

Board Meeting Agenda

Thursday 2 May 2019

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

Est Time	Item	Topic	Objective		Page
B: PUBLIC SESSION					
<u>Accounting Standards Framework</u>					
11.55 am	5	<u>Appendix A of XRB A1</u>	(TC/VSF)		
	5.1	Cover memo – NZASB	Consider	Paper	
	5.2	Cover memo – XRB	Consider	Paper	
	5.3	Submissions received			
	5.3.1	Auckland Council	Note	Paper	
	5.3.2	BDO	Note	Paper	
	5.3.3	Carolyn Cordery	Note	Paper	
	5.3.4	OAG	Note	Paper	
	5.3.5	Respondent 5 (informal comments)	Note	Paper	
	5.3.6	Respondent 6 (informal comments)	Note	Paper	
	5.4	<i>2019 Amendments to XRB A1 Appendix A</i>	Approve	Paper	
12.30 pm		<i>Lunch</i>			
<u>For-profit Item for Approval</u>					
1.00 pm	6	<u>2019 Omnibus Amendments to NZ IFRS</u>	(VSF)		
	6.1	Cover memo	Note	Paper	
	6.2	Draft ITC	Approve	Paper	
	6.3	Draft ED	Approve	Paper	
<u>PBE Item for Approval</u>					
1.30 pm	7	<u>IPSASB ED 67 Collective and Individual Services and Emergency Relief</u>	(ALH)		
	7.1	Cover memo	Note	Paper	
	7.2	Draft comment letter	Approve	Paper	
	7.3	<i>ED 67 Collective and Individual Services and Emergency Relief</i>	Note	Supp paper	
<u>PBE Item for Consideration</u>					
2.15 pm	8	<u>Service Performance Reporting Guidance</u>	(JS)		
	8.1	Cover memo	Consider	Paper	

Est Time	Item	Topic	Objective		Page
	8.2	Draft guidance (showing mark-ups)	Consider	Paper	
<i>3.15 pm</i>		<i>Afternoon tea</i>			

Next NZASB meetings:

- Thursday 6 June 2019 (morning only, non-public)
- Thursday 27 June 2019 (full day)



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 18 April 2019

To: Members of the New Zealand Accounting Standards Board

From: Tracey Crookston and Vanessa Sealy-Fisher

Subject: **Appendix A of XRB A1**

Recommendations

1. We recommend that the Board:
 - (a) CONSIDERS the feedback received on XRB ED 2018 *Amendments to XRB A1 Appendix A* (the ED);
 - (b) AGREES with our recommendations to make no changes to the proposals in the ED, other than to add a Basis for Conclusions;
 - (c) NOTES the submissions received on the ED; and
 - (d) APPROVES 2019 *Amendments to XRB A1 Appendix A*,¹ as submitted to the XRB Board for approval to issue.

Background

2. At its meeting in December 2018, the XRB Board approved for issue XRB ED 2018 *Amendments to XRB A1 Appendix A*.
3. The ED was issued in December, with comments due by 29 March 2019. Submissions have been received from the following respondents (see agenda items 5.3.1–5.3.6).

<i>R#</i>	<i>Name of respondent</i>	<i>Agenda item</i>
R1	Auckland Council	5.3.1
R2	BDO	5.3.2
R3	Carolyn Cordery	5.3.3
R4	Office of the Auditor-General (OAG)	5.3.4
R5	Respondent 5 (informal comments)	5.3.5
R6	Respondent 6 (informal comments)	5.3.6

¹ The ED was issued as 2018 *Amendments to XRB A1 Appendix A*. The standard is titled 2019 *Amendments to XRB A1 Appendix A* as this is the year the amendments will be finalised.

Analysis of submissions

4. Respondents R1, R2, R3 and R5 answered the three specific questions in the Invitation to Comment. Respondent R5 also provided comments on the illustrative examples while respondents R4 and R6 provided comments and suggestions on specific matters rather than responding to the specific questions. These issues and our response to those issues are outlined below.
5. R1, R2, R3 and R5 all answered in the affirmative to Questions 1 and 2. Question 1 asked whether respondents agreed with the proposed amendments to XRB A1 Appendix A *when is an Entity a Public Benefit Entity?* Question 2 asked whether respondents agreed with the proposed effective date of 1 January 2020. R3 and R5 also raised other matters which are outlined in the table below.

Issues raised by respondents

6. The following issues were raised by respondents.

R#	Issue (extracted from submission)	Staff recommendations and comments
R3	<p>Terminology</p> <p>I note that in most of the sections (para 24, 29, 32, 34 and in respect of the multiple objectives in para 19), there is a statement that an entity is 'likely to be a PBE'. Yet paras 14–16 no such statements are provided. If they were, it would provide a purpose for these examples.</p>	<p><u>We recommend no change.</u></p> <p>Paragraphs 14 to 16 provide examples of legislation and founding documents that may specify the detailed objectives of an entity. The purpose of the guidance here is to clarify where an entity should look to clarify its stated objectives rather than to indicate whether these documents (SOE Act, DHB objectives, Charities Act 2005) help to determine whether the entity is a PBE.</p>
R4	<p>The term “equity holders” does not easily fit all situations</p> <p>The purpose and use of assets (paragraph 32) notes that the reason an entity acquires and/or holds an asset may indicate whether it is a public benefit entity. This paragraph further elaborates that for-profit entities hold assets mainly for sale or for generating a financial benefit for equity holders.</p> <p>However, there are non-company structures such as trusts which do not have “equity holders”, in a traditional sense, and where financial benefits are being generated.</p> <p>For example, licensing trusts operate in a commercial manner to maximise financial returns. However, they are community organisations in the sense that any surplus profits must be used for community or philanthropic purposes.</p> <p>We recommend that the paragraphs regarding purpose and use of assets could be enhanced by clearly explaining what is meant by the term “equity holders” in non-company structures, or</p>	<p><u>We recommend no change.</u></p> <p>Paragraph 32 acknowledges R4’s point and notes that “The primary reason PBEs (particularly public sector PBEs) hold property, plant and equipment and other assets (including infrastructure assets) is usually for their potential to provide future services for community or social benefit rather than their ability to generate a financial benefit for equity holders”.</p> <p>This indicator is dealing with the purpose and use of the assets held by the entity rather than the nature of the equity interest (i.e. how is the entity using the assets held and for what purpose – for a community benefit or for a return to equity holders).</p> <p>Paragraphs 30 and 31 also refer to equity holders when discussing the indicator nature of equity interest, and states that the absence of clear equity holder may manifest itself in a number of ways.</p> <p>Paragraph 11 states that in many cases it will be unlikely that any one indicator will be conclusive in determining whether an entity meets the</p>

R#	Issue (extracted from submission)	Staff recommendations and comments
	using terminology that can apply across different types of entity in the public sector.	definition of a PBE, and it may be necessary to consider several indicators together. Considering and balancing the assessment of each indicator is a matter of professional judgement.
R4	<p>The quantum of expected financial surplus is a strong indicator</p> <p>The current version of XRB A1 – paragraph 11 of Appendix A includes the indicator “<i>the quantum of expected financial surplus</i>.” This has been combined with the indicator “<i>Nature of the benefits</i>” in the updated appendix.</p> <p>Some of the text of the previous <i>quantum of expected financial surplus</i> indicator (which is now part of the nature of the benefits) has been deleted – namely the sentence in paragraph 20 “The quantum of the expected surplus will provide a strong indication whether an entity is a PBE.”</p> <p>From our perspective, this sentence has proved to be both relevant and useful. We have found it helpful when considering judgement calls about whether an entity is a public benefit entity.</p> <p>We recommend that the updated appendix include discussion that the quantum of the expected financial benefits will usually provide a strong indication whether an entity is PBE.</p>	<p><u>We recommend no change.</u></p> <p>The Appendix sets out a series of indicators to be considered when assessing an entity’s classification. At a principles level no one indicator should be elevated above the others. Rather, determining which indicator(s) have more weight in a particular set of circumstances is a matter of professional judgement when assessing the classification of a specific entity. Adding the words “The quantum of the expected surplus will provide a strong indication whether an entity is a PBE.” could result in more emphasis being placed on this indicator compared with other indicators.</p> <p>Elevating one indicator above others would also conflict with the guidance in paragraph 11 which states “This Appendix sets out several indicators to be considered in determining whether an entity meets the definition of a PBE. In many cases it will be unlikely that any one indicator will be conclusive in determining whether an entity meets the definition of a PBE, and it may be necessary to consider several indicators together. Professional judgement is required when considering and balancing the assessment of each indicator”.</p> <p>The standard has merged the original indicator (quantum of the expected financial surplus) with the nature of the benefits to provide guidance that ensures that all benefits are considered in the assessment, not just financial benefits.</p>
R4	<p>A change in classification could be a for-profit entity becoming a PBE</p> <p>Paragraph 40 includes an example of an entity’s classification changing from a public benefit entity to a for-profit entity. We recommend that paragraph 40 also include an example of a for-profit entity becoming a public benefit entity. For example, if a Tier 1 or 2 for-profit entity becomes a Tier 1 or Tier 2 public benefit entity, the entity would need to apply PBE FRS-46 <i>First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS</i>.</p>	<p><u>We recommend no change.</u></p> <p>We had previously included a sentence to this effect in an earlier version of the ED.</p> <p>The Board agreed not to include reclassification of a PBE to a for-profit entity because the number of possible scenarios resulted in the paragraph becoming unwieldy (e.g. if a for-profit entity meets the criteria to report in accordance with Tier 3 or Tier 4, it would not apply PBE FRS 46 or PBE FRS 47). Furthermore, the Board has a project on its work plan to consider whether it is appropriate to combine the requirements in PBE FRS 46 and PBE FRS 47 to reduce confusion for entities when determining which standard is appropriate when a Tier 1 or Tier 2 for-profit entity changes its classification to become a Tier 1 or Tier 2 PBE.</p>

