reporting entities. While the use of the word "significant" requires a certain amount of judgement, there are many other aspects to the production of the performance reports that require an equal amount of judgement. We believe that by retaining the concept of "significant" would mean that insignificant related party transactions which have no bearing on the user's interpretation or usefulness of the performance reports would not be individually reported.</p> <p>We note that the words "significant" have been removed from clause A202 of the Tier 3 reporting standard but not from clause A206. We are at a loss to understand why it would be removed from the Explanation when it is not removed from the Requirements clauses. The same issue arises in the Tier 4 reporting standards. What is actually achieved?</p>	<p>Paragraph A202 explains what comprises a related party transaction, which can be a normal business transaction or a transaction at below market prices.</p> <p>Paragraph A206 requires the disclosure of related party transactions on normal terms that are significant to the entity, and disclosure of related party transactions not on normal terms whether significant or insignificant.</p> <p>We recommend no changes to the proposals in the ED to address this matter.</p>



Table 2: Comments made by respondents (including survey respondents)		
R#	Respondent comment	Staff response/recommendation
	<p>The proposed change to paragraph 202 per the ED is shown below.</p> <p>...</p> <p><b><i>Related Party Transactions</i></b></p> <p><i>Explanation</i></p> <p>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 <del>significant</del> normal business transactions as well as <del>significant</del> transactions below market price (including the provision of free goods or services).</p> <p>...</p> <p><i>Requirements</i></p> <p>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:</p> <ul style="list-style-type: none"> <li>(a) The transaction is significant to the entity (individually or in aggregate with similar transactions); or</li> <li>(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.</li> </ul> <p>...</p>	

12. We would like the Board to note that we also received feedback in an email from a constituent (via Charities Services). The constituent expressed concerns that compliance with Tier 3 and Tier 4 PBE Requirements unnecessarily redirects volunteer time away from the charitable activities of the entity. The constituent did not provide any direct comments on the proposed amendments.

<b>Question for the Board</b>
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|--|
| Q1 Does the Board agree with the staff recommendations in Table 2 above? |
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**Corrections to glossaries**

13. In January 2017 the Board issued five PBE Standards dealing with interests in other entities, namely PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures*, PBE IPSAS 37 *Joint Arrangements* and PBE IPSAS 38 *Disclosure of Interests in Other Entities*. These five standards made consequential amendments to other PBE Standards and to the Tier 3 standards. The consequential amendments included amendments to defined terms such as control and joint control.
14. When staff were compiling these consequential amendments to the Tier 3 standards (in preparation of the 1 January 2019 effective date), they identified that amendments to the terms control, controlled entity, controlling entity and economic entity were not included in the consequential amendments. Staff had initially proposed amendments to these terms in the Tier 3 simple format reporting standards (as consequential amendments to PBE IPSAS 35). These proposals were tabled at the Board's March 2015 meeting but, prior to EDs being issued, the consequential amendments to the Tier 3 standards were combined in PBE IPSAS 34. During the process of combining the consequential amendments in PBE IPSAS 34, some of the amendments to the defined terms in the Tier 3 standards were inadvertently omitted.
15. While these amendments to the Glossary were not exposed for comment, the ITC which accompanied the EDs stated that "To the extent that Tier 3 PBEs have interests in other entities, the Invitation to Comment is also relevant to those entities". As the Tier 3 standards refer entities to PBE IPSAS 35, it is important that the terms in the glossaries to the Tier 3 standards are the same as the Glossary to the PBE Standards. We are therefore proposing to include these amendments to the glossaries to the Tier 3 standards in the *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*. We would include these in a separate section of the amending standard entitled "Corrections to glossaries". The proposed amendments are set out below.

## Part D: Correction to glossaries

The following corrections are made to the Glossaries in PBE SFR–A (NFP) *Public Benefit Entity Simple Format Reporting–Accrual (Not-For-Profit)* and PBE SFR–A (PS) *Public Benefit Entity Simple Format Reporting–Accrual (Public Sector)*. This error occurred when PBE IPSASs 34 to 35 dealing with interests in other entities were issued in January 2017. At that time the Glossaries were updated for some, but not all, of the relevant definitions in these standards.

	Correction
Control	<del>The power to govern the financial and operating policies of another entity so as to benefit from its activities.</del> <u>An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.</u>
Controlled entity	<del>An entity, including an unincorporated entity such as a partnership, which is under the control of another entity (known as the controlling entity).</del> <u>An entity that is controlled by another entity.</u>
Controlling entity	<del>An entity that has one or more controlled entities.</del> <u>An entity that controls one or more entities.</u>
Economic entity	<del>A group of entities comprising a controlling entity and one or more controlled entities.</del> <u>A controlling entity and its controlled entities.</u>

### Question for the Board

- Q2 Does the Board agree with the recommendation to include the amendments to the Glossaries in the *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*

### Due process

16. The ED was on exposure for three months. The online survey was also open for the same time.
17. 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.
18. 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.

### Attachments

- Agenda item 10.2 Submissions received
- 10.2.1 BDO
  - 10.2.2 Carolyn Cordery
  - 10.2.3 Board of Administration Methodist Church of NZ

- Agenda item 10.3: Amending standard: *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*
- Agenda item 10.4: Draft signing memorandum
- Agenda item 10.5 Draft amendments to explanatory guides

16 March 2018

Mr Warren Allen  
The Chief Executive  
External Reporting Board  
PO Box 11250  
Manners St Central  
Wellington  
6142

Dear Sir

**Requests to comment on Exposure Draft ED NZASB 2018-2 *Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements***

Thank you for the opportunity to comment on the above Exposure Draft.

We are making this submission to you to assist the New Zealand Accounting Standards Board (NZASB) with the above Exposure Draft. We are happy for you to publish our comments publically.

In responding we have addressed the specific questions for respondents in Appendix 1.

More information on BDO is provided in Appendix 2 to this letter.

We hope that our responses and comments are helpful. Should you wish to discuss any of the points we have raised please contact me (michael.rondel@bdo.co.nz) should you have any queries or require further information.

Yours faithfully,



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## **Appendix 1 - Response to questions**

### **Question 1**

Do you agree with the proposed amendments to the Tier 3 standards to align terminology and concepts with the PBE Conceptual Framework? If you disagree, please provide reasons.

**Yes, we agree with the proposed amendments to align terminology and concepts with the PBE Conceptual Framework.**

### **Question 2**

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.

**Yes, we agree with the proposed amendments to clarify the accounting treatment for the reversal of impairment charges for assets.**

### **Question 3**

Do you agree with the proposed amendments to the Tier 3 standards to clarify the opting up requirements? If you disagree, please provide reasons.

**Yes, we agree with the proposed amendments to clarify the opting up requirements.**

### **Question 4**

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.

**Yes, we agree with the proposed amendments to require disclosure of the date of approval and authorisation of the performance report.**

### **Question 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.

**Yes, we agree with the proposed amendments to the Tier 4 standards arising from the 2017 Amendments to XRB A1.**

### **Question 6**

Do you have any other comments on ED NZASB 2018-2?

**We have no further comments on ED NZASB 2018-2.**

## **Appendix 2 - Information on BDO**

1. BDO New Zealand is a network of eleven independently owned accounting practices, with sixteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency.
3. BDO in New Zealand has 89 partners and over 800 staff.
4. BDO firms throughout New Zealand have a significant number of clients in the not-for-profit sector.
5. Five BDO firms in New Zealand (BDO Auckland, BDO Christchurch, BDO Northland, BDO Waikato and BDO Wellington) are registered audit firms and thirteen audit partners are licensed auditors.
6. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 67,700 people in over 1,400 offices across over 158 countries and territories.

Warren Allen  
Chief Executive  
External Reporting Board  
P O Box 11250  
Manners St Central  
Wellington 6142

Dear Warren

**Submission on ED NZASB 2018-2**  
**Omnibus Amendments to Tier 3 and Tier 4 PBE Reporting Requirements**

Thank you for the opportunity to make a submission on the above ED. This small number of changes ahead of a more comprehensive post implementation review are sensible and should result in very little extra cost to preparers.

I have answered the questions below:

1. Do you agree with the proposed amendments to the Tier 3 standards to align terminology and concepts with the PBE Conceptual Framework?

Yes, however I suggest that paras A182(b) in the not-for-profit standards and A184(b) in the public sector standards allow for an accounting policy change if it provides more faithfully representative **and/or** more relevant information, rather than mere 'or', as it is likely that more representative information could also help decision-making and therefore be more relevant.

2. 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?

Yes, although arguably para A115 does not need the word 'back' in 'revert back'.

3. Do you agree with the proposed amendments to the Tier 3 standards to clarify the opting up requirements?

Yes.

4. 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?

Yes

5. Do you agree with the proposed amendments to the Tier 4 standards arising from the 2017 Amendments to XRB A1?

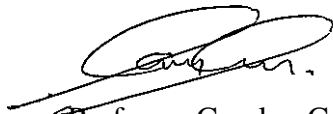
Yes. However Tier 4 entities which control other entities should be at least reminded that these entities and the relationship should be divulged as part of a



related party transaction note at the very least. I can understand that there is reticence to increase the preparation cost to require consolidated cash accounts, but this should not be an excuse to 'hide' other entities.

I trust these are helpful in finalizing the changes.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Carolyn Cordery', with a long horizontal line extending to the left.

