

Board Meeting Agenda

Tuesday 12 February 2019

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

Est Time	Item	Topic	Objective		Page
B: PUBLIC SESSION					
IPSASB Project Update					
11.45 am	4	<u>IPSAS 42 Social Benefits and ED 67 Collective and Individual Services and Emergency Relief</u>	(ALH/JS)		
	4.1	Cover memo	Note	Paper	
	4.2	IPSAS 42 education session – slides	Note	Paper	
	4.3	ED 67 education session – slides	Note	Paper	
	4.4	<u>IPSAS 42 Social Benefits</u>	Consider	Use link	
	4.5	<u>At a Glance IPSAS 42</u>	Note	Use link	
	4.6	<u>IPSASB ED 67 Collective and Individual Services and Emergency Relief</u>	Consider	Use link	
	4.7	<u>At a Glance ED 67</u>	Note	Use link	
	4.8	PBE Policy Approach – IPSAS 42	Consider	Paper	
	4.9	Policy Approach to Developing the Suite of PBE Standards	Note	Supp paper	
	4.10	Comment letter on ED 63 <i>Social Benefits</i>	Note	Supp paper	
	4.11	Comment letter on 2017 CP <i>Revenue and Non-Exchange Expenses</i>	Note	Supp paper	
12.30 pm		<i>Lunch</i>			
1.00 pm	4	<u>IPSAS 42 Social Benefits and ED 67 Collective and Individual Services and Emergency Relief (contd)</u>			
IASB Project Update					
1.30 pm	5	<u>Better Communication in Financial Reporting – Disclosure Initiative</u>	(DB/LK)		
	5.1	Presentation	Note	Paper	

Next NZASB meeting: Wednesday 20 March 2019



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 1 February 2019

To: NZASB Members

From: Aimy Luu Huynh

Subject: **IPSAS 42 Social Benefits and ED 67 Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)**

Recommendations

1. We recommend that the Board:
 - (a) NOTES the IPSASB has issued IPSAS 42 *Social Benefits* and ED 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19);
 - (b) AGREES to comment on IPSASB ED 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) (see agenda items 4.3 and 4.6); and
 - (c) DEFERS its decision on the adoption of IPSAS 42 *Social Benefits* until the IPSASB has completed other related projects dealing with non-exchange expenses (see agenda item 4.8).

Background

2. The IPSASB approved IPSAS 42 *Social Benefits* at its December 2018 meeting. We expect the Standard to be issued at the end of January 2019. We will distribute the Standard as a late paper for the February Board meeting. This is a significant milestone for the IPSASB because work on this project began in 2002. The Public Sector Committee of IFAC (now the IPSASB) issued an Invitation to Comment on *Accounting for Social Policies of Governments* in 2004. A brief history of the project will be outlined in the education session at agenda item 4.2.
3. The IPSASB also approved ED 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) at its December 2018 meeting. ED 67 is expected to be issued at the same time as IPSAS 42 and comments are due to the IPSASB by 31 May 2019. We will issue ED 67 in New Zealand and will request comments to the NZASB by 5 April 2019. We will also distribute the exposure draft as a late paper for the February Board meeting.
4. At this meeting we will:
 - (a) provide an overview of IPSAS 42 and ED 67 (see agenda items 4.2 and 4.3);
 - (b) seek the Board's agreement to comment on ED 67 (see agenda items 4.3 and 4.6); and

- (c) seek the Board's agreement to defer the decision on the adoption of IPSAS 42 until the IPSASB has completed other related projects dealing with non-exchange expenses (see agenda item 4.8).
- 5. At the time the Board papers were distributed the final IPSAS 42 and ED 67 have not been issued. The material for agenda items 4.2, 4.3 and 4.8 are based on final drafts of IPSAS 42 and ED 67. The differences between the final draft and final versions are mainly editorials.
- 6. To assist the Board work through this agenda we have included the Board's comment letters on ED 63 *Social Benefits* and the Consultation Paper *Accounting for Revenue and Non-Exchange Expenses* in the supporting papers (see agenda items 4.10 and 4.11).

Next steps

- 7. If the Board agrees to comment on ED 67, we will bring a draft comment letter for consideration in March and for approval in May.

Attachments

- Agenda item 4.2: IPSAS 42 education session – slides
- Agenda item 4.3: ED 67 education session – slides
- Agenda item 4.4: IPSAS 42 *Social Benefits* (late paper)
- Agenda item 4.5: At a Glance IPSAS 42 *Social Benefits* (late paper)
- Agenda item 4.6: ED 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) (late paper)
- Agenda item 4.7: At a Glance ED 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) (late paper)
- Agenda item 4.8: PBE Policy Approach – IPSAS 42 *Social Benefits*
- Agenda item 4.9: *PBE Policy Approach to Developing the Suite of PBE Standards* (in supporting papers)
- Agenda item 4.10: NZASB comment letter on ED 63 *Social Benefits* (in supporting papers)
- Agenda item 4.11: NZASB comment letter on 2017 CP *Accounting for Revenue and Non-Exchange Expenses* (in supporting papers)

Education session: IPSAS 42 Social Benefits

Aimy Luu Huynh – Senior Project Manager Accounting Standards

Todd Beardsworth – IPSASB Member

NZASB Meeting

12 FEBRUARY 2019



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

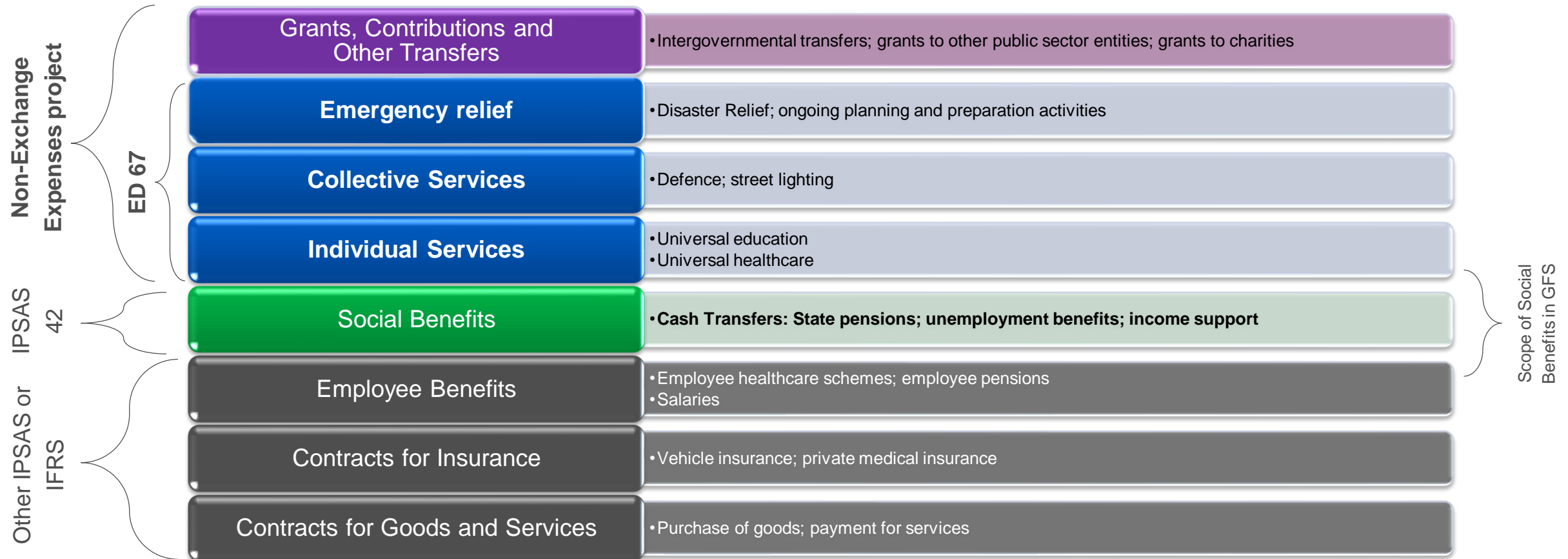
Contents

-
- History
 - Scope
 - Definitions
 - Possible application to New Zealand
 - General approach
 - Insurance approach
 - Effective date
 - PBE Policy Approach

History

2002	<ul style="list-style-type: none">• Public Sector Committee commenced project
2004	<ul style="list-style-type: none">• <i>ITC Accounting for Social Policies of Governments</i> issued
2008	<ul style="list-style-type: none">• ED 34 <i>SB: Disclosure of Cash Transfers to Indiv or Households</i> issued• CP <i>Social Benefits: Issues in Recognition and Measurement</i> issued
2008 - 2013	<ul style="list-style-type: none">• Project deferred until the completion of the Conceptual Framework (issued in 2014)
2015	<ul style="list-style-type: none">• CP <i>Recognition and Measurement of Social Benefits</i> issued
2017	<ul style="list-style-type: none">• ED 63 <i>Social Benefits</i> issued
2019	<ul style="list-style-type: none">• IPSAS 42 <i>Social Benefits</i> issued

Scope



Source: IPSASB

Social benefits are cash transfers¹ provided to:

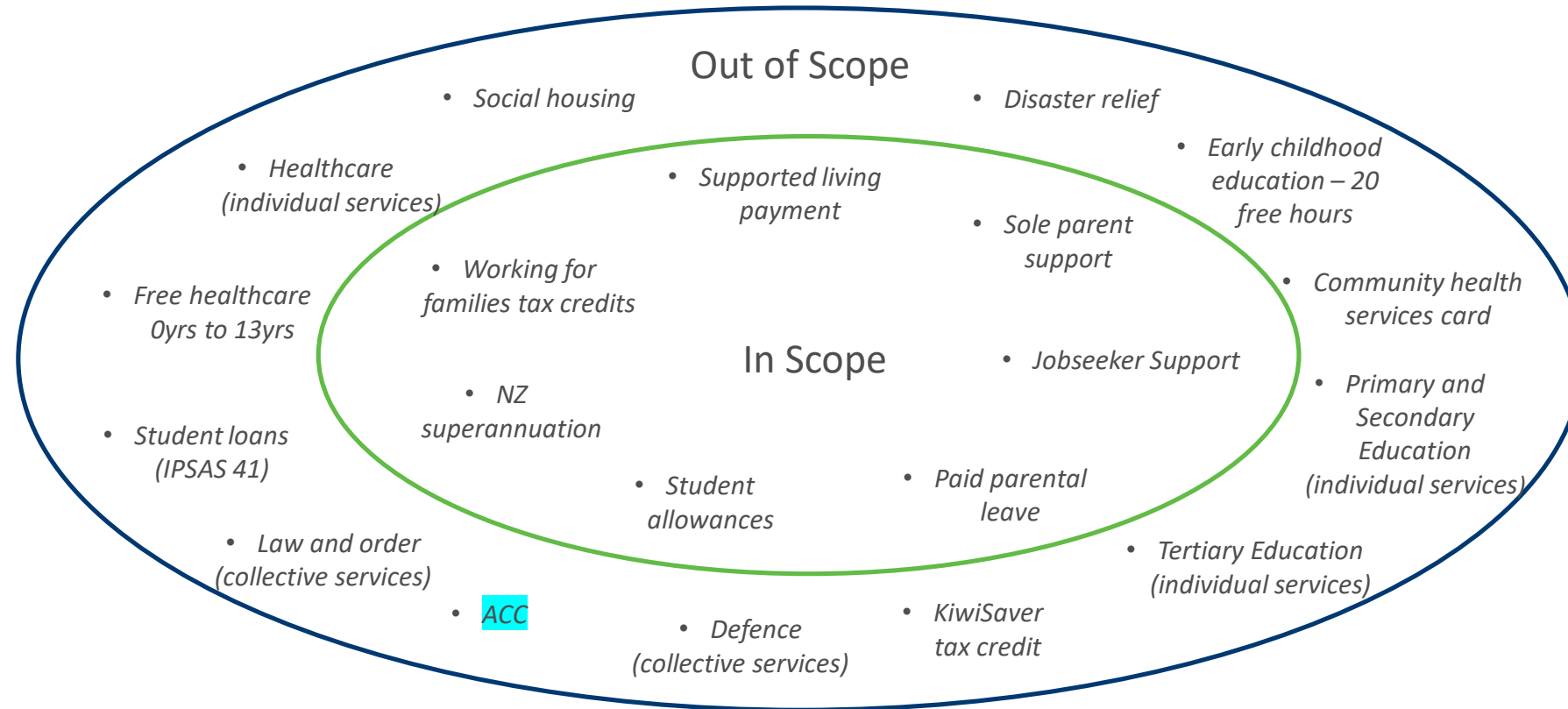
- a) Specific individuals and/or households who meet eligibility criteria;
- b) Mitigate the effect of social risks; and
- c) Address the needs of society as a whole.