R#	Issue (extracted from submission)	Staff recommendations and comments
		The move from a public benefit entity to a for-profit entity was considered a more likely scenario in the New Zealand context.
R4	<p>The reasons for the changes to XRB A1 Appendix A should be explained</p> <p>We note that the proposed amended XRB A1 Appendix A does not include a basis for conclusions. We think it is important to explain the reason for the significant changes to XRB A1 Appendix A, and in particular the inclusion of the indicator regarding the purpose and use of assets.</p> <p><i>Purpose and use of assets indicator</i></p> <p>The purpose and use of assets is an important indicator because applying existing indicators has led to judgements about entities not being considered public benefit entities, which has resulted in illogical asset accounting. An example of illogical accounting of assets is the situation where an entity reports using for-profit accounting standards and each year acquires and capitalises assets only to impair (or write off) the assets because the cash flows from the assets do not support their cost.</p> <p>We recommend the purpose and use of assets indicator include a discussion that if an entity's primary objective is to operate an asset, such as infrastructure, and any new investment in that asset is not supported by future cash flows generated from the asset, this provides a strong indication an entity is a PBE.</p>	<p><u>We propose to include a Basis for Conclusions on the amendments to Appendix A of XRB A1.</u></p> <p>However, the Basis for Conclusions is unlikely to be as detailed as R4 has requested. As discussed above, all the indicators have equal standing and an entity considers all the indicators when determining whether it is a PBE.</p> <p>The BC section, consistent with other NZASB and XRB Standards, is drafted at a higher level.</p> <p>While classification anomalies should be the exception rather than the norm, there may be classification anomalies:</p> <ul style="list-style-type: none"> (a) because of complexities around the classification for certain entities; and (b) due to operating in a multi-standards framework. <p>Using the words "...provides a strong indication an entity is a PBE" under this indicator effectively elevates one indicator above others and conflicts with the guidance in paragraph 11.</p>
R5	<p>Illustrative examples</p> <p>In the new illustrative example, we consider it useful to consider both parts of the test (primary objective and provision of equity) rather than just the indicators.</p>	<p><u>We recommend no change.</u></p> <p>The purpose of the indicators is to help an entity to determine whether it meets the definition of a PBE in XRB A1. The new illustrative example is consistent with the other illustrative examples in that the indicators in Appendix A are applied to the facts in the example.</p>
	<p>Furthermore, we would appreciate further guidance in the Appendix on assessing whether a consolidated Group is a PBE. i.e. whether the ultimate controlling entity and consolidated reporting entity is a PBE. This may be helpful for examples where charitable trusts control the main operating for-profit entity or where you have a mix of reporting entities consolidated into the Group.</p>	<p><u>We recommend no change.</u></p> <p>We acknowledge the respondent's concern. However, Appendix A is principles-based and requires the application of professional judgment when determining whether an entity is a PBE. The illustrative examples show the application of the indicators in Appendix A to specific sets of facts and circumstances.</p> <p>To be useful, we think illustrative examples should be simple and have wide applicability across a range of different situations and different entity types. Determining the classification of a consolidated group depends on a range of facts and circumstances and we think</p>

R#	Issue (extracted from submission)	Staff recommendations and comments
		it would not be possible to consider all relevant facts and circumstances while at the same time keeping the example simple and ensuring it continues to be widely applicable.
R6	<p>Shareholder equity interests</p> <p>If possible, it would be good if the guidance could be clearer around shareholder equity interests, as we have charitable companies within charitable groups, and when there are reporting obligations by those companies (for various reasons).</p>	<p><u>We recommend no change</u></p> <p>Paragraphs 30 and 31 refer to equity holders when discussing the indicator nature of equity interest, and state that the absence of clear equity holders may manifest itself in a number of ways.</p> <p>Paragraph 11 states that in many cases it will be unlikely that any one indicator will be conclusive in determining whether an entity meets the definition of a PBE, and it may be necessary to consider several indicators together. Considering and balancing the assessment of each indicator is a matter of professional judgement.</p>
R6	<p>Does an equity interest in shares that provide a return prohibit PBE classification absolutely?</p> <p>The proposals clarify that both limbs must be met; as such with the second limb – “(ii) the provision of any equity is to support the primary objective rather than for a financial return to equity holders” – could be read to suggest that any equity that provides any level of return might prevent a PBE classification.</p> <p>Is this the intention, or is judgement able to be applied to the substance – perhaps with a nature/scale override?</p>	<p><u>We recommend no change.</u></p> <p>The second leg of the definition of a PBE – the provision of any equity is to support the primary objective rather than for a financial return to equity holders – does not deal with the level of return obtained on equity. Rather, it deals with the primary objective of the entity and whether that equity is provided to the entity to enable the entity to meet its primary objective.</p> <p>Many entities aim to generate revenues in excess of expenses. Furthermore, in order to continue operating all entities need to at least break even over the long term.</p>
R6	<p>Scale of equity – vs level of return provided by equity</p> <p>There is now a reference to the scale of equity in the guidance – but perhaps scale of equity return is more relevant? As whether the share capital is \$100 or \$1,000,000 doesn’t really indicate nature.</p> <p>(This is relative to the text within para 38: <i>for example, if the entity has only a small amount of equity, considering the nature of its equity interest may be less helpful than the other indicators when determining whether, in substance, the entity meets the definition of a PBE. [based on paragraph 27])</i></p> <p>Would a more relevant consideration perhaps be whether the level of return provided by the equity is what an arms-length commercial investor would seek?</p>	<p><u>We recommend no change.</u></p> <p>Paragraph 38 provides guidance when there are conflicting indicators in determining the classification of an entity.</p> <p>The reference to the small amount of equity is used to illustrate that, in these circumstances, considering the nature of the equity interest may be less helpful than the other indicators when determining whether, in substance, the entity meets the definition of a PBE.</p>

Question for the Board

Does the Board agree with the recommendations to not make changes to Appendix A of XRB A1 other than the inclusion of a Basis for Conclusions?

Due process

7. The due process followed by this project complies with the due process requirements established by the XRB Board and meets the requirements of section 22 of the Financial Reporting Act 2013.
8. In accordance with section 22(2) of the Financial Reporting Act 2013 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.

Next steps

9. At its meeting on 1 May, the XRB Board is being asked to approve the issue of *2019 Amendments to XRB A1 Appendix A*, subject to the NZASB also approving the amendments.
10. If necessary, Appendix A will be updated for feedback received and circulated to the XRB Board for approval to issue.

Question for the Board

Does the Board approve *2019 Amendments to XRB A1 Appendix A* for submission to the XRB Board for approval to issue?

Attachments

Agenda item 5.2: Cover memo to XRB Board for approval of *2019 Amendments to XRB A1 Appendix A*

Agenda item 5.3: Submissions received

- 5.3.1: Auckland Council
- 5.3.2: BDO
- 5.3.3: Carolyn Cordery
- 5.3.4: Office of the Auditor-General
- 5.3.5: Respondent 5
- 5.3.6: Respondent 6

Agenda item 5.4: *2019 Amendments to XRB A1 Appendix A*



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

DATE: 18 April 2019
TO: Members of the External Reporting Board
FROM: Tracey Crookston and Vanessa Sealy Fisher
SUBJECT: **2019 Amendments to XRB A1 Appendix A**

Purpose and introduction

1. The purpose of this agenda item is to seek the XRB Board's approval of *2019 Amendments to XRB A1 Appendix A*,¹ subject to any amendments arising from the NZASB's consideration and approval of this standard at its meeting to be held on 2 May 2019.
2. Appendix A of XRB A1 *When is an Entity a Public Benefit Entity?* (Appendix A) provides guidance to assist an entity to determine whether it is a public benefit entity (PBE) or a for-profit entity for financial reporting purposes. The correct classification is important to enable an entity to apply the appropriate set of accounting standards (i.e. PBE Standards or NZ IFRS).

Due process

3. An exposure draft (ED) was issued by the XRB Board in December 2018. Comments were due by 29 March 2019.
4. The changes in the ED were proposed because:
 - (a) some of the guidance in Appendix A was based on guidance that existed prior to the development and issuance of the New Zealand Accounting Standards Framework. Now that this Framework has been operational for some time, it is appropriate to review the guidance; and
 - (b) some constituents have experienced difficulties in applying Appendix A.
5. Submissions have been received from the following respondents (agenda item 2.10.4):

R#	Name of Respondent
R1	Auckland Council
R2	BDO
R3	Carolyn Cordery
R4	Office of the Auditor-General (OAG)
R5	Respondent 5 (informal comments)
R6	Respondent 6 (informal comments)

6. Respondents R1, R2, R3 and R5 answered the three specific questions in the Invitation to Comment. Respondent R5 also provided comments on the illustrative

¹ The ED was issued as *2018 Amendments to XRB A1 Appendix A*. The standard is titled *2019 Amendments to XRB A1 Appendix A* as this is the year the amendments will be finalised.

examples. Respondents R4 and R6 provided comments and suggestions on specific matters rather than responding to specific questions.