Professor Carolyn Cordery,  
Aston Business School

# **Submission on Exposure Draft NZASB 2018-2**

## **2018 Omnibus Amendments to Tier 3 and Tier 4 PBE**

### **Accounting Requirements**

#### **Background**

##### **Methodism in New Zealand-Foundation**

On 22 January 1822, the Rev. Samuel Leigh and his wife arrived in New Zealand to begin the Wesleyan Methodist Mission. They had been appointed to mission work in the colony by the Wesleyan Methodist Conference in England, and they thus represented missionary zeal that marked Methodism almost from its inception under John and Charles Wesley. By the late nineteenth century the Wesleyans, Primitive Methodists, Free Methodists, and Bible Christians (all to be joined in 1913 to form the Methodist Church of New Zealand) were meeting in almost 1,000 churches, halls, and houses, and there were over 100,000 people attending the services.

Based upon 2013 census data, 3% of those people who reported a religious affiliation indicated they were Methodist. This accounts for just under 103,000 people. The Methodist Church is the 5<sup>th</sup> largest Christian based Church within New Zealand.

The Methodist Church of New Zealand (the Church) was instrumental in gathering signatories for the Treaty of Waitangi, supporting Maori and developing a bi cultural Church to further meet obligations under the Treaty.

The Church has moved from the traditional view of “mission” within the new colony of New Zealand and has broadened its approach as the needs of New Zealanders and society have changed. The focus on social justice is strong within the modern Methodist Church of New Zealand.

#### **Vision Statement**

Te Haahi Weteriana O Aotearoa – The Methodist Church of New Zealand is a Church:

- ❖ Passionate in its commitment to living out the love and grace of God known in Jesus Christ;
- ❖ Actively concerned with all life;
- ❖ Committed to the Treaty of Waitangi and to talking and walking justice.

Strategy: To achieve this vision the Church will:

- ❖ Creatively focus its people, finances and resources in the life and Mission of the Church.
- ❖ Empower the people to live out the Vision by establishing cost effective:

- communication networks;
- accessible education opportunities
- ❖ Constantly evaluate its work against the Vision Statement.

## The Churches Need to Produce Performance Reports

The Church is made up of a number of entities which are a mix of unincorporated societies of church members, registered charitable trust registered under the Charitable Trust Act 1957 and companies registered under the Companies Act 1993.

The Church is required to produce and have audited Performance Reports due to either the requirements of specific Trust Deeds that are in place, legislation or specific policy requirements within the Church.

The Church believes that it has taken both a pragmatic and forward looking approach to the production of performance reports (annual financial statements) and early adopted the Tier 3 and 4 reporting standards a year before the commencement date.

In 2017 the Connexional Office of the Methodist Church received 140 sets of accounts. A breakdown of which Tiers all of these sets of accounts falls into is shown in Table 1. You will note that the audit committee of the Church was unable to determine which Tier a set of financial statements would fall into based upon the financial statements presented in 40 sets of accounts. There is still work to be done.

<b>Tier</b>	<b>Number</b>	<b>%</b>
Tier 1	1	0.71%
Tier 2	9	6.43%
Tier 3	73	52.14%
Tier 4	17	12.14%
Unknown	40	28.58%

The XRB will note the concentration of Tier 3 and Tier 4 reporting entities and the Church believes that most, if not all of the 40 “Unknown” would fall within the Tier 4 reporting standard.

## Responses to the Exposure Draft

Our response to the exposure draft is taken from the view of the primary users of the financial statements (that is internal church members and governance committees within the Church) and the preparers of the Performance Reports (who are mainly aged between 51 and 70 years of age, mainly volunteers with less than 5% being members of an accounting professional body).

### Changes in Terminology

We understand that the change in terminology that is proposed from “reliability” to “faithful representation” to Tier 3 reporting standards would align the Tier 3 reporting standards back to the PBE Conceptual Framework, but we believe that this does not seem to add value to the

final performance reports. We would suggest from a user and preparers point of view, the way they prepare and issue the Performance Report will not change.

Our concern also, regarding the wording change, is the legal ramifications associated with the change. It would appear from some commentators that a number of accounting academics do not see the practical need for the change as the outcome to the performance reports does not change. The terms “reliability” and “faithful representation” are, as suggested in the Exposure Draft, qualitative and therefore firstly reliant on the preparer knowing what the users (and possibly an independent reviewer or auditor) believe to be a “faithful representation”.

Our submission simply is, if the changes suggested do not add value to the users, then why?

### Presentation of the Entity's Performance

Clause A10(b)(ii) is being amended on the basis that terminology is being changed from the use of the word “Reliability” to “Faithful representation” and adding to the definition that “Information is complete, neutral and free from material error.”

We are concerned that the inclusion of this wording will mean that someone will need to make a judgement call on the materiality level for the performance report that then allows for the information presented to be complete.

Tier 3 and 4 reporting standards were intended to be used by preparers and users with little or no understanding of the formal accounting processes required by International Public Sector Accounting Standards. There is little understanding about the concept of “materiality” from an accounting perspective within the current preparers of the performance reports as the vast majority of them are not accounting professional. Care needs to be taken when such changes are being made and who the audience is.

### Accounting for Revenue

We agree with the concepts and wording being introduced into clause A62 and Table 1 of the Tier 3 Standard.

### Reversal of Impairment Charges

The suggested wording in clause A107.1 is confusing for the preparers. We believe that the wording should read:

*A107.1 If there is any indication that a prior impairment charge which has been recognised in a prior period for an asset no longer exists or that the level of the impairment has decreased (i.e. if it is apparent that an asset is recorded in the performance report at an amount lower than its current net realisable value), an entity shall reverse all or part of the previous impairment charge.*

We do not understand the requirement in the wording in A107.2 (b). We assume that this wording has been written on the basis that the investment is held on the balance sheet at cost rather than at fair value. We believe that the wording for investments should be similar to the intent of clause A107.2(c) which deals with property, plant and equipment.

### Revaluation of Property, Plant and Equipment

While this is not being addressed in this Exposure Draft, we feel that parts of clause A114 of the Tier 3 standard needs further clarification. The clause uses the words “the relevant requirements of PBE IPSAS 17”. Who determines which parts of PBE IPSAS 17 are relevant to the performance report of the reporting entity and what are, and what are not relevant? We are unsure whether the words should be in clause A114.

### Revaluation of Property, Plant and Equipment

We would agree with the minor wording changes in clauses A115 to A118 suggested in the Tier 3 reporting standard.

### Requirement to Sign and Date the Performance Report

We agree with this amendment as we have had that requirement in place since the introduction of the new financial reporting standards. We believe it is good practice.

While the exposure draft seemed to confuse the terminology as to the reasons why the performance report requires a date and signature (see page 11 with references regarding “authorised for issue” and “the date of finalisation”, which seem to be two different concepts). We believe that the correct terminology is the date when the performance report is “authorised for use” and therefore A148.1 and A148.2 (including the heading should reflect that terminology in a consistent manner). It would also helpful to define what the expectations of the XRB are in relation to what that term means.

We do not agree that the statement of financial performance (as provided in A148.2) or the statement of receipts and payments (as provided in A69.2) is the correct place to have the authorisation.

We see no preference in either the Tier 3 or Tier 4 to suggest that one statement has a greater level of importance than any other within the performance report. Given the emphasis in recent years on the need and requirement of the statement of service performance, we believe that is a better place for the authorisation date and signatures.

We also see the need to extend the suggested wording in clauses A148.2 and A69.2 as the requirement is simply to have a date and a name and no more. What does that mean for the users? For example, based upon the wording in clause A69.2, this is wording we would add to the bottom of the statement of receipts and payments:

*“Date Approved:*

*Name of Person who gave the Authorisation:”*

We believe that the intent and therefore the wording of clause A69.2 is as follows (but on the statement of service performance):

*The Parish Stewards of ABC Parish have authorised the release of the performance report on pages 1 to x as a faithful representation of its financial performance on 1 May 2018.*

For those entities that have an audit or review, the date of authorisation is also discussed and measured with regard to the audit or review process in place to ensure that the date correctly aligns with the date on the audit certificate issued by the independent qualified person (assuming they follow international audit and review standards).

However, for those entities that do not require an audit or review, the XRB may wish to provide guidance as to when the authorisation should be given.

### [Amendments Arising from Changes to XRB A1](#)

#### [Tier 4 “Controlled Entities”](#)

We agree with the wording presented in the suggested wording under “Scope”, that is the new wording in suggested clause 2.1. The Methodist Church has already dealt with this issue and assumed the intention of the standard included the controlled entities, as suggested in the Exposure Draft.

This assumes that the definitions of “operating payments” and “capital payments” as set out in XRB A2 do not change from their present definitions.

We also assume that when a preparer is looking at which tier the entity should elect, it will first look at all of the cash transactions in all bank accounts of the reporting and controlled entities, it will remove all payments that are between the reporting entity and the controlled entities AND THEN look at the remaining transactions to see which are operating and which are capital and from that point determine if the operating payments are below the statutory thresholds.

If preparers were following XRB A1 correctly (and making the assumption the entity has correctly determined that it is a PBE) they should all be preparing financial statements using Tier 1, given the default situation is Tier 1 (paragraph 60 of EG A1). Without undertaking this, an entity cannot make a determination if it needs to assess whether it can elect a lower Tier of reporting and they would have (or should I say should have) taken into account the entities they controlled. While I do not believe this is the correct approach, that is to say the default position should be Tier 1, it is the approach the XRB have determined. I do not believe that preparers of performance reports would even contemplate this as the default position.

#### [Related Party Transactions](#)

We disagree with the removal of the word “significant” from the clauses that relate to Related Party Transactions for Tier 3 and 4 reporting entities.

While the use of the word “significant” requires a certain amount of judgement, there are many other aspects to the production of the performance reports that require an equal amount of judgement. We believe that by retaining the concept of “significant” would mean that insignificant related party transactions which have no bearing on the user’s interpretation or usefulness of the performance reports would not be individually reported.