¹ Includes cash equivalents such as prepaid debit cards and excludes reimbursements and vouchers

Social risks are events or circumstances that:

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

Possible application to NZ social benefits



Accounting approaches

- General approach (was the obligating event approach)
- Insurance approach

- Recognise liability when
 - The entity has a present obligation for an outflow of resources that results from a past event;
 - The past event that gives rise to a liability for a social benefit scheme is the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment. The satisfaction of eligibility criteria for each social benefit payment is a separate past event.
 - Can be measured in a way that achieves the QCs and takes account of constraints on information in general purpose financial reports

General approach: measurement of liability

Best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability

Discounting not required for most social benefits

The maximum amount to be recognised as a liability is the costs the entity expects to incur in making the next social benefit payment

General approach – examples

1. Paid in arrears (example 8 in IPSAS 42)

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

Notes for Board

- The purpose of these examples is to go through the basic principles of the general approach
- The full worked examples (of 1 and 2) with the measurement calculations are in agenda item 4.4

General approach – examples

1. Paid in arrears



31 Dec
20X1
Bal date

Liability is for pensioners who satisfy the eligibility criteria at or prior to the end December

Govt H recognises a liability for the full amount of retirement pensions to be paid on 31 Jan

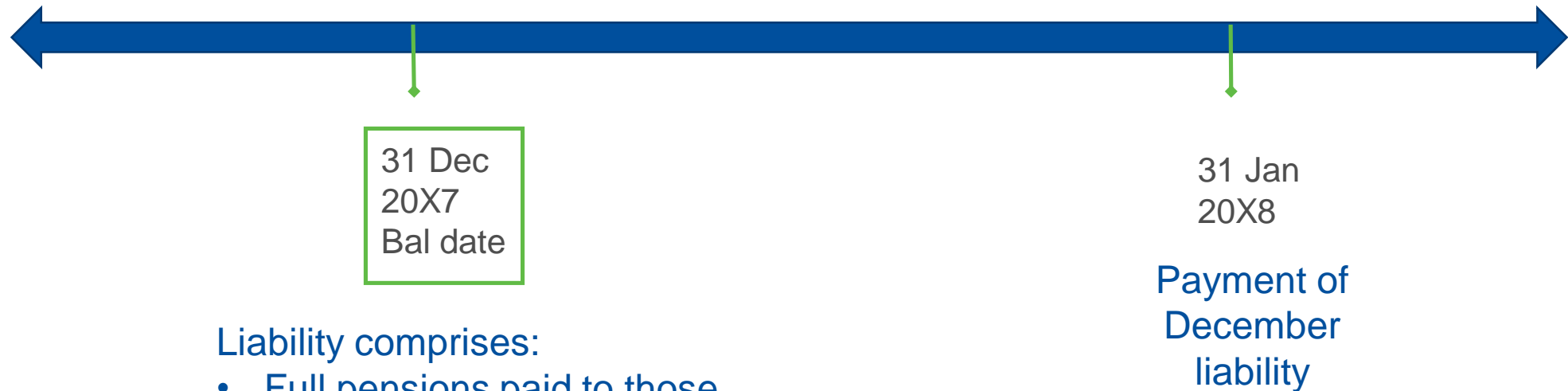
31 Jan
20X2
Payment of
December
liability

General approach – examples

- 2. Paid in arrears – pro-rata (example 9 in IPSAS 42)
 - Same facts as example 1 except amounts are pro-rated in the months the individuals reach the retirement age and in the months in which an individual dies

General approach – examples

2. Paid in arrears – pro-rata



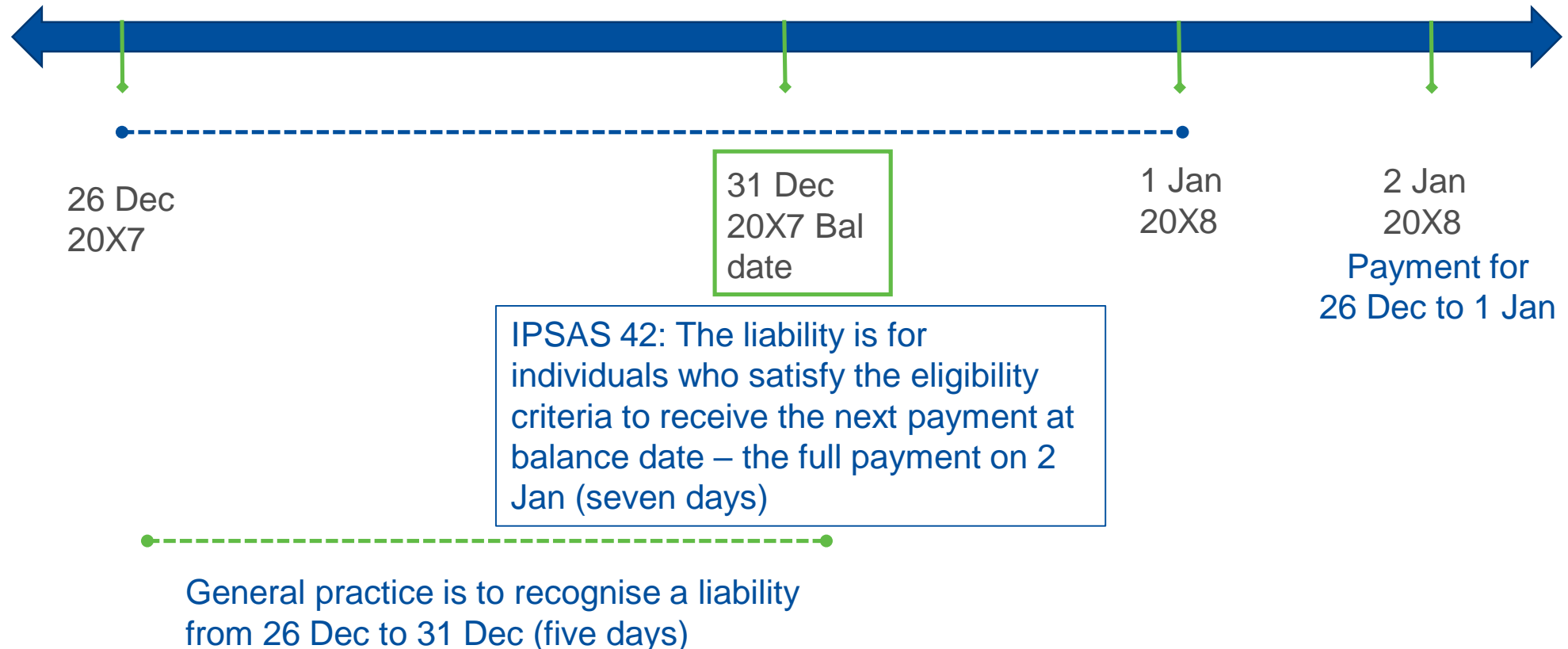
Liability comprises:

- Full pensions paid to those pensioners eligible 31 Dec and remaining eligible 31 Jan
- Pro-rated pensions paid to those pensioners eligible 31 Dec who died during Jan

3. Paid in arrears, no-pro rata and straddles balance date
- Government A provides an unemployment benefit to its citizens and permanent residents
 - The main eligibility criteria are that the individual is not in full-time employment, and is available and seeking full-time employment
 - The benefit is paid in full every Tuesday for the prior Tuesday to Monday to those individuals who satisfied the eligibility criteria in full at the end of the payment period

General approach – examples

3. Paid in arrears, no pro-rata and straddles balance date

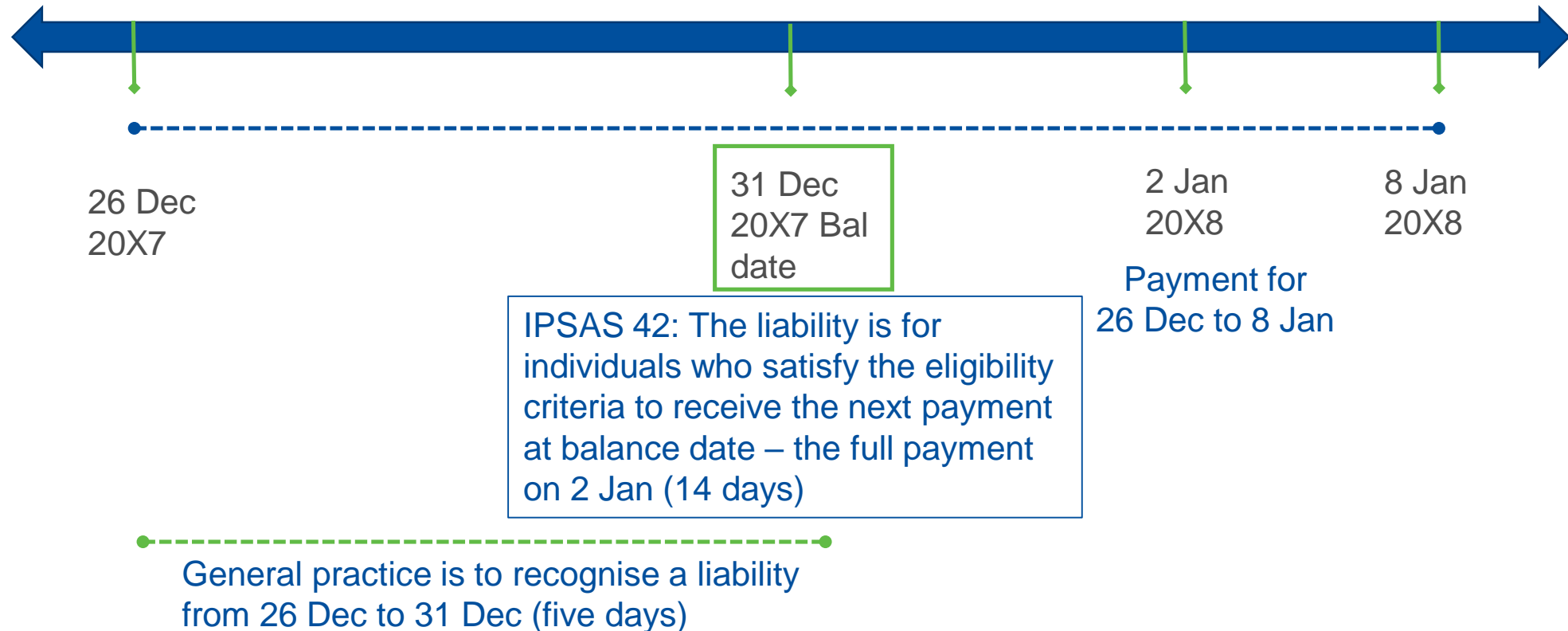


General approach – examples

- 4. Paid in arrears and advance, no-pro rata and straddles balance date
 - Same facts as example 3 except amounts are paid fortnightly
 - The benefit is paid on a Tuesday and covers the period from the previous Tuesday to the next Monday. Therefore, the payment is a mixture of arrears and prepayment