7. R1, R2, R3 and R5 all answered in the affirmative to Questions 1 and 2. Question 1 asked whether respondents agreed with the proposed amendments to XRB A1 Appendix A *When is an Entity a Public Benefit Entity?* Question 2 asked whether respondents agreed with the proposed effective date of 1 January 2020. R3 also questioned the use of some terminology.
8. Staff are not proposing any amendments other than the inclusion of Basis for Conclusion (BC) paragraphs in XRB A1 to outline the changes made to Appendix A.
9. The matters raised by respondents and staff responses to those matters are briefly summarised below. These matters are covered in more detail in the New Zealand Accounting Standards Board (NZASB) memo included in these agenda papers (agenda item 2.10.2).

Matters raised	Staff response
Terminology	
<p>In most of the sections (para 24, 29, 32, 34 and in respect of multiple objectives in para 19), there is a statement that an 'entity is likely to be a PBE'. Yet in paras 14–16 no such statements are provided. If they were, it would provide a purpose for these examples.</p>	<p><u>We have recommended no change.</u> Paragraphs 14 to 16 provide examples of legislation and founding documents that may specify the detailed objectives of an entity. The purpose of the guidance here is to clarify where an entity should look to clarify its stated objectives rather than to indicate whether these documents (SOE Act, DHB objectives, Charities Act 2005) help to determine whether the entity is a PBE.</p>
The term "equity holders" does not easily fit all situations	
<p>The paragraphs regarding purpose and use of assets could be enhanced by explaining what is meant by the term "equity holders" in non-company structures or using terminology that can apply across different types of entity in the public sector.</p> <p>There are non-company structures such as trusts which do not have "equity holders", in a traditional sense, and where financial benefits are being generated.</p>	<p><u>We have recommended no change.</u> This indicator is dealing with the purpose and use of the assets held by the entity rather than the nature of the equity interest (i.e. how is the entity using the assets held and for what purpose – for a community benefit or a return to equity holders).</p> <p>Paragraphs 30 and 31 also refer to equity holders when discussing the indicator Nature of equity interest, and state that the absence of clear equity holders may manifest itself in a number of ways.</p> <p>Paragraph 11 states that in many cases it will be unlikely that any one indicator will be conclusive in determining whether an entity meets the definition of a PBE and it may be necessary to consider several indicators together.</p>

Matters raised	Staff response
	Considering and balancing the assessment of each indicator is a matter of professional judgement.
The Quantum of Expected Financial Surplus is a Strong Indicator	
The updated Appendix should include a discussion that the quantum of the expected financial benefits will usually provide a strong indication whether an entity is a PBE.	<p><u>We have recommended no change.</u> Elevating one indicator above others would conflict with the guidance in paragraph 11.</p> <p>The reason for merging the original indicator (quantum of the expected financial surplus) with the nature of the benefits was to provide guidance to ensure that all benefits (not just financial) are considered in the assessment.</p>
A change in classification could be a for-profit entity becoming a PBE	
Paragraph 40 should include an example of a for-profit entity becoming a public benefit entity.	<p><u>We have recommended no change.</u> The Board agreed not to include an example of the reclassification of a for-profit entity to a public benefit entity because the number of possible scenarios resulted in the paragraph becoming unwieldy. The move from a public benefit entity to a for-profit entity was considered a more likely scenario in the New Zealand context.</p>
The reasons for the changes to XRB A1 Appendix A should be explained	
The proposed amended XRB A1 Appendix A does not include a Basis for Conclusions. It is important to explain the reasons for the significant changes to Appendix A and, in particular, the inclusion of the purpose and use of assets indicator.	<p><u>We have recommended that a Basis for Conclusions (BC) on the amendments to Appendix A of XRB A1 be added.</u></p>
Illustrative Examples	
In the new illustrative example, it would be useful to consider both parts of the test (primary objective and provision of equity) rather than just the indicators.	<p><u>We have recommended no change.</u> The purpose of the indicators is to help an entity to determine whether it meets the definition of a PBE in XRB A1. The new illustrative example is consistent with the other illustrative examples in that the indicators in Appendix A are applied to the facts in the example.</p>
We would appreciate further guidance in the Appendix on assessing whether a consolidated group is a PBE (i.e. whether the ultimate controlling entity	<p><u>We have recommended no change.</u> Determining the classification of a consolidated group depends on a range of facts and circumstances and it would</p>

Matters raised	Staff response
and consolidated reporting entity is a PBE). This could help with mixed groups.	not be possible to consider all the relevant facts and circumstances while at the same time keeping the example simple and ensuring it continues to be widely applicable.
Shareholder equity interests	
It would be good if the guidance around shareholder equity interests could be made clearer (as we have charitable companies within charitable groups) and when there are reporting obligations by those companies (for various reasons).	<p><u>We have recommended no change.</u></p> <p>Paragraphs 30 and 31 refer to equity holders when discussing the indicator Nature of equity interest, and state that the absence of clear equity holders may manifest itself in a number of ways.</p> <p>Paragraph 11 states that in many cases it will be unlikely that any one indicator will be conclusive in determining whether an entity meets the definition of a PBE and it may be necessary to consider several indicators together. Considering and balancing the assessment of each indicator is a matter of professional judgement.</p>
Does an equity interest in shares that provide a return prohibit PBE classification absolutely?	
<p>The proposals clarify that both limbs must be met; as such with the second limb – “(ii) <i>the provision of any equity is to support the primary objective rather than for a financial return to equity holders</i>” – could be read to suggest that any equity that provides any level of return might prevent a PBE classification.</p> <p>Is this the intention, or is judgement able to be applied to the substance – perhaps with a nature/scale override?</p>	<p><u>We have recommended no change.</u></p> <p>The second leg of the definition of a PBE does not deal with the level of return obtained on equity. Rather, it deals with the primary objective of the entity and whether that equity is provided to the entity to enable the entity to meet its primary objective.</p> <p>Many entities aim to generate revenues in excess of expenses. Further, in order to continue operating, entities need to at least break even over the long term.</p>
Scale of equity – vs level of return provided by equity	
There is now a reference to the scale of equity in the guidance – but perhaps scale of equity return is more relevant? As whether the share capital is \$100 or \$1,000,000 doesn’t really indicate nature. (This is relative to the text within para 38: <i>for example, if the entity has only a small amount of equity, considering the nature of its equity interest may be less helpful than the other indicators when determining whether, in</i>	<p><u>We have recommended no change.</u></p> <p>The reference to the small amount of equity is used to illustrate that, in these circumstances, considering the nature of the equity interest may be less helpful than the other indicators when determining whether, in substance, the entity meets the definition of a PBE.</p>

Matters raised	Staff response
<p><i>substance, the entity meets the definition of a PBE).</i></p> <p>Would a more relevant consideration perhaps be whether the level of return provided by the equity is what an arms-length commercial investor would seek?</p>	

10. The due process followed by this project complies with the due process requirements established by the XRB Board and, in the staff's view, meets the requirements of section 22 of the Financial Reporting Act 2013.
11. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB will consider whether the amending standard is likely to require the disclosure of personal information. The NZASB will be advised by staff that, in their 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.

Scope, RDR and effective dates

12. The amended Appendix A will be applicable to all entities required to prepare GPFR in accordance with XRB standards.
13. Appendix A does not contain disclosure requirements; therefore RDR concessions are not needed.
14. The amendments are effective for periods beginning on or after 1 January 2020, with earlier application permitted.

Consistency with XRB Financial Reporting Strategy

15. The amendments to Appendix A are consistent with the Accounting Standards Framework.
16. The amendments do not affect harmonisation with Australia for for-profit entities. XRB A1 is a domestic standard dealing with the application of the New Zealand Accounting Standards Framework by entities that report in New Zealand.

Other matters

17. There are no other matters relating to this amending standard that the NZASB considers are pertinent or that should be drawn to your attention.

Recommendation

18. We recommend that the XRB Board APPROVES for issue *2019 Amendments to XRB A1 Appendix A*, subject to any amendments arising from the NZASB meeting on 2 May 2019.
19. If changes are needed to the standard as a result of the discussions at the NZASB meeting, those changes will be made and circulated to XRB Board members for approval.

Attachments

Agenda item: 2.10.2 Memo to the NZASB
 2.10.3 *2019 Amendments to XRB A1 Appendix A*
 2.10.4 Submissions on XRB A1 Appendix A

22 March 2019

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

Dear Warren

Auckland Council submission to NZASB ED 2018 Amendments to XRB A1 Appendix A

Thank you for the opportunity to comment on the exposure draft 2018 Amendments to XRB A1 Appendix A.

Auckland Council is Australasia's largest local government entity and is made up of the Council and six substantive council-controlled organisations. We invest heavily in infrastructure and many of our decisions will have a fiscal impact on Auckland's future generations. Auckland Council encompasses both for-profit and public benefit entities within the group. This exposure draft is relevant to the classification of the entities within the Auckland Council Group and therefore we have reviewed the proposed updates and provided our feedback.

Our responses to the specific questions for the respondents are included in Appendix 1 to this letter along with our additional comments for the XRB's consideration. In summary we are supportive of the proposed amendments to XRB A1 Appendix A.

We hope our responses and comments are helpful in aiding your decision-making process. Should you have any queries relating to the responses, please do not hesitate to contact Alvin Ang at the details provided below.

Yours sincerely



Kevin Ramsay
General Manager Corporate Finance
and Property
AUCKLAND COUNCIL
+64 9 890 7747
kevin.ramsay@aucklandcouncil.govt.nz



Tsu Chun Ang (Alvin)
Senior Group Reporting Technical Accountant

AUCKLAND COUNCIL
+64 21 196 2639
alvin.ang@aucklandcouncil.govt.nz

Appendix 1 – Response to questions

We are generally supportive of the proposed amendments made in the exposure draft.