We note that the words “significant” have been removed from clause A202 of the Tier 3 reporting standard but not from clause A206. We are at a loss to understand why it would be removed from the Explanation when it is not removed from the Requirements clauses. The same issue arises in the Tier 4 reporting standards. What is actually achieved?

**Peter van Hout**

**Financial Services Manager**

**Board of Administration Methodist Church of New Zealand**

**31 May 2018**



NZ ACCOUNTING  
STANDARDS  
BOARD

## 2018 OMNIBUS AMENDMENTS TO TIER 3 AND TIER 4 PBE ACCOUNTING REQUIREMENTS

This Standard was issued on 5 July 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 2 August 2018.

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 D.

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 has been issued to amend the Tier 3 and Tier 4 PBE Accounting Requirements for the following:

- (a) To align terminology and concepts with terminology and concepts in the *Public Benefit Entities' Conceptual Framework*;
- (b) To make limited changes to clarify existing requirements;
- (c) To add a requirement to sign and date the performance report;
- (d) To reflect amendments arising from the *2017 Amendments to XRB A1 Application of the Accounting Standards Framework*;
- (e) Minor editorial amendments; and
- (f) Corrections to the glossaries.



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## Part A: Introduction

This Standard includes:

- (a) Amendments to align terminology and concepts with terminology and concepts in the *Public Benefit Entities' Conceptual Framework* (PBE Conceptual Framework). These amendments are to the Tier 3 standards only;
- (b) Clarification of existing requirements;
- (c) Addition of a requirement to sign and date the performance report;
- (d) 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;
- (e) Minor editorial amendments; and
- (f) Corrections to the glossaries (Tier 3 Standards).

## 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 and A202, Table 1: *Recording of Specific Types of Revenues* (follows paragraph A62), Table 2: *Recording of Specific Types of Expenses* (follows paragraph A80) and Table 3: *Recording of Specific Types of Asset* (follows paragraph A107) 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<sup>1</sup> 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).

<sup>1</sup>. 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 June 2018, amended paragraphs 6, 7, 8, 9, A10, A113, A114, A115, A180, A182 and A202, Table 1: *Recording of Specific Types of Revenues* (follows paragraph A62), Table 2: *Recording of Specific Types of Expenses* (follows paragraph A80), Table 3: *Recording of Specific Types of Asset* (follows paragraph A107) and the Glossary, 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 1 January 2019. 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<sup>1</sup> 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.

<sup>1</sup> 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
<b>Donations, fundraising and other similar revenue</b>		
...		
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.
...		
<b>Revenue from providing goods or services</b>		
...		
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
...		
<b>Other expenses</b>		
...		

Source	When to Record	Comments
Impairment charges (changes in the value of assets) <u>Reversal of an impairment charge recorded in a prior period</u>	Record the expense when it is apparent that an asset is recorded at an amount that is greater than its net realisable value.  <u>Reverse the expense when there is an indication that an impairment charge recorded in a prior period may no longer exist or may have decreased.</u> (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*

...	
<b>Other Assets</b>	
When to record	When: (a) The asset is acquired; and (b) The asset has a cost or value that can be measured reliably. <sup>(a)</sup>
...	
<sup>(a)</sup> Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.	

**Reversal of Impairment Charges**

A107.1 If there is any indication that an impairment charge recorded in prior periods for an asset:

- (a) May no longer exist; or
- (b) May have decreased (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value);  
  
an entity shall reverse all or part of that impairment charge.

A107.2 The reversal of the impairment charge shall:

- (c) In the case of inventories, be limited to the amount of the original write-down;
- (d) In the case of investments, not result in the carrying amount of the asset being recorded at more than its original cost; and
- (e) 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 has increased significantly over that asset's life (such as land or a building).

A114. If an entity wishes to revalue ~~a~~ 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.

...

#### Approval and Issue of Performance Report

##### Explanation

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. The performance report is authorised for issue when it is signed and dated by the body or individuals with the authority to approve the performance report for issue.

##### Required Information

A148.2 An entity shall disclose in the performance report the date the performance report was approved and authorised for issue, who gave that authorisation and the relevant signature(s).

...

#### *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, Table 2 *Recording of Specific Types of Expenses* (follows paragraph A83) and Table 3: *Recording of Specific Types of Asset* (follows paragraph A109) 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<sup>1</sup> 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).

<sup>1</sup>. 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 A1802).

...

### **Effective Date**

...

14. 2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements, issued in June 2018, amended paragraphs 6, 7, 8, 9, A11, A115, A116, A117, A182 and A184, Table 2 *Recording of Specific Types of Expenses* (follows paragraph A83), Table 3: *Recording of Specific Types of Asset* (follows paragraph A109) and the Glossary, 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 1 January 2019. 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)  <u>Reversal of an impairment charge recorded in a prior period</u>	Record the expense when it is apparent that an asset is recorded at an amount that is greater than its net realisable value.  <u>Reverse the expense when there is an indication that an impairment charge recorded in a prior period may no longer exist or may have decreased.</u> (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

...	
<b>Other Assets</b>	
When to record	When: (a) The asset is acquired; and (b) The asset has a cost or value that can be measured reliably. <sup>(a)</sup>
...	
(a) <u>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.</u>	

**Reversal of Impairment Charges**

A109.1 If there is any indication that an impairment charge recorded in prior periods for an asset

- (a) May no longer exist; or
- (b) May have decreased (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value);

an entity shall reverse all or part of that impairment charge.

A109.2 The reversal of the impairment charge shall:

- (c) In the case of inventories, be limited to the amount of the original write-down;
- (d) In the case of investments, not result in the carrying amount of the asset being recorded at more than its original cost; and
- (e) 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 has increased significantly over that asset's life (such as land or a building).

A116. If an entity wishes to revalue ~~a class of assets~~, it shall apply the relevant requirements of PBE IPSAS 17 *Property, Plant and Equipment*, except that the entity may use the current rateable or government valuation (rather than fair value as required by PBE IPSAS 17) when revaluing. Where this is the case, the entity shall disclose the source and date of the valuation in the notes to the performance report.

A117. It is important to note that once property, plant and equipment is revalued, the requirements of ~~Tier 2 PBE Accounting Standards~~ mean that it is likely that the entity will need to continue measuring ~~those assets that class of assets~~ at revalued amounts thereafter (rather than reverting ~~back~~ to asset cost).

A118. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may choose to disclose that current value, and the basis (such as the, rateable or government valuation) and date of that valuation in the notes to the performance report.

...

#### Approval and Issue of Performance Report

##### Explanation

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. The performance report is authorised for issue when it is signed and dated by the body or individuals with the authority to approve the performance report for issue.

##### Required Information

A150.2 An entity shall disclose in the performance report the date the performance report was approved and authorised for issue, who gave that authorisation and the relevant signature(s).

...

#### *Specific Accounting Policies*

...

A182. Where an entity has elected to apply the requirements of a PBE Standard that is part a provision of the Tier 2 PBE Accounting ~~Standards~~ Requirements in place of a requirement of this Standard (see paragraphs 7–9), the ~~Tier 2 PBE Accounting~~ Standard applied shall be disclosed.

#### **Changes in Accounting Policies**

...

A184. An entity shall change an accounting policy only if the change:

- (a) Is required by this Standard; or
- (b) Is in accordance with this Standard and results in the statements providing more ~~reliable~~ faithfully representative or more relevant information about the effects of transactions or other events and conditions on the entity's service performance, financial performance, financial position, or cash flows.

## **PBE SFR–C (NFP) *Public Benefit Entity Simple Format Reporting–Cash (Not-For-Profit)***

Paragraph A109 is amended and paragraphs 2.1, 7, A69.1 and A69.2 are added. New text is underlined and deleted text is struck through.

...

### **Scope**

...

2.1 Where an entity controls<sup>1</sup> one or more entities and the total combined operating payments<sup>2</sup> 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/consolidated performance report.

<sup>1</sup> An entity determines whether it controls another entity in accordance with generally accepted accounting practice (GAAP). Explanatory Guide A9 *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.

<sup>2</sup> 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 June 2018, amended paragraph A109 and added paragraphs 2.1, A69.1 and A69.2. An entity shall apply those amendments for periods beginning on or after 1 January 2019. 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.*

...

### **Approval and Issue of Performance Report**

#### **Explanation**

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. The performance report is authorised for issue when it is signed and dated by the body or individuals with the authority to approve the performance report for issue.

#### **Required Information**

A69.2 An entity shall disclose in the performance report the date the performance report was approved and authorised for issue, who gave that authorisation and the relevant signature(s).

...

### **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<sup>1</sup> 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/consolidated performance report.

<sup>1</sup> 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 June 2018, added paragraphs 2.1, A72.1 and A72.2. An entity shall apply those amendments for periods beginning on or after 1 January 2019. 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.*

...

### **Approval and Issue of Performance Report**

#### **Explanation**

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. The performance report is authorised for issue when it is signed and dated by the body or individuals with the authority to approve the performance report for issue.

#### **Required Information**

A72.2 An entity shall disclose in the performance report the date the performance report was approved and authorised for issue, who gave that authorisation and the relevant signature(s).

## Part D: Correction to glossaries

The following corrections are made to the Glossaries in PBE SFR–A (NFP) *Public Benefit Entity Simple Format Reporting–Accrual (Not-For-Profit)* and PBE SFR–A (PS) *Public Benefit Entity Simple Format Reporting–Accrual (Public Sector)*. New text is underlined and deleted text is struck through.

This error occurred when PBE IPSASs 34 to 35 dealing with interests in other entities were issued in January 2017. At that time the Glossaries were updated for some, but not all, of the relevant definitions in these standards.