General approach – examples

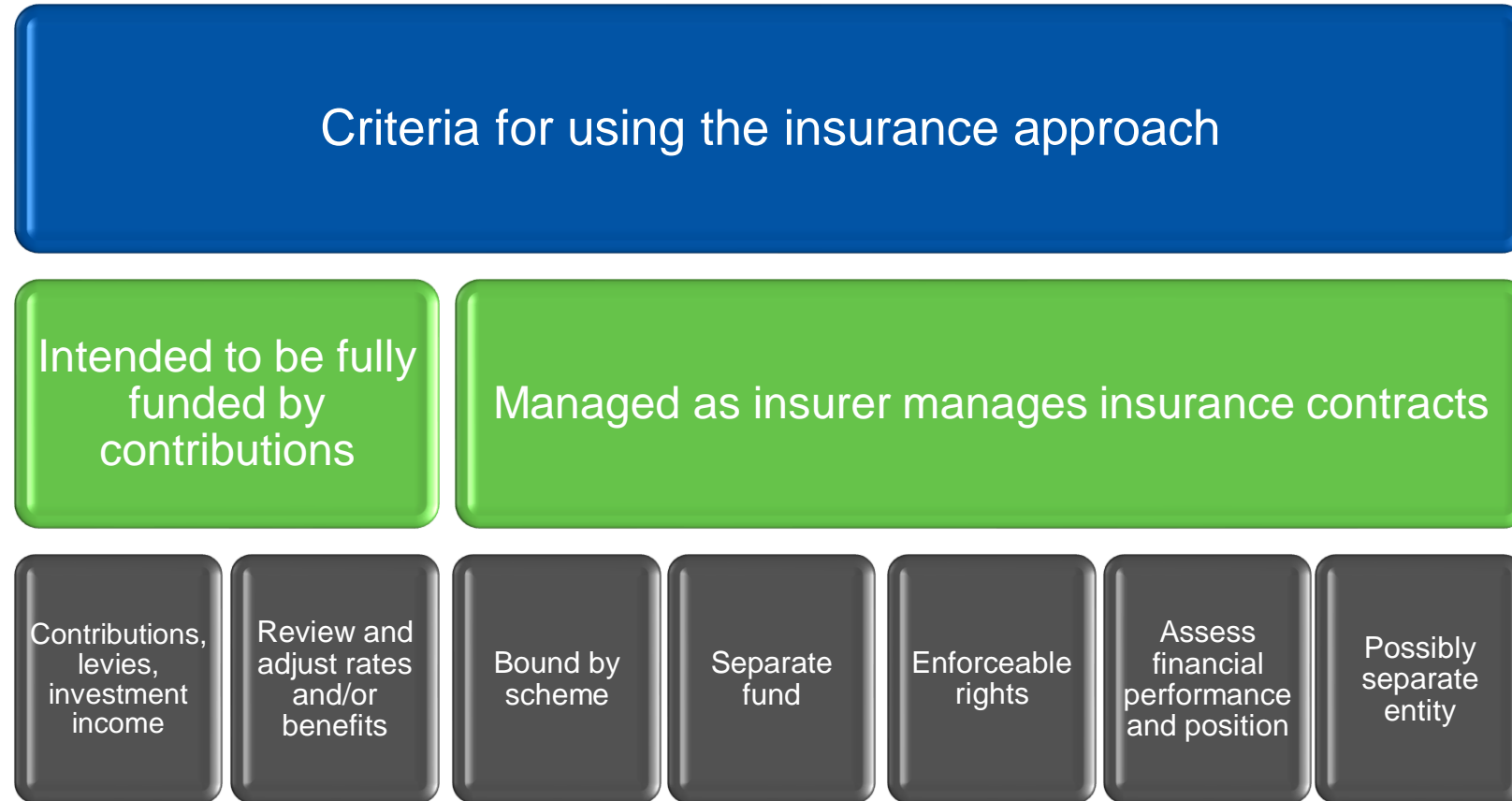
4. Paid in arrears and advance, no-pro rata and straddles balance date



General approach – disclosures

- Information about the characteristics of the social benefit schemes
 - Nature of the social benefits provided by the schemes
 - Key features of the schemes
 - How the schemes are funded (can cross reference)
- Description of demographic, economic and other external factors that influence the level of expenditure under the schemes
- The total expenditure on social benefits (by scheme)
- Any significant amendments to schemes during the period
- If a scheme meets criteria for insurance approach – state this

Insurance approach

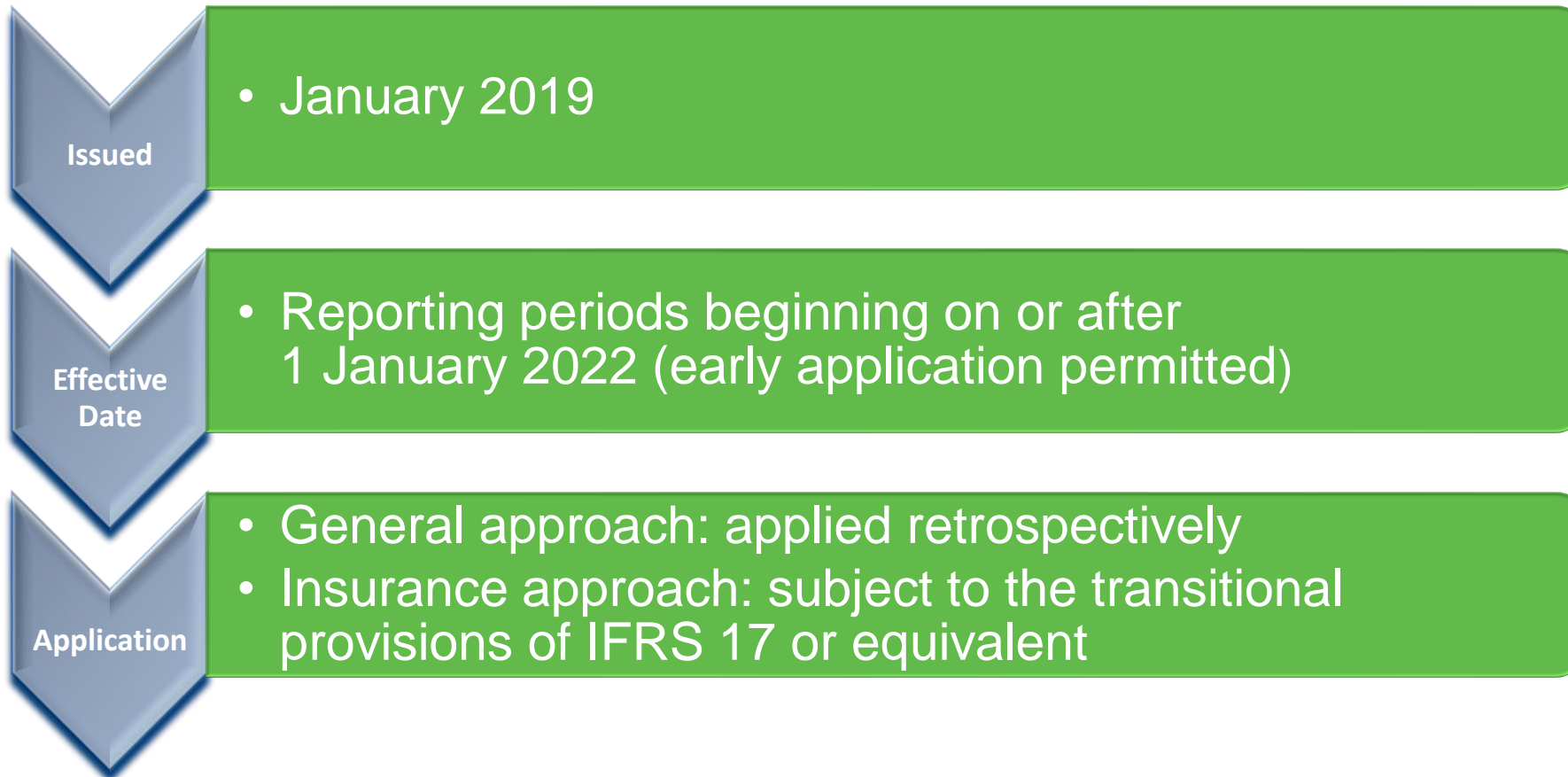


Insurance approach – disclosures

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

- IPSAS 42 encourages information on long-term sustainability
- RPG 1 *Reporting on the Long-Term Sustainability of an Entity's Finances*
 - Not mandatory
 - Projections based on current policy and assumptions about future
 - Report on three dimensions: service, revenue and debt
 - Disclose principles, assumptions and methodologies...