1. Do you agree with the proposed amendments to XRB A1 Appendix A *When is an Entity a Public Benefit Entity?* (para 9 – 24) If you disagree, please provide reasons.

We agree with the proposed amendments to XRB A1 Appendix A. The amendments provide greater clarity on guidance for existing indicators and include additional indicators, which will benefit entities in assessing their status as a Public Benefit Entity (PBE).

The impact on Auckland Council Group would be to reassess all entities within the group for PBE classification, but we do not expect any changes to classification for these entities.

2. Do you agree with the proposed effective date of 1 January 2020? (para 25) If you disagree, please provide reasons.

We agree with the proposed effective date of 1 January 2020, as this will provide guidance earlier to preparers to address issues in applying Appendix A. We do not expect the proposed amendments to materially impact the classification of existing entities as PBE or for-profit.

3. Do you have any other comments on the ED?

We have no further comments.

28 March 2019

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 2018 Amendments to XRB A1 Appendix A

Thank you for the opportunity to comment on the above Exposure Draft.

We are making this submission to you to assist the New Zealand External Reporting Board (XRB) with the above Exposure Draft. We are happy for you to publish our comments publicly.

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

Overall we are supportive of the proposals contained in the Exposure Draft.

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

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

Yours faithfully,



BDO New Zealand
Michael Rondel
Audit Technical Director

+64 3 353 5527
michael.rondel@bdo.co.nz



Natalie Tyndall
Head of Financial Reporting

+64 9 373 9051
natalie.tyndall@bdo.co.nz

Appendix 1 - Response to questions

Question	Response
Question 1 Do you agree with the proposed amendments to XRB A1 Appendix A When is an Entity a Public Benefit Entity? If you disagree, please provide reasons.	Yes, we agree with the proposed amendments.
Question 2 Do you agree with the proposed effective date of 1 January 2020? If you disagree, please provide reasons.	Yes, we agree with the proposed effective date of 1 January 2020.
Question 3 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 ten independently owned accounting practices, with fifteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency.
3. BDO in New Zealand has 84 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, 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 over 1,500 offices across over 162 countries and territories.

28 March 2019

Warren Allen
Chief Executive
External Reporting Board
P O Box 11250
Manners St Central
Wellington 6142

Dear Warren

Submission on 2018 Amendments to XRB A1 Appendix A

Thank you for the opportunity to make a submission on the above Amendments. These should help clarify the understanding of entity type for financial reporting purposes.

I have answered the questions below:

1. Do you agree with the proposed amendments to XRB A1 Appendix A *When is an Entity a Public Benefit Entity?*

Yes, the increased range of indicators should be helpful for entities to ascertain whether they are a PBE or for-profit entity.

However, I note that in most of the sections (para 24, 29, 32, 34 and in respect of multiple objectives in para 19), there is a statement that an entity is 'likely to be a PBE'. Yet, paras 14-16 no such statements are provided. If they were, it would provide a purpose for these examples.

2. Do you agree with the proposed effective date of 1 January 2020?

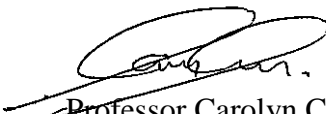
Yes, or earlier adoption as noted in the ED.

3. Do you have any other comments on the ED?

No.

I trust these are helpful in finalising the changes.

Yours sincerely,



Professor Carolyn Cordery,
Aston Business School



29 March 2019

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

Email: submissions@xrb.govt.nz

Dear Warren

EXPOSURE DRAFT 2018 AMENDMENTS TO XRB A1 APPENDIX A

We appreciate the opportunity to comment on the *Exposure Draft 2018 Amendments to XRB A1 Appendix A*.

In our view, it is important to have the right guidance to help entities determine the accounting standards they should use to prepare their financial statements. We acknowledge that guidance will not eliminate the need for judgement to be applied to the circumstances of particular entities.

Overall, we are of the view that the amendments are an improvement to XRB A1 Appendix A. In particular, it is useful to have introduced an indicator regarding the purpose and use of assets.

We comment on a few matters below where we think further clarity could be provided.

The term “equity holders” does not easily fit all situations

The purpose and use of assets (paragraph 32) notes that the reason an entity acquires and/or holds an asset may indicate whether it is a public benefit entity. This paragraph further elaborates that for-profit entities hold assets mainly for sale or for generating a financial benefit for equity holders.

However, there are non-company structures such as trusts which do not have “equity holders”, in a traditional sense, and where financial benefits are being generated.

For example, licensing trusts operate in a commercial manner to maximise financial returns. However, they are community organisations in the sense that any surplus profits must be used for community or philanthropic purposes.

We recommend that the paragraphs regarding purpose and use of assets could be enhanced by clearly explaining what is meant by the term “equity holders” in non-company structures, or using terminology that can apply across different types of entity in the public sector.

The quantum of expected financial surplus is a strong indicator

The current version of XRB A1 – paragraph 11 of Appendix A includes the indicator “*the quantum of expected financial surplus*.” This has been combined with the indicator “*Nature of the benefits*” in the updated appendix.

Some of the text of the previous *quantum of expected financial surplus* indicator (which is now part of the nature of the benefits) has been deleted – namely the sentence in paragraph 20 “The quantum of the expected surplus will provide a strong indication whether an entity is a PBE.”

From our perspective, this sentence has proved to be both relevant and useful. We have found it helpful when considering judgement calls about whether an entity is a public benefit entity.

We recommend that the updated appendix include discussion that the quantum of the expected financial benefits will usually provide a strong indication whether an entity is PBE.

A change in classification could be a for-profit entity becoming a public benefit entity

Paragraph 40 includes an example of an entity’s classification changing from a public benefit entity to a for-profit entity. We recommend that paragraph 40 also include an example of a for-profit entity becoming a public benefit entity. For example, if a Tier 1 or 2 for-profit entity becomes a Tier 1 or Tier 2 public benefit entity, the entity would need to apply PBE FRS-46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*.

The reasons for the changes to XRB A1 Appendix A should be explained

We note that the proposed amended XRB A1 Appendix A does not include a basis for conclusions. We think it is important to explain the reason for significant changes to XRB A1 Appendix A, and in particular the inclusion of the indicator regarding the purpose and use of assets.

Purpose and use of assets indicator

The purpose and use of assets is an important indicator because applying existing indicators has led to judgements about entities not being considered public benefit entities, which has resulted in illogical asset accounting. An example of illogical accounting of assets is the situation where an entity reports using for-profit accounting standards and each year acquires and capitalises assets only to impair (or write-off) the assets because the cash flows from the assets do not support their cost.

We recommend the purpose and use of asset indicator include discussion that if an entity’s primary objective is to operate an asset, such as infrastructure, and any new investment in that asset is not supported by future cash flows generated from the asset, this provides a strong indication an entity is a PBE.

If you have any questions about our submission, please phone Sara Moonlight, Director, Accounting Policy on +64 21 244 0545 or email her at Sara.Moonlight@oag.govt.nz.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Todd Beardsworth', with a long horizontal flourish extending to the right.

Todd Beardsworth

Assistant Auditor-General, Accounting and Auditing Policy

XRB ED 2018 Amendments to XRB A1 Appendix A

Comments from Respondent 5

Thank you for the opportunity to comment on the **2018 Amendments to XRB A1 Appendix A – *When is an Entity a Public Benefit Entity?***.

We appreciate the ability to provide feedback in either a formal or informal manner and believe this is an effective means to facilitate responses, particularly where there are no strong changes proposed in our response.

We support the Exposure Draft and the effective date of 1 January 2020, with earlier application permitted. Furthermore we support:

- the inclusion of more guidance on the definition of a PBE;
- the identification of indicators that an entity considers in determining whether it is a PBE or for-profit entity; and
- the revised illustrative examples.

Proposed amendments:

- In the new illustrative example, we consider it useful to consider both parts of the test (primary objective and provision of equity) rather than just the indicators.
- Furthermore, we would appreciate further guidance in the Appendix on assessing whether a consolidated Group is a PBE. i.e. whether the ultimate controlling entity and consolidated reporting entity is a PBE. This may be helpful for examples where charitable trusts control the main operating for-profit entity or where you have a mix of reporting entities consolidated into the Group.

XRB ED 2018 Amendments to XRB A1 Appendix A

Comments from Respondent 6

If possible, it would be good if the guidance could be clearer around shareholder equity interests, as we have charitable companies within charitable groups, and when there are reporting obligations by those companies (for various reasons).

Does an equity interest in shares that provide a return prohibit PBE classification absolutely?

The proposals clarify that both limbs must be met; as such with the second limb - *“(ii) the provision of any equity is to support that primary objective rather than for a financial return to equity holders”* – could be read to suggest that any equity **that provides any level of return** might prevent a PBE classification.

- Is this the intention, or is judgement able to be applied to the substance – perhaps with a nature/scale override?

Scale of equity – vs level of return provided by equity

There is now a reference to the scale of equity in the guidance – but **perhaps scale of equity return is more relevant?** As whether the share capital is \$100 or \$1,000,000 doesn't really indicate the nature.

(This is relative to the in the text within para 38: *For example, if the entity has only a small amount of equity, considering the nature of its equity interest may be less helpful than the other indicators when determining whether, in substance, the entity meets the definition of a PBE. [based on paragraph 27])*

- Would a more relevant consideration perhaps be whether the level of return provided by the equity is what an arms-length commercial investor would seek?