### Correction

Control	<del>The power to govern the financial and operating policies of another entity so as to benefit from its activities.</del> <u>An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.</u>
Controlled entity	<del>An entity, including an unincorporated entity such as a partnership, which is under the control of another entity (known as the controlling entity).</del> <u>An entity that is controlled by another entity.</u>
Controlling entity	<del>An entity that has one or more controlled entities.</del> <u>An entity that controls one or more entities.</u>
Economic entity	<del>A group of entities comprising a controlling entity and one or more controlled entities.</del> <u>A controlling entity and its controlled entities.</u>



## **Part E: Effective date**

The amendments are effective for periods beginning on or after 1 January 2019. Earlier application is permitted.



NZ ACCOUNTING  
STANDARDS  
BOARD

## Memorandum

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**Date:** 27 June 2018

**To:** Graeme Mitchell, External Reporting Board

**From:** Kimberley Crook, Chair NZASB

**Subject:** ***2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements***

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### Introduction

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* (the amending standard).
2. The amending standard contains limited amendments to the Tier 3 and Tier 4 PBE Accounting Requirements.

### Background information

3. 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)* (Tier 3 standards).
4. 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)* (Tier 4 standards).
5. Sitting alongside each of these four standards is an optional template and associated guidance notes. The NZASB has approved the necessary amendments to the templates and guidance notes that result from the issue of the amending standard.
6. The Tier 3 and Tier 4 standards were 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.

7. The Tier 3 and Tier 4 standards were developed by the NZASB. The NZASB has made very few changes to these standards since they were first issued in order to establish a stable platform for Tier 3 and Tier 4 PBEs. The NZASB wanted to allow entities, particularly registered charities, time to become familiar with the new reporting requirements before any changes were made. The NZASB is aware that any changes to the standards could impose undue costs on these smaller entities. In 2017 the NZASB decided to make some limited scope amendments to the standards.

#### Limited scope of amendments

8. The scope of the amendments contained in this amending standard are limited to amendments to align with other pronouncements such as the PBE Conceptual Framework, clarifications of existing requirements and minor editorials. The only new requirement is the requirement to date and sign the performance report as evidence that it has been approved by the relevant authorised party(ies). This has been added as a direct result of feedback received from a range of stakeholders. The NZASB notes that the performance reports of many entities are already signed and dated.
9. Any other possible changes to the standards will be considered at a later date. Although there was extensive consultation during the development of these standards, the NZASB has become aware of a few implementation issues faced by Tier 3 and Tier 4 PBEs. The NZASB proposes to consider these issues as part of the post-implementation review of the Tier 3 and Tier 4 standards. This post-implementation review is planned for 2019-2020.

#### Due process

10. The NZASB issued ED NZASB 2018-2 *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* (ED NZASB 2018-2) with an accompanying Invitation to Comment (ITC) in February 2018 for a period of three months. Comments were due to the NZASB on 30 May 2018.
11. To make it easier for charities to provide feedback on ED NZASB 2018-2 the NZASB also created a survey on Survey Monkey. The survey was also open for a period of three months. The survey included the questions from the ITC, allowing answers of yes, no or don't know. Respondents were also able to include other comments. Charities Services included an article in their April 2018 newsletter on the proposed amendments and also a link to the survey.
12. The NZASB received three formal submissions. Two of the three respondents agreed with all the proposed amendments.
13. The online survey was completed by 22 respondents. The majority of respondents agreed with the proposals.
14. Comments made by the respondents were considered by the NZASB when finalising the amending standard for issue. Some amendments were made to the proposals in ED NZASB 2018-2 as a consequence of the NZASB considering respondents' comments.

15. The NZASB approved the amending standard for issue in June 2018, effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

**Review of due process**

16. The NZASB reviewed the due process steps for this project at its June 2018 meeting. The NZASB concluded 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.
17. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the standard is likely to require the disclosure of personal information. In the NZASB's view the standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

**Consistency with XRB Financial Reporting Strategy**

18. The Financial Reporting Strategy as set out in the Accounting Standards Framework uses a "user needs" approach. It is based on a multi-standards approach that uses tiers of reporting to match costs and benefits. The NZASB developed simple format reporting standards for smaller PBEs (Tiers 3 and 4) to reflect the small size and reduced level of expertise within entities of this size.
19. The amending standard is a domestic standard.
20. The amending standard is applicable for Tier 3 and Tier 4 PBEs for periods beginning on or after 1 January 2019. Earlier application is permitted.
21. The standards for Tier 3 and Tier 4 PBEs are simplified standards which require the preparation of a performance report. As a consequence of them being simplified standards, no RDR concessions are identified in those standards.
22. The issuance of the amending standard is consistent with the Financial Reporting Strategy.

**Other matters**

23. 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**

24. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

**Attachment**

*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*

Kimberley Crook  
Chair NZASB



NZ ACCOUNTING  
STANDARDS  
BOARD

## Memorandum

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**Date:** 15 June 2018

**To:** NZASB Members

**From:** Lisa Kelsey

**Subject:** Amendments to the Tier 3 and Tier 4 Explanatory Guides

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### Purpose and introduction

1. The purpose of this agenda item is to seek approval of amendments to the Tier 3 and Tier 4 Explanatory Guides.

### Recommendation

2. We recommend that the Board APPROVES the draft amendments to the Tier 3 and Tier 4 Explanatory Guides as set out in Appendix A to this memo.

### Background

3. Sitting alongside each of the Tier 3 and Tier 4 standards is an Explanatory Guide comprising an optional template and associated guidance notes. The guidance notes and templates reflect the requirements of the Tier 3 and Tier 4 standards and include references to paragraphs in the Tier 3 and Tier 4 standards. The flow-on effect of making amendments to the standards is to ensure that changes are also made to the optional template and associated guidance notes.

### Amendments

4. The proposed amendments to the four Tier 3 and Tier 4 explanatory guides are set out in Appendix A to this memo.
5. With our normal explanatory guides, we usually process any updates/amendments and keep the latest copy of the explanatory guide on our website for constituents to access. In the case of the Tier 3 and Tier 4 explanatory guides we are proposing a different approach. The Tier 3 and Tier 4 explanatory guides are very much linked to the Tier 3 and Tier 4 standards. We are proposing to treat the explanatory guides in the same way that we treat the standards. This means we will have a standard and an explanatory guide with an effective date of 1 January 2019. Previous versions of both the standards and the explanatory guides will be available on our website.
6. We have also included history of amendments tables in the optional template and associated guidance notes (not provided in the Board papers). If a charity downloaded a template in its first year of reporting it would make sense for the charity to just roll the template over for the next financial year. When changes are made to the templates we think it will be helpful to

have a history of amendments table so constituents can see what has changed. This would mean rather than having to download a completely new template and start from scratch they can put the amendments through their own template if they so wish.

7. The larger question is how we notify charities of changes made to the standards, guidance notes and templates to ensure our constituents are working with the correct version of the standards and explanatory guides.
8. XRB Staff have already had an initial meeting with Charities Services regarding website content across both the XRB and Charities Services websites. XRB staff will be working with Charities Services to ensure we keep registered charities updated regarding their financial reporting requirements.

## Appendix A

### Amendments to the Tier 3 and Tier 4 Explanatory Guides

These amendments to the explanatory guide are a consequence of the issue of *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*.

#### Amendments to EG A5 Optional template and associated guidance notes for applying Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)

...

Section 2: General is amended. New text is underlined.

#### Consolidated performance report

The Tier 3 not-for-profit standard requires a controlling entity to prepare a consolidated performance report. Refer to paragraph 4.2 of the Tier 3 not-for-profit standard.



Need help with controlled entities? refer to Explanatory Guide A9 Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes.



...



Row SoFPer11 is added. New text is underlined.