Application of IPSAS 42



PBE Policy Approach

- Rebuttable presumption: will adopt a new or amended IPSAS
 - Higher quality financial reporting for PBE
 - Benefits exceed the cost
- Defer the decision on the adoption of IPSAS 42
 - Benefits in waiting for the IPSASB to complete its non-exchange expenses project

Full analysis in agenda item 4.8



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**EXTERNAL REPORTING BOARD***Te Kāwai Ārahi Pūrongo Mōwaho*

Education session: ED 67 Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)

Aimy Luu Huynh – Senior Project Manager Accounting Standards

Todd Beardsworth – IPSASB Member

NZASB Meeting

12 FEBRUARY 2019

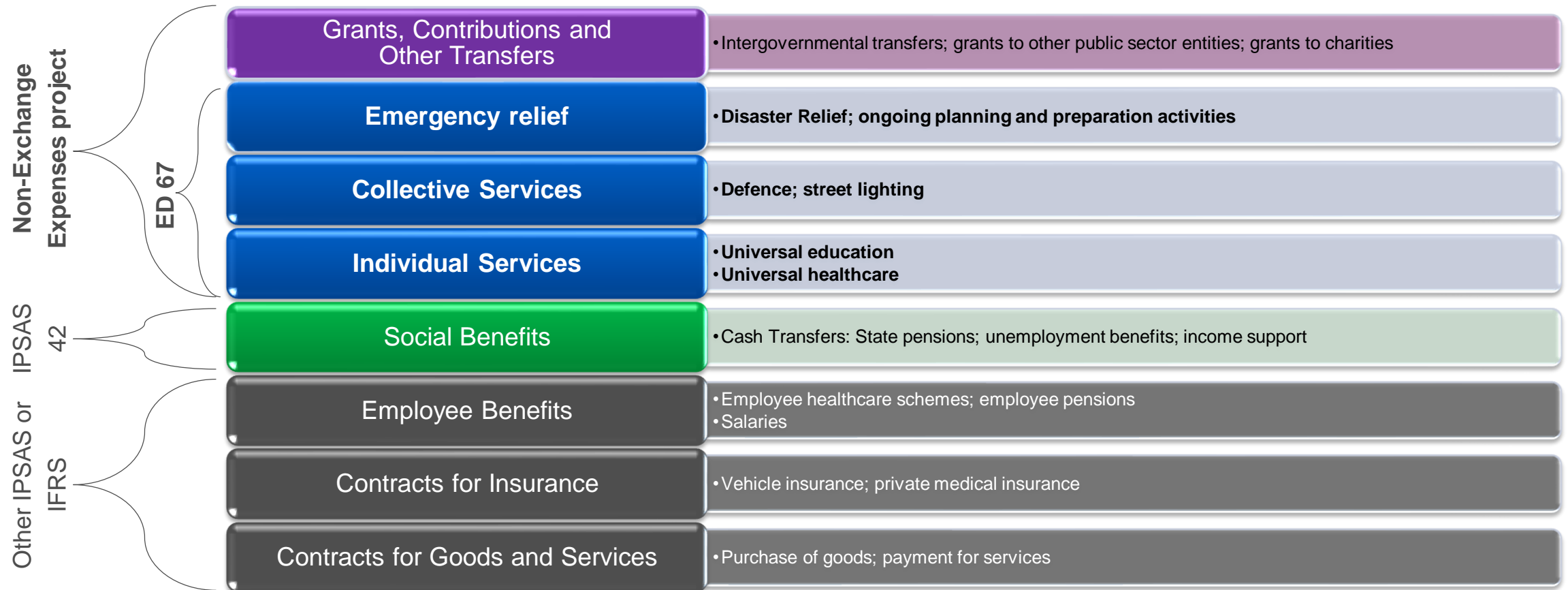
Contents

-
- Objective of ED
 - Scope
 - Definitions
 - Collective services
 - Individual services
 - Emergency relief
 - Timeline
 - Staff recommendation

Objective of ED

- Collective and individual services and emergency relief may have been in the description of social benefits in IPSAS 19's scope exclusion
- IPSAS 42 *Social Benefits* has a narrow definition of social benefits that excludes collective and individual services and emergency relief
- The ED proposes to amend IPSAS 19 to provide guidance for these transactions

Scope



Proposed definitions to be added to IPSAS 19:

Collective services are services provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole

Individual services are goods and services provided to individuals and/or households that are intended to address the needs of society as a whole

Differences to social benefits

	Social benefits	Individual services	Collective services
Involves a cash transfer to eligible beneficiaries?	✓	✗	✗
Provided to individuals rather than to a community?	✓	✓	✗
Intended to address the needs of society as a whole?	✓	✓	✓

- Collective services are ongoing activities of the entity
- Existing guidance in IPSAS 19.26:

“...no provision is recognized for costs that need to be incurred to continue an entity’s ongoing activities in the future”.
- The expenses incurred in delivering the collective services are exchange transactions – account for in accordance with other IPSAS
- No provision recognised before the services are delivered

- Individual services are ongoing activities of the entity
- Existing guidance in IPSAS 19.26:

“...no provision is recognized for costs that need to be incurred to continue an entity’s ongoing activities in the future”.
- The expenses incurred in delivering the individual services are exchange transactions – account for in accordance with other IPSAS
- No provision recognised before the services are delivered

Emergency relief

Examples of emergency relief

- Natural disasters such as flooding, earthquakes, food shortages and volcanic eruptions
- Displacement of individuals and/or households as a result of war, civil commotion or economic failure

Delivery of emergency relief

- The provision of services
- The provision of goods
- The replacement of assets
- Cash transfers

Types of emergency relief

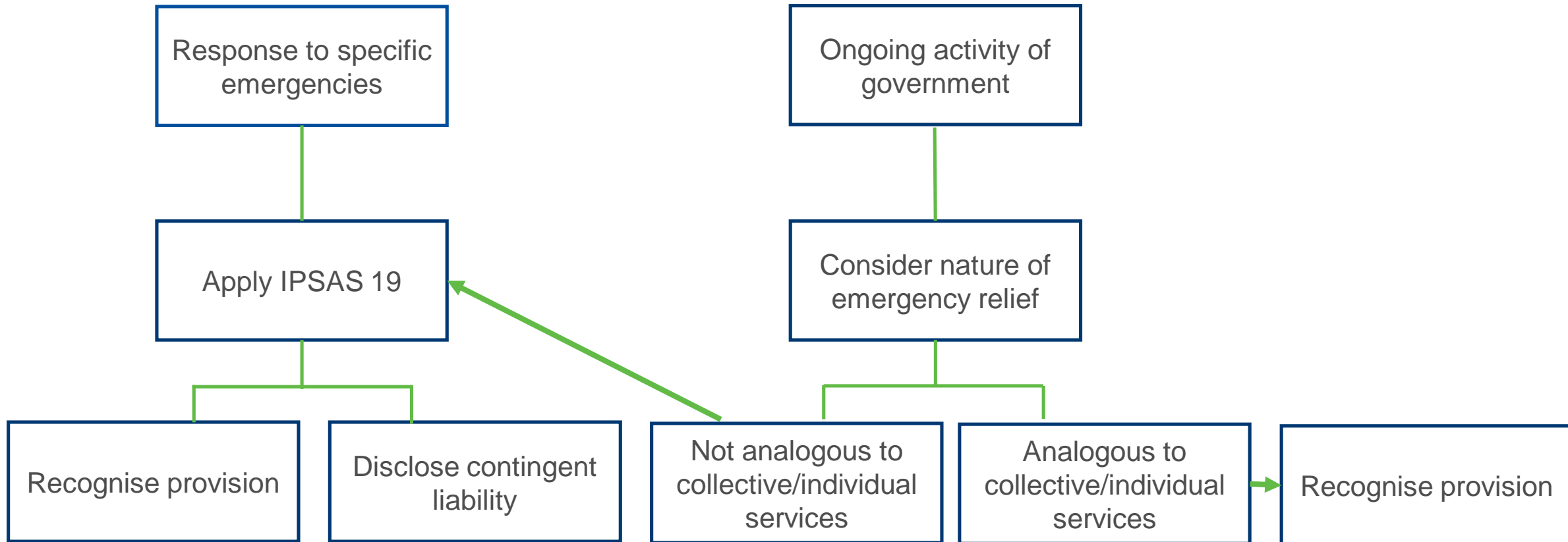
Delivered in response to specific emergencies

- Examples: flood, earthquake

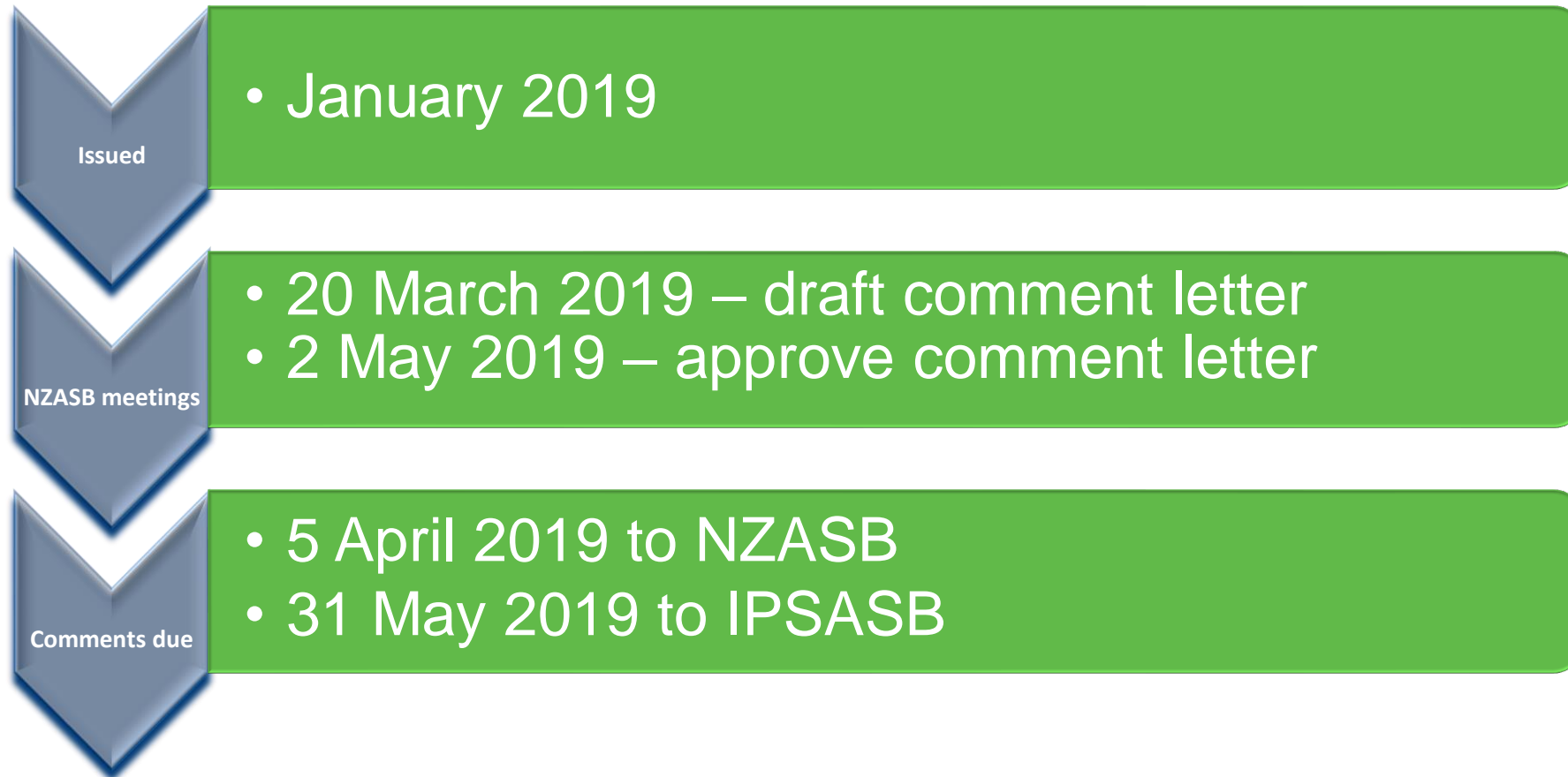
Delivered as an ongoing activity of government

- Example: where a government has established an agency with a remit to deliver emergency relief, and where the agency staff are engaged either in delivering the emergency relief or in undertaking planning and preparation activities

Accounting for emergency relief



Timeline



Staff recommendation

- ED 67 is part of the IPSASB's non-exchange expenses project
- NZASB project priority: HIGH
- Applicable to a number of public sector entities in NZ
 - Have been using IPSAS 19 and Conceptual Framework as guidance
- Staff recommendation: the Board comments on ED 67

Board question: Does the Board agree to comment on ED 67?