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

2019 AMENDMENTS TO XRB A1 APPENDIX A

This Standard was issued on [date] by 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 [date].

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 External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to update and improve the guidance in Appendix A of XRB A1 *Application of the Accounting Standards Framework*. The title of Appendix A is *When is an Entity a Public Benefit Entity?*

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Part A: Introduction

This Standard includes amendments to:

- (a) the guidance on the definition of a PBE to clarify that:
 - (i) the definition contains two interdependent parts and both parts of the PBE definition need to be assessed when determining an entity's classification;
 - (ii) the classification as a PBE or for-profit entity is made at the entity level. As a result, the classification at the entity level may differ from the classification at the group level; and
 - (iii) it is possible for an entity to be classified as a for-profit entity for financial reporting purposes and to be a registered charity.
- (b) the indicators to be considered in determining whether an entity is a PBE. Specifically:
 - (i) 'stated objectives' replaces 'founding documents' but includes reference to founding documents;
 - (ii) guidance is added on consideration of the entity's assessment of performance where an entity has multiple objectives;
 - (iii) 'Nature of the benefits, including the quantum of expected financial benefits' now includes the principles previously described under both the 'Nature of the benefits' and the 'Quantum of expected financial surplus' (now deleted) indicators;
 - (iv) a new indicator 'Primary beneficiaries of the benefits' has been added;
 - (v) a new indicator 'Purpose and use of assets' has been added; and
 - (vi) the 'Nature of funding' indicator includes more guidance.
- (c) the paragraphs on conflicting indicators, to explain that professional judgement is required to evaluate the indicators overall and in combination with each other, including the significance of particular indicators to the overall assessment.
- (d) the paragraphs under 'Changing classification', to refer back to relevant paragraphs in XRB A1 *Application of the Accounting Standards Framework* for determining the applicable tier of financial reporting when an entity changes its classification.
- (e) update the illustrative examples and to add a new illustrative example.

Part B: Scope

This Standard applies to entities that prepare, or opt under an enactment to prepare, GPFR in accordance with accounting standards issued by the XRB.

Part C: Amendments to XRB A1

Paragraph 76 is added.

76. 2019 Amendments to XRB A1 Appendix A, issued in Month 2019, replaced Appendix A. That amendment is effective for reporting periods beginning on or after 1 January 2020. Earlier application of the revised Appendix A is permitted.

Appendix A is replaced as shown below.

APPENDIX A

WHEN IS AN ENTITY A PUBLIC BENEFIT ENTITY?

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

Purpose

- 1 The purpose of this Appendix is to assist an entity that prepares a general purpose financial report (GPFR) that complies with accounting standards issued by the External Reporting Board (XRB) to determine whether or not it is a public benefit entity (PBE).
- 2 The classification of an entity as a for-profit entity or a PBE is important because it determines which accounting standards and related accounting policies are applied by an entity. Inappropriate classification may result in the adoption of inappropriate accounting policies, and a failure to provide users with information appropriate to assessing the financial performance, financial position and service performance of an entity.

Definition of a PBE

- 3 XRB A1 defines PBEs as “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.” PBEs may be public sector entities or not-for-profit entities.
- 4 The following definitions for public sector PBEs and not-for-profit PBEs are contained in XRB A1:
 - (a) Public sector PBEs are PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament; and
 - (b) Not-for-profit PBEs are PBEs that are not public sector PBEs.
- 5 For-profit entities are not defined. Rather, the term for-profit entities encompasses all entities other than PBEs. An entity must assess whether it is a PBE or a for-profit entity by considering whether or not it meets the definition of a PBE. Assessing whether an entity meets the definition of a PBE requires an entity to determine its primary objective.
- 6 In many cases it will be obvious whether an entity meets the definition of a PBE. For example, most charities registered under charities legislation are likely to meet the definition of a PBE, although it is possible for a registered charity to be classified as a for-profit entity for financial reporting purposes. Similarly, many public sector entities operate under legislation that specifically requires them to provide goods or services for the benefit of the public. For example, the New Zealand Public Health and Disability Act 2000 requires this for District Health Boards.
- 7 In other cases it will not be immediately obvious that an entity is a PBE. Determining the primary objective of the entity (i.e. why the entity exists and what it intends to achieve) can be difficult where an entity has

multiple objectives and such objectives are not ranked, or where the objectives are not clearly stated. In identifying the primary objective, it is necessary to assess the substance of the entity's purpose.

- 8 In this regard, it should be noted that the definition of a PBE comprises two interdependent parts: (i) the primary objective to provide goods or services for community or social benefit, and (ii) the provision of any equity is to support that primary objective rather than for a financial return to equity holders. Both parts of the definition need to be assessed in combination in determining an entity's classification. Assessing one of the parts alone is unlikely to be sufficient in determining whether an entity is a PBE or a for-profit entity.
- 9 The legal form of an entity is unlikely to be a conclusive factor in determining whether or not an entity is a PBE. PBEs are constituted in many different forms such as incorporated societies, trusts, statutory bodies and even companies. PBEs include a wide range of entity types, including charities, clubs, and non-commercial public sector entities. They exist in the private sector and in the public sector and may be small or large.
- 10 Also, although in general terms PBEs exist to provide goods and services for the community or social benefit, this does not necessarily imply that such entities exist for the benefit of the public as a whole. Many PBEs exist for the direct benefit of a particular group of people, although it is also possible that society as a whole benefits indirectly. For example, a community football club exists to promote and encourage football for the direct benefit of its members. However, society as a whole may also benefit indirectly through a healthier population and through the provision of organised activities for its youth.
- 11 This Appendix sets out several indicators to be considered in determining whether an entity meets the definition of a PBE. In many cases it will be unlikely that any one indicator will be conclusive in determining whether an entity meets the definition of a PBE and it may be necessary to consider several indicators together. Professional judgement is required when considering and balancing the assessment of each indicator.
- 12 The assessment for classification as a PBE or as a for-profit entity is made at the reporting entity level. As a result, the classification at the reporting entity level may differ from the classification at the group level. Therefore, where an entity is a subsidiary of another entity and the subsidiary entity is a reporting entity with its own reporting obligations, the subsidiary assesses its own primary objective for reporting purposes. In determining the classification of a group, it is necessary to consider the characteristics of the group. The classification of the controlling entity of the group would most likely determine the classification of the group.

Indicators

- 13 Paragraphs 14 to 37 discuss key indicators that aim to focus on the substance of an entity's purpose and which should be considered in determining whether an entity is a PBE. These indicators are:
 - the stated objectives;
 - the nature of the benefits, including the quantum of expected financial benefits;
 - the primary beneficiaries of the benefits;
 - the nature of any equity interest;
 - the purpose and use of assets; and
 - the nature of funding.

Stated objectives

- 14 In many cases the governing legislation, a constitution, a trust deed, or other founding documents will specify the objectives of an entity, including for whom the benefits generated by the entity are intended. For example, the State-Owned Enterprises Act 1986 states that the principal objective of every State enterprise is to "operate as a successful business and to this end, to be:
 - (a) as profitable and efficient as comparable businesses that are not owned by the Crown; and
 - (b) a good employer; and

- (c) an organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.”¹
- 15 The founding documents of an entity may also specify the objective of an entity in terms of the nature of the benefits the entity provides. For example, one of the objectives of District Health Boards is to improve, promote and protect the health of people and communities.
- 16 In the not-for-profit sector, the meaning of charitable purpose is set out in the Charities Act 2005. In that Act, “charitable purpose includes every charitable purpose, whether it relates to the relief of poverty, the advancement of education or religion, or any other matter beneficial to the community.”²
- 17 Many entities are established with multiple objectives. For example, Crown Research Institutes (CRIs) are required by the Crown Research Institutes Act 1992 (CRI Act) to:
- undertake research for the benefit of New Zealand;
 - comply with any applicable ethical standards;
 - promote and facilitate application of the results of research and technological developments;
 - be a good employer and exhibit a sense of social responsibility; and
 - operate in a financially responsible manner so that they maintain their financial viability.
- 18 Where an entity’s founding documents provide that an entity has multiple objectives, determining the primary objective will depend on an assessment of the substance of the purpose of the entity.
- 19 In assessing the substance of the purpose of the entity where there are multiple objectives, it may be helpful to consider how the entity assesses its performance, as this may indicate which of its stated objectives is its primary objective. For example, if the entity has performance targets for a rate of return on assets or a percentage of return to equity holders, this may indicate the entity is a for-profit entity. However, if the performance targets focus on the level/amount of benefits that have been delivered to achieve a community or social outcome, this may indicate that the entity is a PBE.
- 20 The founding documents may require an entity to be financially viable or to generate an adequate rate of return. However, being financially viable is not in itself conclusive in distinguishing a for-profit entity from a PBE. There is often a community expectation that PBEs will be financially viable and operate to ensure that the limited resources at their disposal are used effectively.

Nature of the benefits, including the quantum of expected financial benefits

- 21 The nature of the benefits provided by an entity including the quantum of the expected financial benefits, may indicate whether an entity is a PBE.
- 22 Unlike for-profit entities, PBEs do not exist to generate a financial surplus in order to provide a financial benefit/return to equity holders. Instead, they exist to provide goods or services for community or social benefit. Hence, if an entity provides goods or services to recipients at no cost or for nominal consideration, the entity is likely to be a PBE. This does not imply that PBEs never generate, or aim to generate, a financial surplus on the net assets employed. However, where a PBE does generate a financial surplus, it may be required or expected to be used to support the entity’s primary objective of providing goods or services for community or social benefit, rather than for providing a financial benefit to equity holders.
- 23 PBEs may establish controlled entities or discrete business units which operate to generate a financial surplus that can be used to support the primary activities of the controlling entity. Such entities or business units may be for-profit. This fact does not affect the classification of the controlling entity or group.³
- 24 The benefits provided by for-profit entities are financial in nature. Most for-profit entities aim to generate a commercial or market return – that is, to maximise the financial benefit/return to equity holders commensurate with the relative risks of operating. Hence, the quantum of the expected financial benefits may indicate whether an entity is a for profit entity or a PBE.