Row	Category	PBE SFR-A (NFP) Ref	Explanation																																	
...																																				
SoFPer11	Other expenses	A107.1 & A107.2	<p><u>Reversal of impairment charges</u></p> <p><u>Example – reversal of impairment charge for an item of property, plant and equipment:</u></p> <p><u>Entity A has an item of property, plant and equipment which it purchased for \$5,000 and decided to depreciate on a straight line basis over 5 years. At the end of year 2 the entity recorded an impairment charge of \$1,500 and confirmed that the remaining useful life was still three years. The year 3 depreciation expense reflects the asset’s revised carrying amount allocated over the remaining life of 3 years. At the end of year 3 the entity reversed the impairment charge. The entity can reverse only \$1,000 of the original \$1,500 impairment charge. The asset cannot be recorded at more than the carrying amount, had the impairment not been recorded (see Column B).</u></p>																																	
<table><tr><td></td><td><u>Column A</u> <u>(With</u> <u>impairment</u> <u>charge)</u></td><td><u>Column B</u> <u>(No impairment</u> <u>charge)</u></td></tr><tr><td><u>Cost</u></td><td><u>\$5,000</u></td><td><u>\$5,000</u></td></tr><tr><td><u>Year 1 depreciation</u> <u>(\$5,000/5 years)</u></td><td><u>(\$1,000)</u></td><td><u>(\$1,000)</u></td></tr><tr><td><u>Carrying amount</u></td><td><u>\$4,000</u></td><td><u>\$4,000</u></td></tr><tr><td><u>Year 2 depreciation</u></td><td><u>(\$1,000)</u></td><td><u>(\$1,000)</u></td></tr><tr><td><u>Year 2 impairment</u></td><td><u>(\$1,500)</u></td><td><u>\$0</u></td></tr><tr><td><u>Carrying amount</u></td><td><u>\$1,500</u></td><td><u>\$3,000</u></td></tr><tr><td><u>Year 3 depreciation</u> <u>(\$1,500/3 years)</u></td><td><u>(\$500)</u></td><td><u>(\$1,000)</u></td></tr><tr><td><u>Carrying amount</u></td><td><u>\$1,000</u></td><td><u>\$2,000</u></td></tr><tr><td><u>Reverse impairment</u></td><td><u>\$1,000</u></td><td><u>=</u></td></tr><tr><td><u>Carrying amount</u></td><td><u>\$2,000</u></td><td><u>\$2,000</u></td></tr></table>					<u>Column A</u> <u>(With</u> <u>impairment</u> <u>charge)</u>	<u>Column B</u> <u>(No impairment</u> <u>charge)</u>	<u>Cost</u>	<u>\$5,000</u>	<u>\$5,000</u>	<u>Year 1 depreciation</u> <u>(\$5,000/5 years)</u>	<u>(\$1,000)</u>	<u>(\$1,000)</u>	<u>Carrying amount</u>	<u>\$4,000</u>	<u>\$4,000</u>	<u>Year 2 depreciation</u>	<u>(\$1,000)</u>	<u>(\$1,000)</u>	<u>Year 2 impairment</u>	<u>(\$1,500)</u>	<u>\$0</u>	<u>Carrying amount</u>	<u>\$1,500</u>	<u>\$3,000</u>	<u>Year 3 depreciation</u> <u>(\$1,500/3 years)</u>	<u>(\$500)</u>	<u>(\$1,000)</u>	<u>Carrying amount</u>	<u>\$1,000</u>	<u>\$2,000</u>	<u>Reverse impairment</u>	<u>\$1,000</u>	<u>=</u>	<u>Carrying amount</u>	<u>\$2,000</u>	<u>\$2,000</u>
	<u>Column A</u> <u>(With</u> <u>impairment</u> <u>charge)</u>	<u>Column B</u> <u>(No impairment</u> <u>charge)</u>																																		
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<u>Year 1 depreciation</u> <u>(\$5,000/5 years)</u>	<u>(\$1,000)</u>	<u>(\$1,000)</u>																																		
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<u>Carrying amount</u>	<u>\$2,000</u>	<u>\$2,000</u>																																		
.....																																				

Row SoFPos26 is added.

Row	Category	PBE SFR-A (NFP) Ref	Explanation
...			
SoFPos26	<u>Approval and Issue of Performance Report</u>   An entity may disclose the approval of the performance report on another component of the performance report for example, on the bottom of the statement of service performance or by inserting a separate approval page.	<u>A148.1</u> <u>A148.2</u>	<u>It is important that the governing body formally takes responsibility for the approval and issue of the final performance report. The template has space for the representatives of the governing body to date and sign the performance report.</u>   Usually two representatives sign the performance report, for example, the Chair and the Treasurer  <u>If your entity has an audit or a review, the representatives should sign and date the performance report before or on the same day the audit/review report is signed and dated.</u>  <u>If your entity does not have an audit or a review, the performance report may be approved either by your entity's governing body (for example, board, committee, trustees) or at its Annual General Meeting.</u>
.....			

Add the following to the optional template for applying Public Benefit Entity Simple Format Reporting – Accrual (Not For Profit). Add to the bottom of the statement of financial position.

On this date the [Trustees/Committee/Officers/Board] approve and issue the performance report:

_____	<u>Date</u>
_____ <u>Signature</u>	_____ <u>Signature</u>
_____ <u>Name</u>	_____ <u>Name</u>
_____ <u>Position</u>	_____ <u>Position</u>

Row AP5 is amended. New text is underlined and deleted text is struck through.

Row	Category	PBE SFR-A (NFP) Ref	Explanation
...			
AP5	Tier 2 PBE Accounting Standards applied* (if any)	A180	Under the <i>Tier 3 not-for-profit standard</i> the entity may elect to apply a <del>provision</del> <u>the requirements of a</u> <del>the Tier 2 PBE Accounting Standards</del> <u>that is part of the Tier 2 PBE Accounting Requirements in place</u> of a requirement in the <i>Tier 3 not-for-profit standard</i> . Where this is the case, the entity must disclose the <del>accounting PBE sStandard</del> applied.
.....			

Section 9 : Notes to the Performance Report is amended. Deleted text is struck through.

#### Note 9: Related party transactions\*

...

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 to 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).


## Amendments to EG A6 Optional template and associated guidance notes for applying Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit)


Section 1: Introduction is amended. New text is underlined and deleted text is struck through.

### Purpose of the templates

The templates are for not-for-profit entities that are eligible for, and elect to apply, the *Tier 4 not-for-profit standard*.

The law sets out which entities are eligible to apply the *Tier 4 not-for-profit standard*. In simple terms, registered charities that do not have “public accountability” (which in this context has a particular technical meaning i.e., the entity does not issue debt or equity securities) and have total operating ~~expenses~~ payments of less than \$125,000 can elect to apply this Standard. Other not-for-profit entities that meet those criteria can do so voluntarily.

 Where an entity has controlled entities, total operating payments means the combined operating payments of the entity and all its controlled entities. For example, if a registered charity controls a company it would add its total operating payments to the total operating payments of the company (excluding any payments between the registered charity and the company).

 Need help with controlled entities? refer to Explanatory Guide A9 *Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes*.

...

Section 2: General is amended. New text is underlined.

### Consolidated performance report

The *Tier 4 not-for-profit standard* does not require a controlling entity to prepare a consolidated performance report.



...

Row SSP2 is amended. New text is underlined.

Row	Section	PBE SFR-C (NFP) Ref	Explanation
SSP2	Describe, and quantify to the extent practicable, the entity's outputs* ...	A29- A31	Include in here a description of the goods or services (outputs) delivered, together with quantity measures to the extent practicable. ...



...

Row R&P12 is amended. New text is underlined.

Row	Section	PBE SFR-C (NFP) Ref	Explanation
R&P12	Total operating payments* ➤ formula	<u>2&amp;2.1</u>	<p>Total of rows R&amp;P7 to R&amp;P11.</p> <p> This total determines whether the entity is eligible to and can elect to report in accordance with the <i>Tier 4 not-for-profit standard</i>. If the total operating payments are greater than \$125,000 for two years in a row the entity will no longer be eligible to report under Tier 4 cash accounting and will have to report in accordance with the <i>Tier 3 not-for-profit standard</i>.</p> <p> <u>If the entity controls one or more entities the total combined operating payments of the entity and its controlled entities must be less than \$125,000 for the entities to report under the Tier 4 not-for-profit standard.</u></p>

...

Row R&P21 is added. New text is underlined.

Row	Section	PBE SFR-C (NFP) Ref	Explanation
<u>R&amp;P21</u>	<u>Approval and Issue of Performance Report</u>   <u>An entity may disclose the approval of the performance report on another component of the performance report for example, on the bottom of the statement of service performance or by inserting a separate approval page.</u>	<u>A69.1 &amp; A69.2</u>	<p><u>It is important that the governing body formally take responsibility for the approval and issue of the final performance report. The template has space for the representatives of the governing body to date and sign the performance report.</u></p> <p> <u>Usually two representatives sign the performance report, for example, the Chair and the Treasurer</u></p> <p><u>If your entity has an audit or a review, the representatives should sign and date the performance report before or on the same day the audit/review report is signed and dated.</u></p> <p><u>If your entity does not have an audit or a review, the performance report may be approved either by your entity's governing body (for example, board, committee, trustees) or at its Annual General Meeting.</u></p>

Add the following to the optional template for applying Public Benefit Entity Simple Format Reporting – Accrual (Not For Profit). Add to the bottom of the statement of receipts and payments.

On this date the [Trustees/Committee/Officers/Board] approve and issue the performance report:

_____	<u>Date</u>
_____ <u>Signature</u>	_____ <u>Signature</u>
_____ <u>Name</u>	_____ <u>Name</u>
_____ <u>Position</u>	_____ <u>Position</u>

Section 7 : Notes to the Performance Report is amended. Deleted text is struck through.

**Note 5: Related Parties\***

...



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 to 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).

# Amendments to EG A3 Optional template and associated guidance notes for applying Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)

Row SoFPer10 is added. New text is underlined.