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**EXTERNAL REPORTING BOARD***Te Kāwai Ārahi Pūrongo Mōwaho*



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 1 February 2019

To: NZASB Members

From: Joanne Scott

Subject: **PBE Policy Approach – IPSAS 42 *Social Benefits***

Recommendation

1. We recommend that the Board DEFERS its decision to develop a PBE Standard based on IPSAS 42 *Social Benefits* until the IPSASB has completed other related projects dealing with non-exchange expenses.

Background

2. The IPSASB has approved IPSAS 42 and the standard is expected to be issued early this year.
3. The Board regularly considers whether new or amending IPSAS should be incorporated into PBE Standards. These decisions are guided by the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach) which outlines the intention of the multi-standards approach in the New Zealand Accounting Standards Framework and the factors to be considered by the NZASB in deciding whether to initiate a development (a change to PBE Standards). A copy of the PBE Policy Approach (revised December 2018) is included in the supporting papers (see agenda item 4.9).
4. There is a rebuttable presumption in the PBE Policy Approach (paragraph 22) that the NZASB will adopt a new or amended IPSAS. This presumption is based on the expectation that such changes will lead to higher quality financial reporting in New Zealand and that the factors in the development principle have been met.
5. In this memo we explain why IPSAS 42 might not lead to higher quality financial reporting by PBEs in New Zealand and why we think it would be better to wait for the IPSASB to complete other projects before making a final decision about adopting IPSAS 42.
6. Appendix 1 of this memo contains some background information about social benefits in New Zealand.

Application of the PBE Policy Approach

7. Generally when we apply the PBE Policy Approach we focus on Section 4 which discusses the application of the factors in the development principle. Section 4.1 deals with the case of a new or amended IPSAS. Paragraph 24(a) outlines why and how the NZASB might amend an IPSAS. Paragraph 24(b) gives examples of concerns that might lead the NZASB to decide not to

adopt a new or amended IPSAS but stresses that this is likely to occur only in exceptional circumstances.

8. We think it is too early to make any decisions about adopting IPSAS 42 and have not sought to rebut the presumption in the PBE Policy Approach. Instead we have outlined our reservations about the benefits of adopting IPSAS 42 now and the potential for the costs to outweigh the benefits. We expect that the NZASB will be able to make a better assessment of the benefits and costs once the IPSASB has completed its other projects dealing with non-exchange expenses.

Limited benefits at this point

9. Our reservations about the benefits of adopting IPSAS 42 at this time are as follows.
 - (a) The scope of IPSAS 42 was narrowed as the standard was developed. It is now limited to social benefits in the form of cash transfers to individuals. In New Zealand most such social benefit payments are made by the Ministry of Social Development and Inland Revenue on behalf of the Government, and by the Accident Compensation Corporation. The Government already applies insurance accounting to some major social benefits and accrues payments due for the remainder. The adoption of IPSAS 42 would not therefore be expected to lead to significant improvements in financial reporting.
 - (b) Although there is currently no PBE Standard dealing with social benefits in the form of cash transfers this has not led to wide variations in accounting. Nor are we aware of any concerns with the current reporting of such social benefits.
 - (c) Other forms of non-exchange expenses give rise to more difficult accounting issues. These issues are being considered in the project on Grants, Contributions and Other Transfer Expenses.
 - (d) The scope of a PBE Standard based on IPSAS 42 would have to work together with the scope of other PBE Standards such as (i) PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, together with the proposals in IPSASB ED 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19); (ii) the proposed PBE IFRS 17 *Insurance Contracts*;¹ and (iii) a future standard on grants and transfers. We think the collective impact of all of these proposals should be considered together.
 - (e) There are some NZ-specific modifications in PBE IPSAS 19: they are a scope modification for certain obligations of the Crown, two additional non-integral examples dealing with grants and the inclusion of some interpretations that formed part of NZ IFRSs.² It would be easier to decide what to do about these NZ-specific modifications once the IPSASB has completed all of its relevant projects. For example, if we were to remove the

¹ NZASB ED 2018-7 PBE IFRS 17 *Insurance Contracts* was issued for comment in December 2018. The scope of the proposed PBE IFRS 17 has been modified to capture schemes that would be eligible to apply the insurance approach under IPSAS 42 *Social Benefits*.

² The three interpretations were NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*; NZ IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*; and NZ IFRIC 6 *Liabilities arising from Participation in a Specific Market—Waste Electrical and Electronic Equipment*.

current scope exclusion now we would have to create a new short-term scope exclusion to avoid a short-term in accounting for some obligations.

Costs

10. IPSAS 42 might result in the Government accruing slightly different amounts for certain benefits than at present. Although we do not have enough information to assess the impact of applying IPSAS 42 to particular benefits, we have included a simple example to illustrate how the amounts accrued under IPSAS 42 for a particular benefit might differ from current practice. The actual impact of applying IPSAS 42 would depend on the detailed aspects of a benefit, including how often payments are made and how close to year end the last payment occurs.

Example: Benefit A

Assumptions:

- Benefit A is paid fortnightly in arrears.
- Eligibility is assessed fortnightly.
- All current beneficiaries will remain eligible and there will be no new beneficiaries.
- The last payment in the year is one week before year end.

Possible current accrual:

- If accruals are based on what is “owed” at year end, the Government would accrue one week’s worth of the benefit.

IPSAS 42:

- The Government would accrue the full amount of the next benefit payment – which in this case would be two weeks’ worth.

11. We think it would be most efficient to seek feedback from PBEs on all proposals for non-exchange expenses at the same time and then finalise all of the relevant requirements together. Entities could then assess the impact of all new requirements at the same time.

Timing of other projects

12. The milestones for the IPSASB’s other non-exchange expense projects are set out below. These milestones are based on the IPSASB’s workplan as at December 2018.

Collective and Individual Services and Emergency Relief	Grants, Contributions and Other Transfers
Jan 2019 ED 67 issued	Oct 2019 ED issued
Jan 2020 Amending standard issued	Mid 2021 IPSAS issued

13. If we wait for these other projects to be completed, it is likely to be the second half of 2021 before we apply the PBE Policy Approach to the new and amended standards.

Question for the Board

- Q1 Does the Board agree to DEFER its decision to develop a PBE Standard based on IPSAS 42 *Social Benefits* until the IPSASB has completed other related projects dealing with non-exchange expenses?

Attachments

Agenda item 4.9: PBE Policy Approach (in supporting papers)

Appendix 1 NZ Social benefits

This Appendix gives a snapshot of social benefits in New Zealand, some of which would fall within the scope of IPSAS 42.

Benefits

The following extracts show the transfer payments and subsidies reported in the Government's financial statements. These non-departmental expenses are managed by departments on behalf of the Government. The Ministry of Social Development (MSD) manages over 80% of the Government's transfer payments and subsidies, including New Zealand superannuation and Jobseeker support. It also pays some family tax credits on behalf of the Inland Revenue Department (IRD).

ACC payments are not discussed in this Appendix. The scope of the proposed PBE IFRS 17 *Insurance Contracts* has been modified to capture schemes that would be eligible to apply the insurance approach under IPSAS 42. In addition, some ACC payments would fall outside the scope of IPSAS 42 because they are not cash transfers to an individual or a household.

Extracts from Financial Statements of the Government of New Zealand, year ended 30 June 2018

Note 7: Transfer Payments and Subsidies

2018 Forecast			Actual	
Budget	Budget		30 June	30 June
2017	2018		2018	2017
\$m	\$m		\$m	\$m
13,671	13,703	New Zealand superannuation	13,699	13,043
1,663	1,693	Jobseeker support and emergency benefit	1,697	1,697
1,823	1,696	Family tax credit	1,639	1,723
1,531	1,540	Supported living payment	1,541	1,533
1,218	1,208	Accommodation assistance	1,204	1,127
1,117	1,109	Sole parent support	1,117	1,159
810	920	KiwiSaver subsidies	897	743
644	647	Official development assistance	643	520
603	575	Other working for families tax credits	556	596
505	509	Student allowances	511	465
118	37	Income related rent subsidy	19	10
379	379	Disability allowances	379	377
<u>1,598</u>	<u>1,524</u>	Other social assistance benefits	<u>1,464</u>	<u>1,466</u>
25,680	25,540	Total transfer payments and subsidies	25,366	24,459

Income related rent payments for social housing tenants were presented gross in previous financial years. This year this revenue and expenditure has been eliminated between Government reporting entities, as this payment is more like a subsidy than rental payments on behalf of tenants. Due to a change in accounting policy in the current year, income related rent subsidy has been restated from \$815 million in 2017 to \$10 million. Budget comparatives have also been restated.

Welfare benefits and entitlements, including New Zealand Superannuation, are recognised as an expense in the period when an application for a benefit has been received and the eligibility criteria have been met.

Accounting policies

Extracts from MSD Annual Report 2017/18

Expenses are recognised in the period they relate to. Welfare benefits are recognised in the period when an application for a benefit has been received and the eligibility criteria met. Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

Extracts from IRD Annual Report 2017/18

Expenses are recognised in the period to which they relate.

Extract from Treasury Instructions 2018

3.5.4.2 Welfare benefits and entitlements

Welfare benefits and entitlements, including New Zealand Superannuation, must be recognised in the period when an application for a benefit has been received and the eligibility criteria have been met.

3.5.4.3 Grants and subsidies

Where grants and subsidies are at the government's discretion until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria for the grant or subsidy have been fulfilled and notice has been given to the government.