¹ Section 4 State-Owned Enterprises Act 1986

² Section 5(1) Charities Act 2005

³ If a controlled entity or business unit is required to prepare general purpose financial reports its classification is determined by its own primary objective and not that of the controlling entity of the group.

- 25 When considering the quantum of the expected financial benefits and the nature of the benefits provided by an entity, it is important to recognise that the generation of profits and payment of dividends is only one form of financial benefit that can be provided to equity holders. There are many other forms of financial benefit that can be returned to members or equity holders. For example, cooperatives provide a financial benefit to members by paying a rebate based on the volume of transactions with the entity rather than through the payment of dividends. Another example of a financial benefit is the provision of discounted goods and services by an entity to its members.

Primary beneficiaries of the benefits

- 26 An understanding of who the primary beneficiaries of the benefits provided by the entity are (i.e. the people who primarily benefit from the activities of the entity) will assist in determining whether an entity is a PBE.
- 27 Typically, the primary beneficiaries of a for-profit entity are its equity holders (including its parent, where the reporting entity is controlled by another entity)⁴ or other providers of economic resources to the entity (such as debt holders or suppliers). These parties provide economic resources to the entity in exchange for an entitlement to financial returns.
- 28 In contrast, as the primary objective of a PBE is to provide goods or services for community or social benefit, typically the primary beneficiaries of PBEs are members of the community (or a particular section of the community), rather than resource providers.
- 29 If the entity is membership based and the primary beneficiaries of the benefits provided by the entity are not members of the entity, the entity is likely to be a PBE. For example, a heritage trust where membership monies are used for maintaining and enhancing heritage assets for the benefit of the wider community. However, if the primary beneficiaries are members of the entity, it is necessary to consider other factors to determine whether the entity is a PBE (for example, the nature of the benefits and other indicators discussed in this Appendix).

Nature of equity interest

- 30 Where an entity is established to generate a financial return for the benefit of the equity holders the ownership instrument is usually clearly defined. This is important for for-profit entities because it determines the level of financial benefits/returns such as dividends and rights to the residual net assets. If an entity does not have any clear equity holders or the nature of the equity instrument is unclear, the entity is likely to be a PBE.
- 31 The absence of clear equity holders may manifest itself in a number of ways, including:
- the absence of an individual or entity having a right to participate in any financial return or in the net assets of the entity were it to be wound up or otherwise cease to operate; or
 - a requirement that in the event the entity ceases operating any residual net assets are to be applied to another entity with a similar purpose or to revert to another PBE. That is, the use of the assets is effectively restricted to providing goods or services for community or social benefit.

Purpose and use of assets

- 32 The reasons an entity acquires and/or holds an asset may indicate whether it is a PBE. For-profit entities hold assets mainly for sale or for generating a financial benefit for equity holders. The primary reason PBEs (particularly public sector PBEs) hold property, plant and equipment and other assets (including infrastructure assets) is usually for their potential to provide future services for community or social benefit rather than their ability to generate a financial benefit for equity holders. If an entity holds assets primarily for delivering future services for community or social benefit, the entity is likely to be a PBE.
- 33 For example, PBEs may hold assets that contribute to the historical and cultural character of a nation or region, such as art treasures, historical buildings and other artefacts. Other PBEs may be responsible for national parks and other areas of natural significance with native flora and fauna. Such historical items and land are generally not held for sale, even if a market exists. Rather, the respective PBEs have a responsibility to preserve and maintain them for current and future generations.

⁴ As noted in paragraph 12, the assessment of the classification of an entity as a PBE or for-profit entity is made at the reporting entity level. Where the reporting entity is controlled by a PBE, how the PBE parent uses the financial returns provided by the reporting entity to its parent is not relevant to the assessment of whether the reporting entity should be classified as a for-profit entity or PBE.

Nature of funding

- 34 If an entity relies wholly or primarily on donations or other contributions whereby the resource provider does not receive an entitlement to financial returns (or other economic resources) from the entity in return, the entity is likely to be a PBE.
- 35 Many PBEs are dependent on grants and donations. In addition, the sources of funding are usually from third parties (i.e. a source other than the beneficiaries of their services). For example, public sector PBEs receive appropriations and other public funds to carry out their services. Not-for-profit PBEs may rely on government grants, donations from philanthropic organisations and donations and bequests from the public. There may also be restrictions imposed by the provider of the funding on how the funds may be spent.
- 36 PBEs also receive funding through the provision of donated services. For example, many not-for-profit entities rely heavily on volunteers (rather than paid employees) to deliver their services to the community.
- 37 In contrast, for-profit entities are funded primarily by equity holders, debt holders and other suppliers of economic resources, in exchange for an entitlement to dividends, interest and other forms of financial returns (or other economic resources).

Conflicting indicators

- 38 When considering the classification of an entity, in some cases the above indicators may conflict with each other and the primary objective or purpose of the entity may not be obvious. Some indicators may indicate that an entity should be classified as a for-profit entity and others may indicate the entity should be classified as a PBE. In this situation professional judgement is required to evaluate the indicators overall and in combination with each other, including the significance of particular indicators to the overall assessment, to determine whether, in substance, the entity meets the definition of a PBE. For example, if the entity has only a small amount of equity, considering the nature of its equity interest may be less helpful than the other indicators when determining whether, in substance, the entity meets the definition of a PBE.

Changing classification

- 39 Although not expected to be common, changing circumstances may lead to a change in an entity's classification from a PBE to a for-profit entity and vice versa. For example, the constitution of an entity may be amended to change an entity's primary objective from one that is for-profit focused to one that is public benefit focused.
- 40 Accounting for a change in classification depends on the applicable accounting requirements of the new classification. An entity will need to first determine its applicable tier of financial reporting, in accordance with XRB A1. XRB A1 paragraphs 14–30 set out the Tier structure for for-profit entities, and paragraphs 31–72 set out the Tier structure for PBEs. The entity would then need to apply the applicable accounting requirements for its tier of financial reporting, including the requirements on the first-time adoption of that tier of reporting. For example, if an entity's classification changes from a PBE to a for-profit entity, the entity would need to apply NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

ILLUSTRATIVE EXAMPLES: Determining whether or not an entity is a PBE

- 41 The following examples aim to illustrate application of this Appendix. The examples are illustrative only and do not establish requirements.
- 42 While specific types of entity are referred to in the examples, the circumstances in relation to individual entities may vary significantly, and therefore the examples do not conclude as to whether the entity in question is or is not a PBE. Rather, the examples illustrate indicators to be considered by preparers in reaching a conclusion regarding whether or not an entity is a PBE. In assessing this classification an appropriate weighting needs to be given to each individual indicator. Depending on the circumstances some indicators will provide a stronger indication than others about whether or not an entity should be classified as a PBE. The entity will need to consider each indicator against the other indicators and make an overall assessment of whether or not the entity is a PBE.

Example 1: Crown Research Institute (CRI)

Entity A is a company established under section 11 of the Crown Research Institutes Act 1992 (the CRI Act).

Stated objectives

The CRI Act states that the purpose of every CRI is to undertake research (section 4) and sets out the principles of operation CRIs are expected to follow in fulfilling this purpose. These principles are set out in section 5 of the Act and include, for example, that a CRI should undertake research for the benefit of New Zealand, operate in a financially responsible manner and be a good employer.

The CRI Act establishes a broad framework for the operation of CRIs. The primary objective (purpose) of CRIs is clearly stated in the CRI Act. The principles set out in section 5 are detailed, but they are not ranked and their implementation can be achieved in a number of ways. CRIs, therefore, appear to have discretion as to how they can achieve their purpose.

Nature of the benefits, including the quantum of expected financial benefits

The key benefit of establishing CRIs is the production of research that will benefit New Zealand. In one sense the CRIs undertake research for community or social benefit. The New Zealand economy and entities operating in New Zealand can benefit from the research undertaken.

However, there may be discretion as to how research findings are distributed, in determining the nature of the research to be undertaken and whether the entity intends to generate a financial return for its equity holder (i.e. the Shareholding Minister).

If Entity A distributes the research findings to its customers on a fee-for-service basis with the aim of generating a financial surplus for its equity holder equivalent to a market return, this may indicate that Entity A is a for-profit entity.

If however Entity A undertakes research of a nature that will benefit New Zealand more broadly and makes its research findings available free of charge or for a nominal charge then the benefits provided would be community/social in nature, which may indicate that Entity A is a PBE.

Primary beneficiaries of the benefits

Although Entity A is a company, the primary beneficiaries of the benefits may not necessarily be the Shareholding Minister or the Government.

If the CRI sells its research on a commercial basis for the purpose of providing a financial return to the Shareholding Minister (i.e. the equity holder) then the primary beneficiary would be the entity's equity holder, which may indicate that Entity A is a for-profit entity.

Whereas if the research findings are made available for a nominal fee or free of charge for the benefit of the wider community, such as all entities operating in New Zealand with an interest in those research findings, then the primary beneficiaries would be the wider community, which may indicate that Entity A is a PBE.