Row	Category	PBE SFR-A (NFP) Ref	Explanation																																	
...																																				
SoFPer10	Other expenses	A109.1 & A109.2	<p><u>Reversal of impairment charges</u></p> <p><u>Example – reversal of impairment charge for an item of property, plant and equipment:</u></p> <p><u>Entity A has an item of property, plant and equipment which it purchased for \$5,000 and decided to depreciate on a straight line basis over 5 years. At the end of year 2 the entity recorded an impairment charge of \$1,500 and confirmed that the remaining useful life was still three years. The year 3 depreciation expense reflects the asset’s revised carrying amount allocated over the remaining life of 3 years. At the end of year 3 the entity reversed the impairment charge. The entity can reverse only \$1,000 of the original \$1,500 impairment charge. The asset cannot be recorded at more than the carrying amount, had the impairment not been recorded (see Column B).</u></p> <table><tr><th></th><th><u>Column A</u> <u>(With</u> <u>impairment</u> <u>charge)</u></th><th><u>Column B</u> <u>(No impairment</u> <u>charge)</u></th></tr><tr><td><u>Cost</u></td><td><u>\$5,000</u></td><td><u>\$5,000</u></td></tr><tr><td><u>Year 1 depreciation (\$5,000/5 years)</u></td><td><u>(\$1,000)</u></td><td><u>(\$1,000)</u></td></tr><tr><td><u>Carrying amount</u></td><td><u>\$4,000</u></td><td><u>\$4,000</u></td></tr><tr><td><u>Year 2 depreciation</u></td><td><u>(\$1,000)</u></td><td><u>(\$1,000)</u></td></tr><tr><td><u>Year 2 impairment</u></td><td><u>(\$1,500)</u></td><td><u>\$0</u></td></tr><tr><td><u>Carrying amount</u></td><td><u>\$1,500</u></td><td><u>\$3,000</u></td></tr><tr><td><u>Year 3 depreciation (\$1,500/3 years)</u></td><td><u>(\$500)</u></td><td><u>(\$1,000)</u></td></tr><tr><td><u>Carrying amount</u></td><td><u>\$1,000</u></td><td><u>\$2,000</u></td></tr><tr><td><u>Reverse impairment</u></td><td><u>\$1,000</u></td><td><u>=</u></td></tr><tr><td><u>Carrying amount</u></td><td><u>\$2,000</u></td><td><u>\$2,000</u></td></tr></table>		<u>Column A</u> <u>(With</u> <u>impairment</u> <u>charge)</u>	<u>Column B</u> <u>(No impairment</u> <u>charge)</u>	<u>Cost</u>	<u>\$5,000</u>	<u>\$5,000</u>	<u>Year 1 depreciation (\$5,000/5 years)</u>	<u>(\$1,000)</u>	<u>(\$1,000)</u>	<u>Carrying amount</u>	<u>\$4,000</u>	<u>\$4,000</u>	<u>Year 2 depreciation</u>	<u>(\$1,000)</u>	<u>(\$1,000)</u>	<u>Year 2 impairment</u>	<u>(\$1,500)</u>	<u>\$0</u>	<u>Carrying amount</u>	<u>\$1,500</u>	<u>\$3,000</u>	<u>Year 3 depreciation (\$1,500/3 years)</u>	<u>(\$500)</u>	<u>(\$1,000)</u>	<u>Carrying amount</u>	<u>\$1,000</u>	<u>\$2,000</u>	<u>Reverse impairment</u>	<u>\$1,000</u>	<u>=</u>	<u>Carrying amount</u>	<u>\$2,000</u>	<u>\$2,000</u>
	<u>Column A</u> <u>(With</u> <u>impairment</u> <u>charge)</u>	<u>Column B</u> <u>(No impairment</u> <u>charge)</u>																																		
<u>Cost</u>	<u>\$5,000</u>	<u>\$5,000</u>																																		
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<u>Year 2 depreciation</u>	<u>(\$1,000)</u>	<u>(\$1,000)</u>																																		
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<u>Reverse impairment</u>	<u>\$1,000</u>	<u>=</u>																																		
<u>Carrying amount</u>	<u>\$2,000</u>	<u>\$2,000</u>																																		
.....																																				

Row SoFPos26 is added.

Row	Category	PBE SFR-A (NFP) Ref	Explanation
...			
SoFPos26	<u>Approval and Issue of Performance Report</u>   <u>An entity may disclose the approval of the performance report on another component of the performance report for example, on the bottom of the statement of service performance or by inserting a separate approval page.</u>	<u>A148.1</u> <u>A148.2</u>	<u>It is important that the governing body formally take responsibility for the approval and issue of the final performance report. The template has space for the representatives of the governing body to date and sign the performance report.</u>   <u>Usually two representatives sign the performance report, for example, the Chair and the Treasurer</u>  <u>If your entity has an audit or a review, the representatives should sign and date the performance report before or on the same day the audit/review report is signed and dated.</u>  <u>If your entity does not have an audit or a review, the performance report may be approved either by your entity's governing body (for example, board, committee, trustees) or at its Annual General Meeting.</u>
.....			

Add the following to the optional template for applying Public Benefit Entity Simple Format Reporting – Accrual (Not For Profit). Add to the bottom of the statement of financial position.

On this date the [Trustees/Committee/Officers/Board] approve and issue the performance report:

_____	<u>Date</u>
_____ <u>Signature</u>	_____ <u>Signature</u>
_____ <u>Name</u>	_____ <u>Name</u>
_____ <u>Position</u>	_____ <u>Position</u>



## Amendments to EG A4 Optional template and associated guidance notes for applying Public Benefit Entity Simple Format Reporting – Cash (Public Sector)

...

Section 1: Introduction is amended. New text is underlined and deleted text is struck through.

### Purpose of the templates

The templates are for public sector entities that are eligible for, and elect to apply, the *Tier 4 public sector standard*.

The law sets out which entities are eligible to apply the *Tier 4 public sector standard*. In simple terms, public sector entities that do not have “public accountability” (which in this context has a particular technical meaning i.e., the entity does not issue debt securities) and have total operating ~~expenses~~ payments of less than \$125,000 can elect to apply this Standard.

**A** Where an entity has controlled entities, total operating payments means the combined operating payments of the entity and all its controlled entities.

...

Section 2: General is amended. New text is underlined.

### Consolidated performance report

The *Tier 4 public sector standard* does not require a controlling entity to prepare a consolidated performance report.



...

Row SSP2 is amended. New text is underlined.

Row	Section	PBE SFR-C (PS) Ref	Explanation
SSP2	Describe, and quantify to the extent practicable, the entity’s outputs* ...	A34	Include in here a description of the goods or services (outputs) delivered, together with quantity measures to the extent practicable. ...



...

Row R&P11 is amended. New text is underlined.

Row	Section	PBE SFR-C (PS) Ref	Explanation
R&P11	Total operating payments* ➤ formula	<del>A60</del> <u>2 &amp; 2.1</u>	<p>Total of rows R&amp;P7 to R&amp;P10.</p> <p> This total determines whether the entity is eligible to and can elect to report in accordance with the <i>Tier 4 public sector standard</i>. If the total operating payments are greater than \$125,000 for two years in a row the entity will no longer be eligible to report under Tier 4 cash accounting and will have to report in accordance with the <i>Tier 3 public sector standard</i>.</p> <p> <u>If the entity controls one or more entities the total combined operating payments of the entity and its controlled entities must be less than \$125,000 for the entities to report under the Tier 4 public sector standard.</u></p>

...

Row R&P20 is added. New text is underlined.

Row	Section	PBE SFR-C (PS) Ref	Explanation
R&P20	<u>Approval and Issue of Performance Report</u>  <u>An entity may disclose the approval of the performance report on another component of the performance report for example, on the bottom of the statement of service performance or by inserting a separate approval page.</u>	<u>A72.1 &amp; A72.2</u>	<p><u>It is important that the governing body formally take responsibility for the approval and issue of the final performance report. The template has space for the representatives of the governing body to date and sign the performance report.</u></p> <p> <u>Usually two representatives sign the performance report, for example, the Chair and the Treasurer</u></p> <p><u>If your entity has an audit or a review, the representatives should sign and date the performance report before or on the same day the audit/review report is signed and dated.</u></p> <p><u>If your entity does not have an audit or a review, the performance report may be approved either by your entity's governing body (for example, board, committee, trustees) or at its Annual General Meeting.</u></p>

...

Add the following to the optional template for applying Public Benefit Entity Simple Format Reporting – Cash (Public Sector). Add to the bottom of the statement of receipts and payments.

On this date the [Trustees/Committee/Officers/Board] approve and issue the performance report:

_____	<u>Date</u>
_____ Signature	_____ Signature
_____ Name	_____ Name
_____ Position	_____ Position



NZ ACCOUNTING  
STANDARDS  
BOARD

## Memorandum

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**Date:** 15 June 2018

**To:** NZASB Members

**From:** Vanessa Sealy-Fisher

**Subject:** RDR NZ IFRS 16 and NZ IAS 7

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### Recommendations<sup>1</sup>

1. We recommend that the Board:
  - (a) APPROVES for issue *RDR NZ IFRS 16 and NZ IAS 7* (agenda item 11.2); and
  - (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 11.3).

### Introduction

2. Exposure Draft NZASB 2018-1 *Proposed RDR for NZ IFRS 16 and NZ IAS 7* (NZASB ED 2018-1) was issued in January 2018, with a comment date ending on 23 April 2018. NZASB ED 2018-1 proposed RDR concessions for Tier 2 for-profit entities applying NZ IFRS 16 *Leases* and NZ IAS 7 *Statement of Cash Flows* as amended by *Disclosure Initiative* (Amendments to NZ IAS 7) issued by the Board in May 2016.
3. The proposed RDR concessions in NZ IFRS 16 were determined jointly with the Australian Accounting Standards Board (AASB). The AASB issued AASB Exposure Draft ED 284 *Recent Standards – Reduced Disclosure Requirements* (AASB ED 284) for comment in December 2017, which included proposed RDR concessions for AASB 16 *Leases*.
4. The proposed disclosure concessions in NZ IAS 7 *Statement of Cash Flows* will align the disclosures for Tier 2 for-profit entities applying NZ IAS 7 with the disclosures for Tier 2 entities applying AASB 107 *Statement of Cash Flows* in Australia. (See paragraphs 10–15 for further detail.)

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<sup>1</sup> 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).