IASB Project Update

Better Communication in Financial Reporting — *Disclosure Initiative*

Lisa Kelsey and David Bassett

NZASB Meeting — 12 February 2019



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

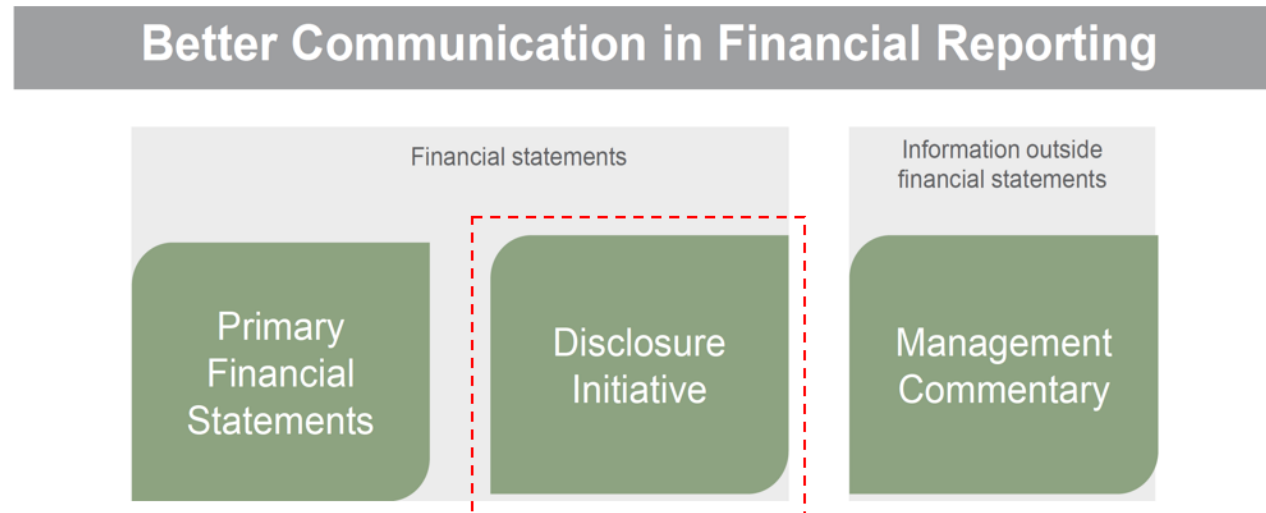
Purpose of this session



- To provide the Board with an update on the IASB's *Disclosure Initiative*
- The Board is not being asked to make any decisions
- Staff are happy to take questions during the presentation

Better Communication in Financial Reporting

- The IASB's *Disclosure Initiative* falls under the IASB's central theme – Better Communication in Financial Reporting

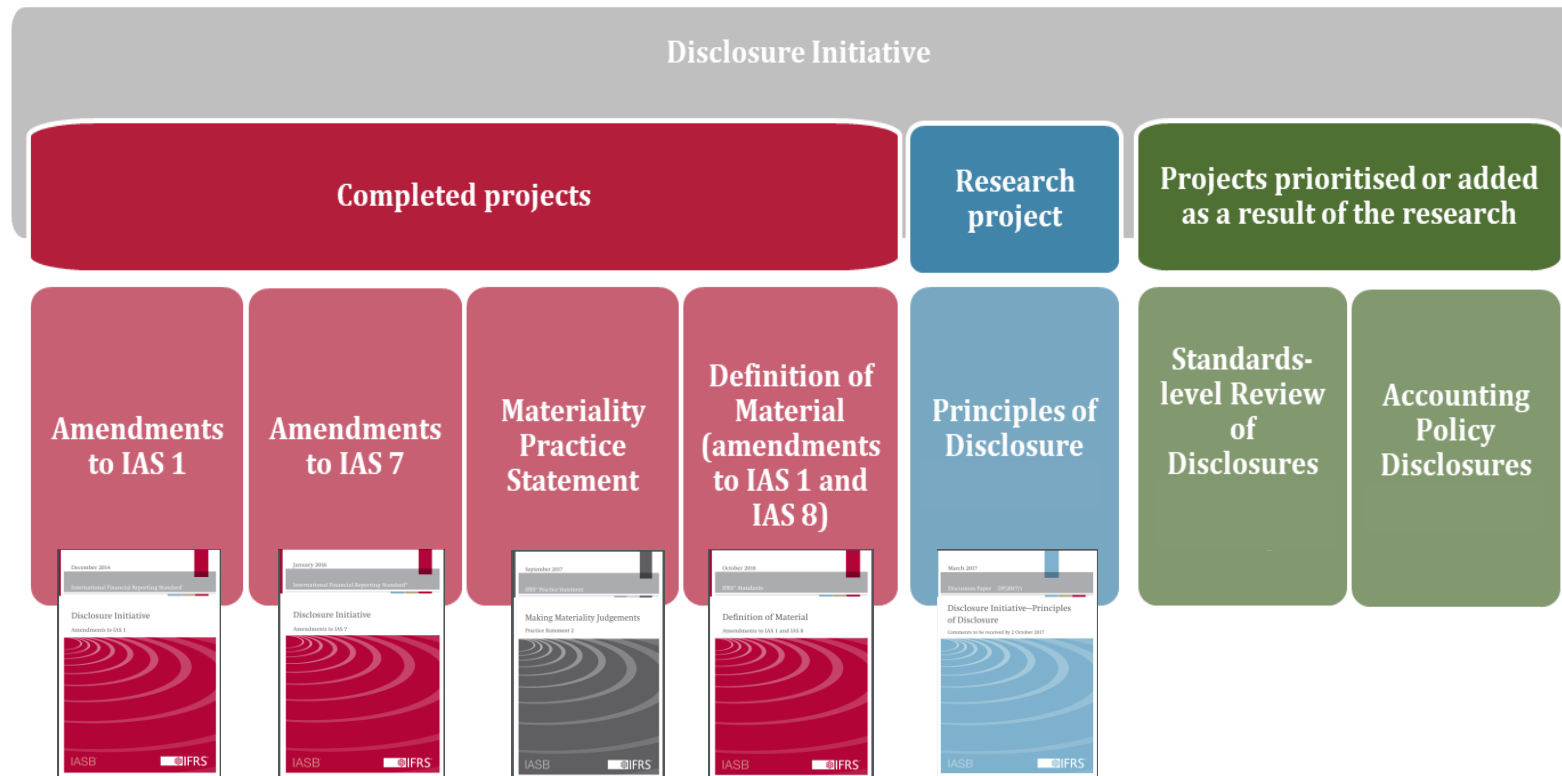


- Today's update will not cover the other projects which fall under the IASB's Better Communication in Financial Reporting theme

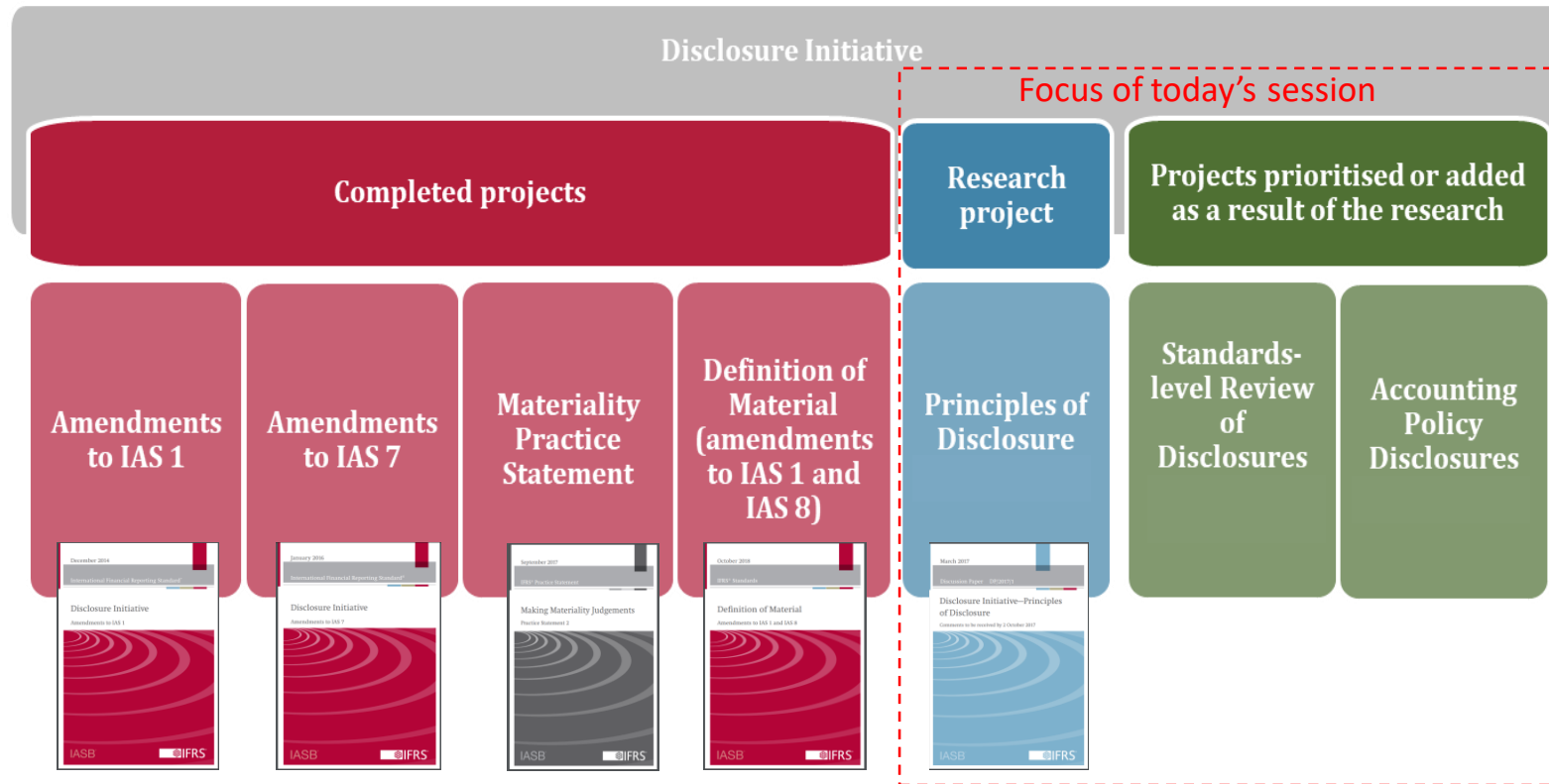
IASB's *Disclosure Initiative*

IASB's *Disclosure Initiative*

- Launched in 2013 to respond to feedback that there is a need to improve the effectiveness of disclosure in financial statements



IASB's *Disclosure Initiative*



Research project: Principles of Disclosure (POD)

- The IASB received feedback that stakeholders have three main concerns about information in the financial statements, collectively referred to as the “disclosure problem”
 - Not enough relevant information is disclosed
 - Too much irrelevant information is disclosed
 - Information provided is not communicated effectively
- In March 2017 the IASB issued the *Principles of Disclosure* Discussion Paper (POD DP) to obtain feedback on possible approaches to address the disclosure problem

POD DP sections



- The POD DP considered potential activities to help address the disclosure problem