Nature of equity interest

Entity A is a company. The equity interest is in the form of shares owned by the Shareholding Minister. In the case of Entity A, the nature of the equity interest is clear. In addition, there is no restriction on the use of assets in the event Entity A is sold, wound up or ceases to operate. This may indicate that Entity A is a for-profit entity.

Conversely, if the company constitution provides that in the event Entity A is wound up, or otherwise ceases to operate, its net assets are required to be transferred to another entity with a similar purpose, this may indicate that Entity A is PBE.

Purpose and use of assets

Entity A owns property, plant and equipment that it uses to undertake research and produce research reports. If Entity A holds those assets to sell or to generate a commercial financial return for the Shareholding Minister, this may indicate that Entity A is a for-profit entity.

However, if the property, plant and equipment is used to undertake research and report on the research findings for the benefit of the New Zealand public then the assets would be held for their potential to provide services to the community, which may indicate that Entity A is a PBE.

Nature of funding

Entity A competes for funding from government and private sources.

If the CRI funds its research activities primarily through charging commercial fees to customers for research services, this may indicate that Entity A is a for-profit entity.

Conversely, if, funding is derived primarily through government grants and donations from private organisations, and there is no requirement to deliver research findings to those funding organisations in return, this may indicate that Entity A is a PBE.

Example 2: Bicycle Shop

A charitable trust is established with the objective of providing health services to the homeless. The Trust receives an annual grant from the Government. The grant is sufficient to cover operating costs necessary to provide basic health care services to a limited number of people. To meet the increasing demand for its services and to fund an expanded range of services, the Trust establishes a bicycle shop (Company 1).

Company 1 sells second hand bicycles and runs a successful bicycle hire service. All surpluses from Company 1 are returned to the Trust to support the primary objective of providing health services to the homeless.

Stated objectives

Company 1's constitution specifies that its objective is to raise funds to support the charitable trust. Therefore, as the entity's stated objective is to generate financial returns for its equity holder, this may indicate that the entity is a for-profit entity.

Conversely, if the entity's stated objective was to provide some form of community or social benefit (e.g. to provide employment for the homeless), this may indicate that the entity is a PBE.

Nature of the benefits, including the quantum of expected financial benefits

Company 1 returns financial surpluses generated through the sale and hire of bicycles to the Trust.

If bicycles are sold and hired at market rates with a view to maximising the financial surplus returned to the Trust, then the nature of the benefits would be financial, which may indicate that the bicycle shop is a for-profit entity.

However, if the shop is used primarily to provide employment to the homeless, and/or the bikes are sold at below market rates or hired out at a nominal/low rate to enable the disadvantaged to benefit from exercise (with any incidental financial surplus returned to the Trust), then the entity would be providing community or social benefits, which may indicate that Company 1 is a PBE.

Primary beneficiaries of the benefits

If bicycles are sold and hired at market rates and the primary beneficiary of the financial surpluses derived is the Trust (i.e. the equity holder), then this may indicate that Company 1 is a for-profit entity.

However, if any financial surplus derived by Company 1 is incidental to employing the homeless and/or providing affordable access to bicycles for the disadvantaged, then this may indicate that Company 1 is a PBE. In this case, the primary beneficiaries of the benefits (employment and bicycle affordability) provided by Company 1 are the homeless and the disadvantaged.

Nature of equity interest

Company 1 is 100% owned and controlled by the Trust. As such the ownership arrangement and equity holder is clear.

If in the event Company 1 ceases trading the trustees are able to determine how to use any residual assets of Company 1, then this may indicate that Company 1 is a for-profit entity.

However, if the trust deed provides that in the event Company 1 ceases trading any residual assets must be donated to a charity that fulfils the same or a very similar charitable purpose to that of the Trust, then this may indicate that Company 1 is a PBE.

Purpose and use of assets

If the directors of Company 1 aim to ensure that the return on the net assets invested in the shop is at least equivalent to a market return, they may recommend that the Trust invest its funds in another activity if a market return is not achieved. This may indicate that Company 1 is a for-profit entity.

However, if Company 1 was operated with the objective of generating a sufficient return on the net assets for it to continue to be a viable organisation, with no reference to a market return on the net assets invested, and instead its assets were used to provide goods or services for community or social benefit (i.e. enabling the disadvantaged to benefit from exercise) this may indicate that Company 1 is a PBE.

Nature of funding

Company 1 funds its activities through the sale and hire of bicycles. The Trust provided a small capital contribution to ensure the shop could purchase bicycles in addition to any that were donated. Company 1 pays a small rental to the Trust. Other outgoings are minimal and there are no borrowings.

If a significant number of the bicycles for hire and for sale were donated by members of the community, this may indicate that Company 1 is a PBE. Similarly, if most of the employees of Company 1 are volunteers, this may indicate that Company 1 is a PBE.

If, however, the funding is derived primarily from the sale and hire of bicycles at normal commercial rates and the Trust expects a return on its investment, this may indicate that Company 1 is a for-profit entity.

Example 3: Private Education Organisation

Entity B is a private organisation dedicated to providing low-cost high-quality education to children who immigrated to New Zealand from poverty-stricken countries. Entity B was established as a Trust with an initial endowment of \$5m from the estate of a wealthy business person.

In order to supplement its income Entity B accepts a limited number of fee-paying students. The fees for such students were determined after market research into the pricing of such services. All fee revenue is applied by Entity B to its objective of providing high-quality education to children who immigrated to New Zealand from poverty-stricken countries. The revenue from fee-paying students has enabled Entity B to expand the range of services it offers and to expand its roll of immigrant children.

The trustees carefully manage the resources of Entity B in order to maximise the number of immigrant children it can accept and to maintain a high-quality educational service. The trustees have a clear operational plan and have established clear financial targets in order to achieve the trust's objectives.

Stated objectives

The trust deed establishing Entity B states that the purpose of Entity B is to provide high-quality education to children who immigrated to New Zealand from poverty-stricken countries.

As Entity B's objective is to provide high-quality education to immigrant children from poverty-stricken countries (i.e. to provide a community or social benefit), this may indicate that Entity B is a PBE.

If the trust deed states that Entity B's purpose is to maximise its financial surplus from fee-paying students while also providing high-quality education to immigrant children, this may indicate that Entity B is a for-profit entity.

Nature of the benefits, including the quantum of expected financial benefits

The nature of the benefits provided by Entity B are the educational services delivered to children from poverty-stricken countries. The equity has been provided to Entity B for the benefit of immigrant children and not for the generation of a financial return for equity holders. The nature of the benefits provided is primarily community/social, which may indicate that Entity B is a PBE.

If the financial targets established by the trustees are expressed in terms of meeting the development targets set out in the operational plan rather than being expressed in terms of a return on equity, this may indicate that Entity B is a PBE.

However, if the financial targets are expressed in terms of a return on equity, this may indicate that Entity B is a for-profit entity.

If Entity B established a subsidiary entity through which it ran its commercial education operations to maximise profits to be paid back to the Trust, then that subsidiary may be a for-profit entity. In this case it would also be necessary to consider whether the group reporting entity is a PBE by considering the characteristics of the controlling entity of the group.

Primary beneficiaries of the benefits

If the objective of Entity B is to provide high-quality education to immigrant children, with any surplus generated used to expand the number of immigrant children who are provided with high-quality education, the primary beneficiaries are the immigrant children. This may indicate that Entity B is a PBE.

If the trust deed identifies specific parties as beneficiaries of the trust (i.e. not the immigrant children) and Entity B limits the amount of surplus used to expand the education programme to immigrant children in order to generate a financial return for the specified beneficiaries, this may indicate that Entity B is a for-profit entity.

Nature of equity interest

Entity B is a trust, so there are no clearly defined ownership instruments.

The trust deed requires that in the event Entity B ceases operating any residual assets are to be distributed to another entity with a similar purpose. The use of the assets is restricted, and there are no clear equity holders that have an entitlement to those assets. This may indicate that Entity B is a PBE.

If the trust deed provides that in the event Entity B ceases operating any residual assets are to be distributed to other specified parties (e.g. the specified beneficiaries), this may indicate that Entity B is a for-profit entity.

Purpose and use of assets

Entity B provides education to both immigrant children and to fee-paying students. The trustees have a clear operational plan and have established clear financial targets to achieve the trust's objectives.

If Entity B uses its assets to provide high-quality education to immigrant children from poverty-stricken countries, rather than to generate a financial return on its equity then this may indicate that Entity B is a PBE.

If the trustees of Entity B require a commercial financial return on those assets, this may indicate that Entity B is a for-profit entity.

Nature of funding

Entity B receives funding from several sources: investment income from the initial endowment, income from fee-paying students, and donations from the public and fundraising activities.

If this funding is derived predominantly from third parties who do not benefit from Entity B's services, and the resource provider does not receive an entitlement to financial returns (or other economic resources), this may indicate that Entity B is a PBE.

If Entity B derives its funding predominantly from fee-paying students and other resource providers in exchange for an entitlement to financial returns (or other economic resources) from the entity, this may indicate that Entity B is a for-profit entity.

Example 4: Sports Club

Club AFC is a football club established in a suburb of a large city. Club AFC organises competitions and provides coaching and training for a wide range of age groups, from five-year-olds through to senior grade, and representative grades.

Stated objectives

Club AFC is established as a charitable trust. Its constitution states that it is a non-profit entity established to foster participation and to promote amateur football in its suburb. This indicates that Club AFC may be a PBE.

If, however, the constitution stated that Club AFC's objective is to maximise profits for the club, then this may indicate that Club AFC is a for-profit entity.