## Reason for issuing the amending standard

### ***RDR for NZ IFRS 16***

5. In early 2015 the AASB and the Board undertook a review of the disclosure requirements for Tier 2 entities in Australia and Tier 2 for-profit entities in New Zealand. As part of this project, the AASB and the Board decided to issue new and amending IFRS Standards initially without RDR concessions. Any RDR concessions for new and amending standards would be exposed for consultation separately before being issued.
6. In 2016, the Board issued NZ IFRS 16 with no RDR concessions.
7. Over the course of 2016 a proposed RDR decision-making framework (RDR framework) was developed and applied to the disclosure requirements in Australian Accounting Standards and NZ IFRS. This resulted in the issuance of an exposure draft on the proposed RDR framework and RDR concessions for Australian Tier 2 entities and New Zealand Tier 2 for-profit entities in January 2017 (NZASB ED 2017-1). The proposed RDR concessions included RDR concessions for NZ IFRS 16. Comments on NZASB ED 2017-1 were due by 26 May 2017.
8. In August 2017, the AASB and the Board received a high-level update on the comments received on NZASB ED 2017-1. At that meeting (per the minutes):

The Board:

- (a) NOTED the high-level summary of feedback received from respondents to ED NZASB 2017-1 *Amendments to RDR for Tier 2 For-profit Entities* and AASB ED 277 *Reduced Disclosure Requirements for Tier 2 Entities*;
  - (b) AGREED to progress this project jointly with the AASB;
  - (c) AGREED the next steps as outlined in the memo (agenda item 9.1); and
  - (d) AGREED that no further action is required regarding Questions 5–8, that is, paragraphs that require the disclosure of accounting policies or contain guidance or cross-references will be kept and the current method of identifying RDR also will be kept.
9. Pending the outcome of the AASB's review of the financial reporting framework in Australia, the project to revise the reduced disclosure framework has been deferred. Given the delay in this project, there was a need to undertake a separate project to identify RDR concessions for AASB 16/NZIFRS 16. Otherwise there would have been no RDR concessions available for Tier 2 entities applying AASB 16/NZ IFRS 16 (effective for annual periods beginning on or after 1 January 2019).
  10. The AASB and the Board therefore decided to propose RDR concessions for AASB 16/NZ IFRS 16, based on the current framework for determining disclosure concessions. Those proposals were issued for comment in December 2017 in Australia and January 2018 in New Zealand.

### ***RDR for NZ IAS 7***

11. In December 2014 the IASB issued for comment IASB ED/2014/6 *Disclosure Initiative* (Proposed amendments to IAS 7) (ED/2014/6). ED/2014/6 proposed amendments to IAS 7 to

require an entity to provide a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items.

12. In January 2016 the IASB issued *Disclosure Initiative* (Amendments to IAS 7), which finalised the proposals in ED/2016/4.
13. However, rather than an entity preparing a reconciliation of net debt as proposed in ED/2014/6, an entity is required to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The paragraphs following this requirement (i) list the changes in liabilities to be disclosed; (ii) explain what types of liabilities arise from financing activities; (iii) explain that preparing a reconciliation is one way to fulfil the disclosure requirement; and (iv) require the disclosure of changes in liabilities from financing activities to be disclosed separately.
14. The AASB approved the equivalent amendments to AASB 107 *Statement of Cash Flows* in February 2016. At the same time the AASB provided RDR concessions for all the paragraphs added (that is, paragraphs 44A–44E).
15. In May 2016 the Board issued *Disclosure Initiative* (Amendments to NZ IAS 7) with no RDR concessions. The Board had issued an exposure draft which proposed RDR concessions for the additional disclosures proposed in IASB ED/2014/6. However, because the disclosures in the final IFRS Standard were so different from those proposed in IASB ED/2014/6, the Board was of the view that further due process would be required in respect of RDR concessions.
16. The Board subsequently decided to propose RDR concessions for paragraphs 44A–44E of NZ IAS 7 together with the proposed RDR concessions for NZ IFRS 16 so that the disclosure requirements for Tier 2 for-profit entities would continue to be harmonised with the disclosure requirements for Tier 2 entities in Australia.

#### Feedback received on the proposals

17. We received one submission (agenda item 11.4) on NZASB ED 2018-1, which agreed with the concessions proposed.
18. The AASB received five submissions on AASB ED 284. Some respondents to AASB ED 284 disagreed with some of the proposals. The AASB will be considering the submissions received on AASB ED 284 at its meeting on 14 June 2018.<sup>2</sup> We will provide a verbal update on the outcome of this item from the AASB meeting at the Board meeting.
19. Respondents to AASB ED 284 questioned why the disclosure in paragraph 53(h) was proposed as a concession when paragraph 73(e)(i) of AASB 116/NZ IAS 16 *Property, Plant and Equipment* requires the disclosure of additions to property, plant and equipment. Paragraph 53(h) requires a lessee to disclose additions to right-of-use assets. In light of AASB

---

<sup>2</sup> AASB agenda paper 6.2 is available at [http://www.aasb.gov.au/admin/file/content102/c3/6.2\\_SP\\_RDR\\_M165.pdf](http://www.aasb.gov.au/admin/file/content102/c3/6.2_SP_RDR_M165.pdf)

respondents' comments, and the fact that the disclosure is not onerous, AASB staff are recommending to keep the disclosure requirement in paragraph 53(h) for Tier 2 entities.

20. We agree with the proposal to require the disclosure of additions to right-of-use assets in accordance with paragraph 53(h) for the reasons outlined in paragraph 18 above. We have, therefore, removed the asterisk from paragraph 53(h) in the amending standard.

**Draft amending standard and signing memo**

21. Attached as agenda item 11.2 is a copy of *RDR NZ IFRS 16 and NZ IAS 7*. A paragraph has been added to limit its application to Tier 2 for-profit entities.
22. Attached as agenda item 11.3 is a draft Certificate Signing Memorandum from the Chair of the NZASB to the Chair of the XRB Board.

**Attachments**

Agenda item 11.2: Draft *RDR NZ IFRS 16 and NZ IAS 7*

Agenda item 11.3: Draft Certificate signing memo

Agenda item 11.4 Submission received: BDO



## ***RDR NZ IFRS 16 and NZ IAS 7***

This Standard was issued on 5 July 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 2 August 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 provides disclosure concessions for Tier 2 for-profit entities applying NZ IFRS 16 *Leases* and NZ IAS 7 *Statement of Cash Flows*.



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## Part A

### Introduction

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This Standard contains disclosure concessions for Tier 2 for-profit entities applying NZ IFRS 16 *Leases* and NZ IAS 7 *Statement of Cash Flows*.

## Part B – Amendments to NZ IFRS 16 and NZ IAS 7

### Scope

---

This Standard applies to Tier 2 for-profit entities.

### Amendments to NZ IFRS 16 Leases

Paragraphs 54, 58, 90(b) and 91 are amended and paragraphs RDR 54.1 and RDR 90.1. are added. New text is underlined.

### Lessee

---

#### Disclosure

51

...

\*54

A lessee shall provide the disclosures specified in paragraph 53 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.

RDR 54.1 The amounts disclosed in accordance with paragraph 53 shall include costs that a Tier 2 lessee has included in the carrying amount of another asset during the reporting period.

...

\*58

A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of NZ IFRS 7 *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities.

...

### Lessor

---

#### Disclosure

89

...

90

A lessor shall disclose the following amounts for the reporting period:

(a) for finance leases:

(i) selling profit or loss;

(ii) finance income on the net investment in the lease; and

(iii) income relating to variable lease payments not included in the measurement of the net investment in the lease.

\*(b) for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.

RDR 90.1 For operating leases, a Tier 2 entity shall disclose lease income.

\*91

A lessor shall provide the disclosures specified in paragraph 90 in a tabular format, unless another format is more appropriate.

...

In Appendix B paragraphs B50(a), B50(b), B50(d), B51(a), B51(b), B51(d) and B52 are amended. New text is underlined.

## Appendix B

### Application guidance

*This appendix is an integral part of the Standard. It describes the application of paragraphs 1–103 and has the same authority as the other parts of the Standard.*

#### Lessee disclosures (paragraph 59)

- B48 ...
- B50 Additional information relating to extension options or termination options that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- \*(a) the lessee's reasons for using extension options or termination options and the prevalence of those options;
  - \*(b) the relative magnitude of *optional lease payments* to lease payments;
  - (c) the prevalence of the exercise of options that were not included in the measurement of lease liabilities; and
  - \*(d) other operational and financial effects of those options.
- B51 Additional information relating to residual value guarantees that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- \*(a) the lessee's reasons for providing residual value guarantees and the prevalence of those guarantees;
  - \*(b) the magnitude of a lessee's exposure to residual value risk;
  - (c) the nature of underlying assets for which those guarantees are provided; and
  - \*(d) other operational and financial effects of those guarantees.
- \*B52 Additional information relating to sale and leaseback transactions that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- (a) the lessee's reasons for sale and leaseback transactions and the prevalence of those transactions;
  - (b) key terms and conditions of individual sale and leaseback transactions;
  - (c) payments not included in the measurement of lease liabilities; and
  - (d) the cash flow effect of sale and leaseback transactions in the reporting period.

In Appendix C paragraph NZ C1.1 is added. New text is underlined.

## Appendix C

### Effective date and transition

*This appendix is an integral part of the Standard and has the same authority as the other parts of the Standard.*

#### Effective date

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C1 ...

NZ C1.1 RDR NZ IFRS 16 and NZ IAS 7, issued in July 2018, amended paragraphs 54, 58, 90(b), 91, B50(a), B50(b), B50(d), B51(a), B51(b), B51(d) and B52, and added paragraphs RDR 54.1 and RDR 90.1. A Tier 2 entity

may elect to apply those disclosure concessions for annual periods beginning on or after 1 January 2019. Early application is permitted.

## Amendments to NZ IAS 7 *Statement of Cash Flows*

Paragraphs 44A to 44E are amended and paragraph NZ 61.1 is added. New text is underlined.

### Changes in liabilities arising from financing activities

- \*44A** An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- \*44B** To the extent necessary to satisfy the requirement in paragraph 44A, an entity shall disclose the following changes in liabilities arising from financing activities:
- (a) changes from financing cash flows;
  - (b) changes arising from obtaining or losing control of subsidiaries or other businesses;
  - (c) the effect of changes in foreign exchange rates;
  - (d) changes in fair values; and
  - (e) other changes.
- \*44C** Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement in paragraph 44A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.
- \*44D** One way to fulfil the disclosure requirement in paragraph 44A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in paragraph 44B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.
- \*44E** If an entity provides the disclosure required by paragraph 44A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

### Effective date

53 ...