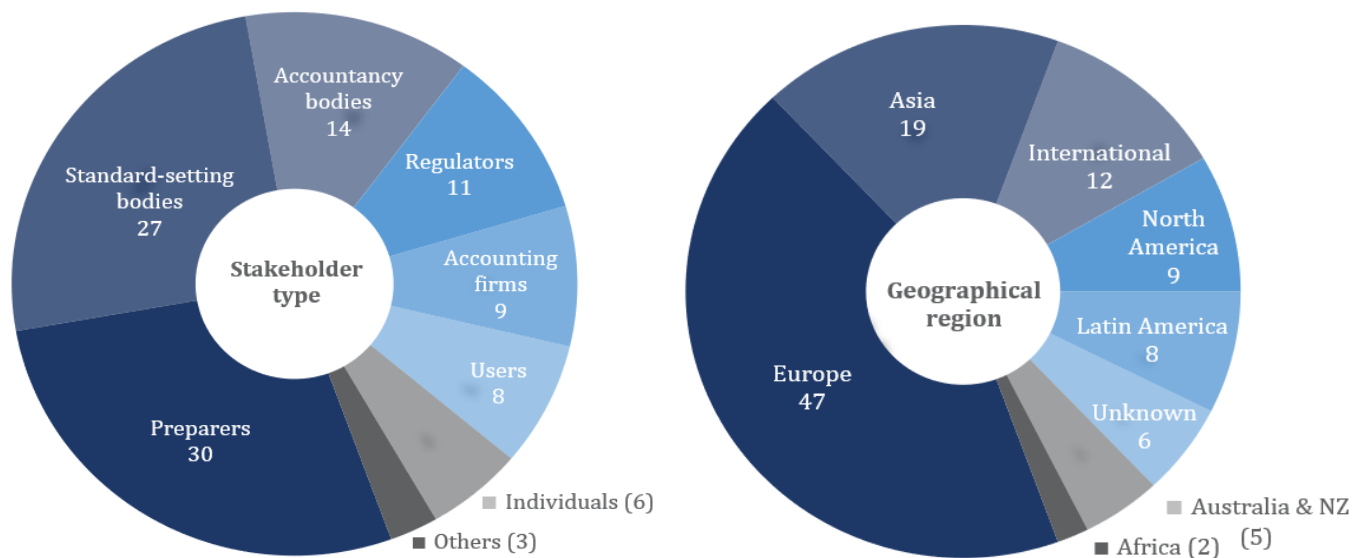
Sections	Summary
Section 1: Overview of the disclosure problem and the objective of this project	
Section 2: Principles of effective communication	<ul style="list-style-type: none">• Developing principles for effective communication• Developing non-mandatory guidance on formatting
Section 3: Roles of the primary financial statements and the notes	<ul style="list-style-type: none">• Specifying the “primary financial statements”• Describing the role of the primary financial statements and implications of that role• Describing the role of the notes and providing guidance on content of the notes• Using the terms “present” and “disclose” to specify location of disclosure
Section 4: Location of information	<ul style="list-style-type: none">• Presenting “IFRS information” outside the financial statements• Presenting “Non-IFRS information” within the financial statements• Prohibiting the presentation of specific types of information within the financial statements

POD DP sections (cont.)

Sections	Summary
Section 5: Use of performance measures in the financial statements	<ul style="list-style-type: none">• Presenting EBIT and EBITDA• Presenting unusual or infrequently occurring items• Developing general requirements for the fair presentation of performance measures in the financial statements
Section 6: Disclosure of accounting policies	<ul style="list-style-type: none">• Developing requirements on determining which accounting policy should be disclosed• Considering where accounting policy disclosures are located in the financial statements
Section 7: Centralised disclosure objectives	<ul style="list-style-type: none">• Developing centralised disclosure objectives• Considering a single standard, or a set of standards, for disclosures
Section 8: NZASB Staff's approach to drafting disclosure requirements in IFRS Standards	<ul style="list-style-type: none">• Considering:<ul style="list-style-type: none">• the use of disclosure objectives• the use of two tiers of disclosure requirements• emphasising the use of judgement• the use of less prescriptive language

POD DP outreach

- The IASB received 108 comment letters (5 from NZ and Australia)



- The IASB also conducted 68 outreach meetings
 - 35 of those were with users, capturing around 190 investors and analysts

- The NZASB provided a detailed [comment letter](#) to the IASB
- To help inform the NZASB's comment letter staff conducted the following outreach
 - Hosted a webinar
 - Held outreach events in Auckland, Wellington and Christchurch. IASB staff presented via video link from London
 - Consulted with the Corporate Reporting Users Forum (CRUF)
 - Consulted with TRG and XRAP members
- NZASB staff provided a summary to IASB staff of feedback from all outreach activities

Feedback received – all stakeholders



Discussion Paper topics	Feedback received – key messages
Overall project approach and scope	<ul style="list-style-type: none">• Many highlighted the importance of the project and supported efforts to find a solution to the disclosure problem<ul style="list-style-type: none">• But many had concerns with direction and focus of project• Many expressed concerns with lack of consideration of technology and digital reporting• Many highlighted importance of application of materiality
Section 1: Overview of the disclosure problem and the objective of this project	<ul style="list-style-type: none">• Most broadly agreed with the disclosure problem identified<ul style="list-style-type: none">• Users more concerned with lack of relevant information• Almost all agreed that the way the IASB drafts IFRS® Standards contributes to the problem• Developing principles is not enough to solve the disclosure problem• Many recommended undertaking a standards-level review of disclosure requirements
Section 2: Principles of effective communication	<ul style="list-style-type: none">• Most broadly agreed with developing principles and with the seven principles described• Mixed views on making communication principles mandatory• Mixed views on developing non-mandatory guidance on the use of formatting
Section 3: Roles of the primary financial statements and the notes	<ul style="list-style-type: none">• Most agreed should describe roles of the primary financial statements and notes• Many expressed concerns about interaction with the <i>Primary Financial Statements</i> project and believed that these items would be better considered as part of that project

Feedback received – all stakeholders



Discussion Paper topics	Feedback received – key messages
Section 4: Location of information	<ul style="list-style-type: none">• Most supported developing principles to present “IFRS information” outside of the financial statements<ul style="list-style-type: none">• Users expressed concerns with understandability, assurance, availability• Many agreed <u>not</u> to prohibit “non-IFRS information” from being presented within the financial statements• Many agreed to developing requirements for presenting “non-IFRS information” within the financial statements• Mixed views on prohibiting specific types of information
Section 5: Use of performance measures in the financial statements	<ul style="list-style-type: none">• Many believed that APMs should be considered as part of the <i>Primary Financial Statements</i> project• Many supported defining EBIT and EBITDA• Mixed views on requiring presentation of EBIT and EBITDA• Many disagreed with prohibiting the use of other terms• Many felt developing definitions for unusual or infrequently occurring would be difficult<ul style="list-style-type: none">• However, some users supported definitions and requirements for unusual and infrequently occurring items• Most support developing general requirements for the fair presentation of performance measures

Feedback received – all stakeholders

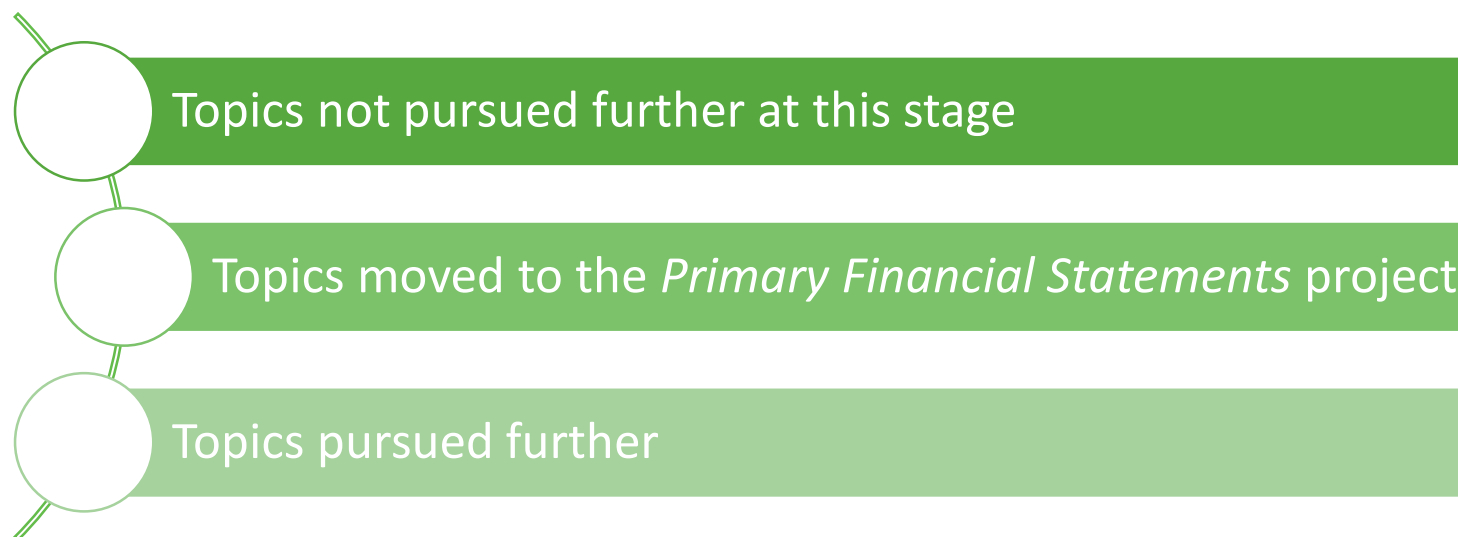
Discussion Paper topics	Feedback received – key messages
Section 6: Disclosure of accounting policies	<ul style="list-style-type: none">• Many supported developing guidance on which accounting policies to disclose<ul style="list-style-type: none">• But more work needed, little support for categories of accounting policies proposed• Not many comments received on the location of accounting policies• Those that did, mixed views on whether guidance is needed
Section 7: Centralised disclosure objectives	<ul style="list-style-type: none">• Many supported developing centralised disclosure objectives<ul style="list-style-type: none">• Mixed views on best approach, felt more work is needed• Fewer comments on location<ul style="list-style-type: none">• Concerns about locating all disclosure requirements in single standard
Section 8: NZASB Staff's approach to drafting disclosure requirements in IFRS Standards	<ul style="list-style-type: none">• Fewer comments received on this section• Many supported individual aspects of the approach<ul style="list-style-type: none">• Mixed views on approach as a whole

POD DP – summary of IASB's findings

- General agreement with the disclosure problem identified
 - Users more concerned with lack of relevant information
- Many respondents think:
 - developing principles is not enough to solve the disclosure problem
 - the way the IASB drafts disclosure requirements contributes to the disclosure problem
 - the IASB should review disclosure requirements in individual standards
 - however, different stakeholders have different expectations
 - the effects of technology and digital reporting need to be explored further

IASB's next steps

- In light of feedback received, the IASB concluded that it would be most helpful to identify and prioritise those activities expected to be most effective in addressing the disclosure problem
- POD DP topics can be grouped into the following categories

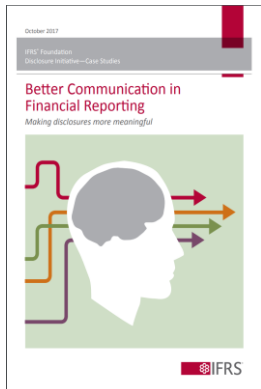


POD DP – topics not pursued further (at this stage)

- The IASB decided not to further develop guidance or requirements relating to:
 - non-mandatory guidance on the use of formatting
 - presenting “non-IFRS information” within the financial statements
 - presenting “IFRS information” outside of the financial statements
 - the location of accounting policy disclosures
 - centralised disclosure objectives
- The IASB decided not to further explore locating all disclosures in a single standard or in a set of standards