**NZ 61.1** *RDR NZ IFRS 16 and NZ IAS 7*, issued in July 2018, amended paragraphs 44A to 44E. A Tier 2 entity may elect to apply those disclosure concessions for annual periods beginning on or after 1 January 2019. Early application is permitted.

## Part C – Effective Date

This Standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.



NZ ACCOUNTING  
STANDARDS  
BOARD

## Memorandum

**Date:** 27 June 2017

**To:** Graeme Mitchell, Chair XRB

**From:** Kimberley Crook, Chair NZASB

**Subject:** *RDR NZ IFRS 16 and NZ IAS 7*

### Introduction

1. In accordance with the protocols established by the XRB, the NZASB seeks your approval to issue *RDR NZ IFRS 16 and NZ IAS 7*.

### Due process

2. In January 2018, the NZASB issued for comment ED NZASB 2018-1 *Proposed RDR for NZ IFRS 16 and NZ IAS 7* (the ED), with a comment date ending on 23 April 2018.
3. The ED proposed disclosure concessions for Tier 2 for-profit entities applying NZ IFRS 16 *Leases* and the amendments to NZ IAS 7 *Statement of Cash Flows* arising from *Disclosure Initiative* (Amendments to NZ IAS 7).
4. The NZASB received one submission. The respondent agreed with all the proposed amendments.
5. The NZASB has approved *RDR NZ IFRS 16 and NZ IAS 7*. 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.
6. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the interpretation is likely to require the disclosure of personal information. In the NZASB's view the standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

### Consistency with XRB Financial Reporting Strategy

7. *RDR NZ IFRS 16 and NZ IAS 7* is a domestic standard that identifies disclosure concessions for Tier 2 for-profit entities applying NZ IFRS 16 and NZ IAS 7.

### Harmonisation with Australia

8. The Australian Accounting Standards Board (AASB) considered the submissions received on the equivalent proposals for AASB 16 *Leases* at its meeting on 14 June 2018. The amendments



to AASB 16 will be approved in the near future. The equivalent RDR concessions for *Disclosure Initiative* (Amendments to AASB 107) were approved by the AASB at its meeting in February 2016.<sup>1</sup>

9. The RDR concessions in NZ IFRS 16 and NZ IAS 7 will align with the equivalent RDR concessions in AASB 16 and AASB 107 *Statement of Cash Flows* respectively.

#### **Other matters**

10. There are no other matters relating to the issue of *RDR NZ IFRS 16 and NZ IAS 7* that the NZASB considers to be pertinent or that should be drawn to your attention.

#### **Recommendation**

11. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB.

#### **Attachment**

*RDR NZ IFRS 16 and NZ IAS 7*

Kimberley Crook  
Chair NZASB

---

<sup>1</sup> In May 2016 the NZASB issued *Disclosure Initiative* (Amendments to NZ IAS 7) with no RDR concessions. Prior to issuing these amendments, the NZASB had issued an exposure draft which proposed RDR concessions for the additional disclosures in NZ IAS 7 *Statement of Cash Flows*. However, because the disclosures in *Disclosure Initiative* (Amendments to NZ IAS 7) were so different from those proposed in the relevant exposure draft, the NZASB was of the view that further due process would be required in respect of RDR concessions.

27 March 2018

Mr Warren Allen  
The Chief Executive  
External Reporting Board  
PO Box 11250  
Manners St Central  
Wellington  
6142

Dear Sir

**Requests to comment on Exposure Draft ED NZASB 2018-1 *RDR Proposals for NZ IFRS 16 and NZ IAS 7***

Thank you for the opportunity to comment on the above Exposure Draft.

We are making this submission to you to assist the New Zealand Accounting Standards Board (NZASB) with the above Exposure Draft. We are happy for you to publish our comments publically.

In responding we have addressed the specific questions for respondents in Appendix 1.

More information on BDO is provided in Appendix 2 to this letter.

We hope that our responses and comments are helpful. Should you wish to discuss any of the points we have raised please contact me ([michael.rondel@bdo.co.nz](mailto:michael.rondel@bdo.co.nz)) should you have any queries or require further information.

Yours faithfully,



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## **Appendix 1 - Response to questions**

### **Question 1**

Do you agree with the proposed RDR concessions for NZ IFRS 16 *Leases*? If you disagree, please provide reasons.

**Yes, we agree with the proposed RDR concessions for NZ IFRS 16 *Leases*.**

### **Question 2**

Do you agree with the proposed additional RDR concessions for NZ IAS 7 *Statement of Cash Flows*? If you disagree, please provide reasons.

**Yes, we agree with the proposed additional RDR concessions for NZ IAS 7 *Statement of Cash Flows*.**

### **Question 3**

Do you agree with the proposed effective date of annual periods beginning on or after 1 January 2019? If you disagree, please explain why.

**Yes, we agree with the proposed effective date of annual periods beginning on or after 1 January 2019.**

### **Question 4**

Do you have any other comments on the ED?

**We have no further comments on the ED.**

## **Appendix 2 - Information on BDO**

1. BDO New Zealand is a network of eleven independently owned accounting practices, with sixteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency.
3. BDO in New Zealand has 89 partners and over 800 staff.
4. BDO firms throughout New Zealand have a significant number of clients in the not-for-profit sector.
5. Five BDO firms in New Zealand (BDO Auckland, BDO Christchurch, BDO Northland, BDO Waikato and BDO Wellington) are registered audit firms and thirteen audit partners are licensed auditors.
6. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 67,700 people in over 1,400 offices across over 158 countries and territories.



NZ ACCOUNTING  
STANDARDS  
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## Memorandum

**Date:** 15 June 2018  
**To:** NZASB Members  
**From:** Vanessa Sealy-Fisher  
**Subject:** IASB Editorial Corrections to IFRS 17 *Insurance Contracts*

### Recommendation<sup>1</sup>

1. We recommend that the Board APPROVE for incorporation into NZ IFRS 17 *Insurance Contracts* the IASB editorial corrections to IFRS 17 *Insurance Contracts* published in December 2017.

### Introduction

2. The IASB publishes editorial corrections to IFRS Standards approximately three or four times each calendar year. The IASB editorial corrections are incorporated into IFRS Standards without being subject to due process.
3. The Board's process for dealing with IASB editorial corrections, as agreed in December 2014, is to table the corrections at a Board meeting to ensure the Board is satisfied the corrections are editorial in nature and therefore can be incorporated into NZ IFRS without being subject to due process.
4. We table the IASB's editorial corrections at a Board meeting and seek approval to incorporate them into the equivalent NZ IFRS.
5. In December 2017, the IASB published the following editorial corrections to NZ IFRS 17.<sup>2</sup>

Paragraph	Editorial correction
104(b)(iii)	<i>experience adjustments</i> (see paragraphs <del>B96(a)</del> , B97(c) and B113(a)).
B113(a)	changes in <del>estimates of</del> the fulfilment cash flows ...
C18(b)	...The entity is permitted to determine that cumulative <del>difference</del> <u>amount</u> either by applying paragraph C19(b) or ...
C19(b)	... The entity shall determine that cumulative <del>difference</del> <u>amount</u> ...

<sup>1</sup> 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).

<sup>2</sup> Available at <https://www.ifrs.org/-/media/feature/standards/editorial-corrections/2017/editorial-corrections-december-2017.pdf?la=en&hash=89897B0F97DBBF4CA7C08B9CC0F6966F93E483AD>

6. For constituents' information, we also plan to include these editorial corrections in the next for-profit omnibus amendments.
7. We will incorporate the above editorial corrections into the forthcoming exposure draft of a PBE Standard based on IFRS 17.



**EXTERNAL REPORTING BOARD**  
*Te Kāwai Ārahi Pūrongo Mōwaho*

## **APPROVAL NZASB 97**

### **Approval to Issue**

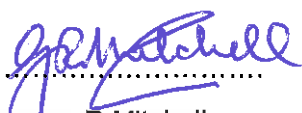
#### **New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 NZ *Conceptual Framework*)**

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 the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 NZ *Conceptual Framework*); 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 New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 NZ *Conceptual Framework*) pursuant to section 12(c) of the Financial Reporting Act 2013.

Dated this <sup>14</sup> day of May 2018

  
.....  
Graeme R Mitchell  
Chairman  
External Reporting Board



EXTERNAL REPORTING BOARD  
*Te Kāwai Ārahi Pūrongo Mōwaho*

## APPROVAL NZASB 98

### Approval to Issue

#### ***Amendments to References to the Conceptual Framework in NZ IFRS***

In accordance with the protocols established between the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB Board), the NZASB has:

- approved for issue *Amendments to References to the Conceptual Framework in NZ IFRS*; and
- provided a signing memo outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memo and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue *Amendments to References to the Conceptual Framework in NZ IFRS* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this <sup>4<sup>th</sup></sup>.....day of May 2018

Graeme R Mitchell  
Chairman  
External Reporting Board





EXTERNAL REPORTING BOARD

*Te Kāwai Ārahi Pūrongo Mōwaho*

## APPROVAL NZASB 99

### Approval to Issue


#### *Amendments to the Scope of FRS-42*

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 *Amendments to the Scope of FRS-42*; 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 *Amendments to the Scope of FRS-42* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this <sup>th</sup>  
4 day of May 2018

.....  
  
Graeme R-Mitchell  
Chairman  
External Reporting Board