POD DP – principles of effective communication

- The IASB concluded that developing the “7 principles of effective communication” further was not the most effective way it could help address the disclosure problem



- Nevertheless, in October 2017 the IFRS Foundation published *Better Communication—Making disclosures more meaningful*
 - This report illustrated how some companies have improved communication in their financial statements and highlighted how principles of effective communication could be used to improve disclosures
 - Fonterra Co-operative was featured in the IFRS Foundation’s report

POD DP – topics moved to the *Primary Financial Statements* project



- The IASB decided to address the following topics from the POD DP as part of the *Primary Financial Statements* project:
 - roles of the primary financial statements and of the notes
 - presentation of EBIT and EBITDA
 - presentation of unusual or infrequently occurring items
 - general requirements for the fair presentation of performance measures

POD DP – topics pursued further

- The IASB has decided to pursue the following topics

Topic	Project
Issues relating to broader implications of technology for financial reporting	Consider as part of the IFRS Foundation's <i>Technology Initiative</i>
Drafting of IFRS Standards	<i>Disclosure Initiative—Targeted Standards-level Review of Disclosures</i>
Using the terms “present” and “disclose” to specify location of disclosure	<i>Disclosure Initiative—Targeted Standards-level Review of Disclosures</i>
Requirements on determining which accounting policies to disclose	<i>Disclosure Initiative—Accounting Policies</i>
NZASB Staff’s approach to drafting disclosure requirements in IFRS Standards	<i>Disclosure Initiative—Targeted Standards-level Review of Disclosures</i>

IASB's Targeted Standards-level Review of Disclosures project

Targeted Standards-level Review of Disclosures



- Almost all respondents to the POD DP suggested that the IASB could help solve the disclosure problem if it improved the way it develops and drafts disclosure objectives and requirements in IFRS Standards
 - For example, stakeholders said that a lack of specific disclosure objectives, overly prescriptive language and unclear or duplicate requirements in some IFRS Standards contribute to the problem
- The IASB concluded that developing guidance for the IASB to use when drafting disclosure objectives and requirements would be an effective way to help address the disclosure problem

Targeted Standards-level Review of Disclosures



- Many respondents to the POD DP said that, in their view, standards-level activity would be the most effective way that the IASB could help to address the disclosure problem
- In the light of feedback received, the IASB considered both a comprehensive and a targeted review of disclosure requirements
 - A *comprehensive* review would involve reviewing the disclosure requirements in all IFRS Standards
 - A *targeted* review would involve selecting one or two standards to use as test cases to explore and improve the way the IASB develops and drafts disclosure objectives and requirements

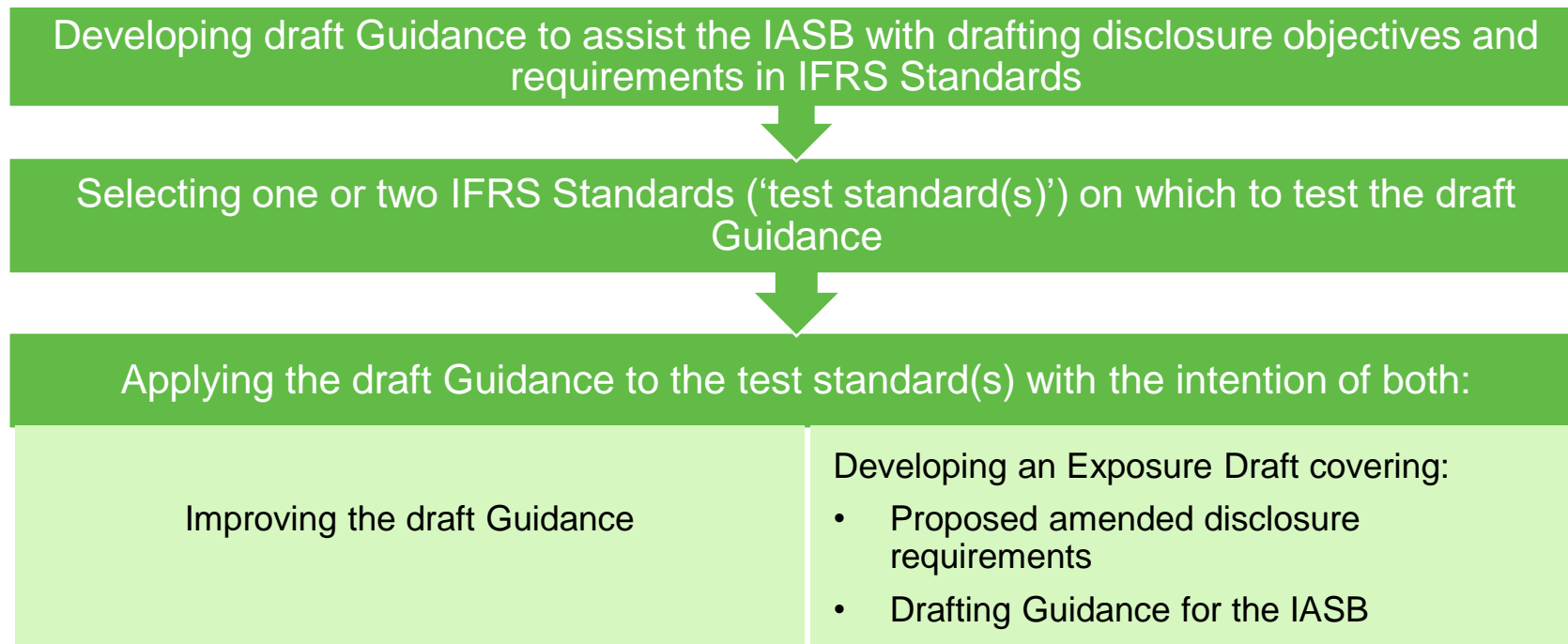
Targeted Standards-level Review of Disclosures



- Many respondents favoured a comprehensive review
 - However, the IASB observed that a comprehensive standards-level review would take a significant amount of time to complete and would be unlikely to provide improvements for stakeholders within the foreseeable future
- The IASB concluded that a targeted standards-level review would enable it to respond to the disclosure problem in an iterative and flexible way
- Such a review would allow the IASB to:
 - test and improve the drafting guidance
 - improve the disclosure requirements in one or two identified test standards within a reasonable time frame

Targeted Standards-level Review of Disclosures

- In March 2018 the IASB added the *Targeted Standards-level Review of Disclosures* project to its workplan
- The project involves



Targeted Standards-level Review of Disclosures



- The IASB will consider feedback received on the NZASB staff's approach within this project
- In September 2018, the IASB tentatively approved the draft guidance and asked the staff to begin testing the guidance on IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*
- No expected date for an exposure draft has been indicated

Targeted Standards-level Review of Disclosures

- The drafting guidance/framework can be summarised in three steps:

Step 1 — How the IASB will use disclosure objectives

- specific, high-level, overarching objectives

Step 2 — How the IASB will develop the content of disclosure objectives and requirements

- use focused methodology to develop content
- assign a member of IFRS Taxonomy team to project

Step 3 — How the IASB will draft disclosure objectives and requirements

- use of language
- formatting and presentation
- leveraging requirements and guidance across IFRS Standards /other IFRS publications

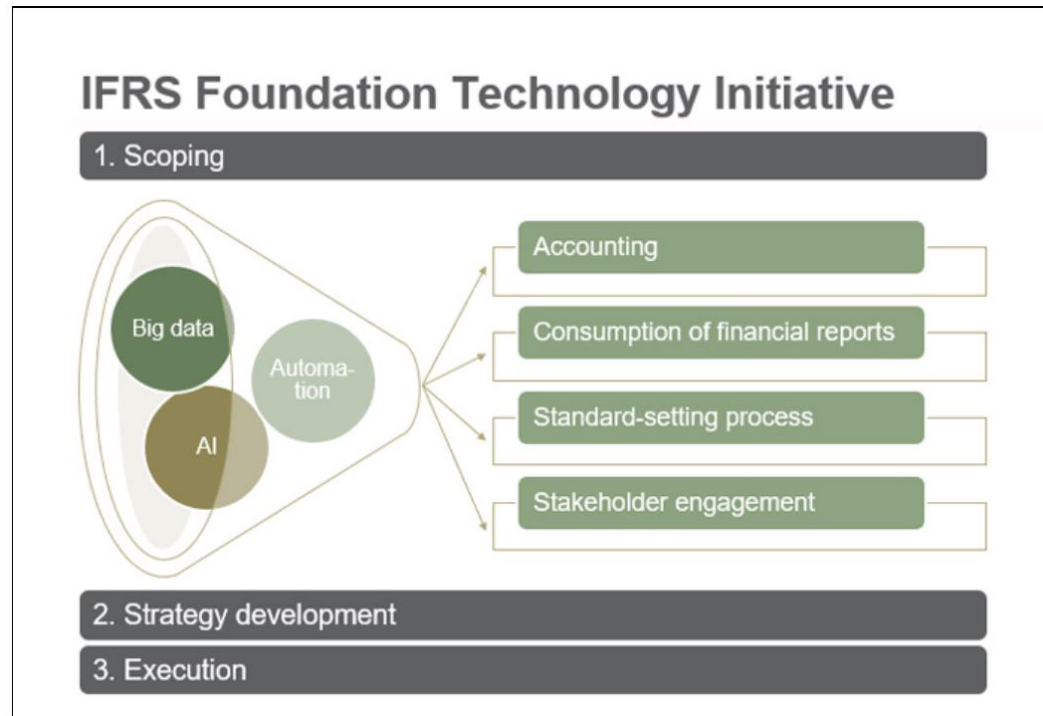
IASB's *Accounting Policies* project

- The POD DP acknowledged that difficulties in applying the concept of materiality have contributed to the ineffective disclosure of significant accounting policies
 - Feedback received on the POD DP supported this view
 - Stakeholders supported the IASB developing guidance to help preparers decide which accounting policies to disclose
 - Feedback received from users was that accounting policy disclosures are useful only when they provide insight into how an entity has exercised judgement in selecting and applying accounting policies

- Considering the feedback, the IASB decided to add a project to its agenda to develop guidance to help entities apply materiality judgements to accounting policy disclosure
 - In October 2018, the IASB tentatively decided to clarify that not all accounting policies relating to material transactions, other events or conditions are themselves material
 - This will be done by developing guidance and examples to be located in the IFRS Practice Statement 2 *Making Materiality Judgements*
 - In December 2018, the IASB tentatively decided to amend IAS 1 *Presentation of Financial Statements* to require entities to disclose their material accounting policies rather than their significant accounting policies
- No expected date for an exposure draft has been indicated

IFRS Foundation *Technology Initiative*

IFRS Foundation *Technology Initiative*



- Although the implications of technology and digital reporting on financial communication were not specifically considered in the POD DP, the IASB received significant feedback on the topic (including from NZASB)
- The IFRS Foundation has recently established a *Technology Initiative* to consider which changes in technology are most likely to affect the work of the IASB



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