Nature of the benefits, including the quantum of expected financial benefits

The benefits provided by Club AFC arise from the coordination of football competitions and the provision of football coaching and training to club members. This may indicate that Club AFC is a PBE.

If Club AFC were to sell a significant amount of its coaching, and training services (e.g. to schools, other football clubs, or individuals) at normal market rates, with the aim of generating financial returns for its members this may indicate that Club AFC is a for-profit entity.

If Club AFC uses the surpluses from selling its services to ensure the Club remains financially viable with any surplus used to develop the services it offers to club members and the wider amateur football community, this may indicate that Club AFC is a PBE.

If the financial targets are set with the objective of generating a commercial rate of return for its members, this may indicate that Club AFC is a for-profit entity.

Primary beneficiaries of the benefits

Club AFC provides training and coaching for all age groups and grades of players who are members of the club. The Club also organises football competitions in which other amateur football clubs participate.

If the Club's activities primarily benefit the wider community (for example, by promoting soccer as part of a keeping active programme, providing some coaching at no cost for schools or providing free soccer memberships for disadvantaged children in the community), this may indicate that Club AFC is a PBE.

If, however, the primary beneficiaries of the Club's activities are the members of Club AFC, it is necessary to consider other factors (for example, the nature of the benefits and other indicators discussed in this Appendix) to determine whether the entity is a PBE.

Nature of equity interest

Club AFC is a member-based entity and there are no clear equity holders. This may indicate that the Club is a PBE. If, however, the Club was owned by shareholders expecting a financial return on their investment in the Club, this may indicate that the Club is a for-profit entity.

If the constitution states that in the event the Club is wound up or ceases operating, any residual assets are to be applied to an organisation with a similar purpose as Club AFC, this may indicate that the Club is a PBE.

However, if the constitution states that in the event the Club is wound up or ceases to operate any residual assets are to be distributed to the members, this may indicate that the Club is a for-profit entity.

Purpose and use of assets

Club AFC's assets comprise primarily football equipment (nets, balls, uniforms etc), as well as tripods and filming technology used to analyse matches for the purpose of coaching and training. A small shed is leased at the local community centre to store the equipment.

If the Club's assets are used primarily to provide coaching, training and competitions for amateur players in the community, then this may indicate that Club AFC is a PBE.

However, if Club AFC sells a significant amount of its coaching and training services and charges commercial market rates to other individuals or entities for using its tripods and filming technology, then its assets may be generating a financial return for its members. This may indicate that the Club is a for-profit entity.

Nature of funding

Club AFC receives funding from membership fees, donations, sponsorship and community grants.

If this funding does not establish a financial interest in the Club, this may indicate that Club AFC is a PBE.

If Club AFC receives funding primarily from members and other resource providers who are expecting either a financial return on their investment or other economic resources in return for providing funds, this may indicate that Club AFC is a for-profit entity.

Example 5: Social Enterprise

The social enterprise model is becoming a more prevalent way for entities to operate. It is important to note that an entity that identifies itself as a social enterprise may not necessarily be a PBE. It is possible for an entity that identifies itself as a social enterprise to be a for-profit entity that also has a social objective.

Entity C is a company which donates one lunch for a hungry school child at a low decile school for every lunch that it sells to the public, that is, the cost of the donated lunch is built into the cost of the lunch that is sold.

Stated objectives

Entity C's constitution states that its objective is to provide healthy food, including lunches, to patrons and to children at low decile schools.

If Entity C's constitution states that its objective is to help children at low decile schools by providing healthy lunches, this may indicate that Entity C is a PBE.

If Entity C's objective is to maximise profits while also achieving a social objective of providing healthy lunches to children at low decile schools, this may indicate that Entity C is a for-profit entity.

Nature of the benefits, including the quantum of expected financial benefits

If Entity C generates substantial surpluses, after covering the costs of free lunches, with those surpluses distributed to its shareholders or retained for additional business investments, the nature of the benefits provided are primarily financial. This may indicate that Entity C is a for-profit entity.

If Entity C uses the surpluses from the sale of lunches primarily to fund the costs of the free lunches and other operating costs, with any surplus used to expand the number of free lunches provided to school children, the nature of the benefits provided are primarily community/social. This may indicate that Entity C is a PBE.

Primary beneficiaries of the benefits

Entity C has three shareholders.

If Entity C limits the amount of its surplus from the sale of lunches that can be used to provide free lunches, to ensure that it generates an adequate financial return for its shareholders, the primary beneficiaries are the shareholders, which may indicate that Entity C is a for-profit entity.

Conversely, if Entity C uses most of the surpluses from the sale of lunches to provide free lunches to children in low decile schools rather than distributing the profits to its shareholders, the primary beneficiaries are the children at low decile schools. This may indicate that Entity C is a PBE.

Nature of the equity interest

Entity C has two founding shareholders. To enable expansion plans to be completed, additional shares were issued to a shareholder who has a prominent business in the food distribution sector. The equity holders are clearly identifiable by the equity instruments they hold.

If:

- (a) there were no entitlements to dividends;
- (b) all profits were reinvested in Entity C; and
- (c) on Entity C ceasing to operate, any residual assets were to be donated to an entity with a similar charitable objective,

this may indicate that Entity C is a PBE.

If Entity C's shareholders have an entitlement to dividends and to a share of the residual net assets of the entity if it is wound up, this may indicate that Entity C is a for-profit entity.

Purpose and use of assets

Entity C acquires or holds its assets to provide healthy lunches for children in low decile schools and to make lunches and healthy food that are sold to the public.

If the assets are used primarily to provide healthy lunches for children in low decile schools, this may indicate that Entity C is a PBE.

If Entity C acquires or holds its assets primarily to sell or to generate financial benefits for its equity holders, this may indicate that Entity C is a for-profit entity.

Nature of Funding

Entity C's equity was initially provided by shareholders.

If Entity C relies primarily on donations and grants from the general public and funding organisations, and has a predominantly volunteer workforce, this may indicate that Entity C is a PBE.

If Entity C's funding is provided primarily by shareholders and other resource providers in exchange for an entitlement to financial returns (e.g. dividends) or other economic resources, this may indicate that Entity C is a for-profit entity.

Paragraphs BC43–BC45 and the related heading are added.

BASIS FOR CONCLUSIONS ON STANDARD XRB A1 APPLICATION OF THE ACCOUNTING STANDARDS FRAMEWORK

This Basis for Conclusions accompanies, but is not part of, XRB A1 Application of the Accounting Standards Framework.

...

2019 Amendments to XRB A1

- BC43. Appendix A of XRB A1 provides guidance to assist an entity to determine whether it is a public benefit entity (PBE) or a for-profit entity for the purpose of complying with standards issued by the External Reporting Board. In December 2018 the XRB issued Exposure Draft *2018 Amendments to XRB A1 Appendix A* which proposed changes to Appendix A. The XRB noted that some of the guidance in Appendix A was based on guidance that existed prior to the New Zealand Accounting Standards Framework being issued and considered that, now the Framework had been operational for some time, it was appropriate to review the guidance in Appendix A. In addition, the XRB had received feedback that some constituents had experienced difficulties applying Appendix A.
- BC44. The proposals included:
- (a) clarifications to the guidance on the definition of a PBE. For example, the proposed amendments clarified that both parts of the definition of a PBE need to be assessed in combination when determining an entity's classification;
 - (b) two new indicators, being (i) primary beneficiaries of the benefits; and (ii) purpose and use of assets;
 - (c) the merging of the indicators dealing with (i) nature of the benefits and (ii) the quantum of the expected financial surplus;
 - (d) the illustrative examples were revised and a new illustrative example was added.
- BC45. Respondents were broadly supportive of the proposals. The XRB agreed to proceed with the proposals and issued *2019 Amendments to XRB A1 Appendix A* in May 2019.

Part D: Effective date

This Standard is effective for periods beginning on or after 1 January 2020, with earlier application permitted.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 18 April 2019

To: Members of the New Zealand Accounting Standards Board

From: Vanessa Sealy-Fisher

Subject: **2019 Omnibus Amendments to NZ IFRS**

Recommendations¹

1. We recommend that the Board:
 - (a) APPROVES for issue NZASB Exposure Draft 2019-2 *2019 Omnibus Amendments to NZ IFRS* (NZASB ED 2019-2);
 - (b) APPROVES the Invitation to Comment that accompanies NZASB ED 2019-2;
 - (c) AGREES the proposed effective date of annual periods beginning on or after 1 January 2020 for the amendments; and
 - (d) AGREES a comment period of 90 days.

Background

2. During the normal course of business, we become aware of amendments that are needed to the accounting standards. Many of these amendments are of a minor nature and, rather than issuing a separate exposure draft (ED) for each amendment, it is more effective to issue an omnibus ED.
3. NZASB ED 2019-2 and the accompanying Invitation to Comment (ITC) contain proposals to amend the accounting standards applicable to Tier 1 and Tier 2 for-profit entities.

Proposals in ED NZASB 2019-2

4. NZASB ED 2019-2 contains the following proposals.
 - (a) Amendments to NZ IFRS 10 *Consolidated Financial Statements* and NZ IAS 28 *Investments in Associates and Joint Ventures* to defer the effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) from annual periods beginning on or after 1 January 2020 to annual periods beginning on or after 1 January 2025.
 - (b) Amendments to NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to require a Tier 1 for-profit entity to disclose information when it has not applied

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

an IFRS Standard that has been issued but is not yet effective (also see the next proposal to add a disclosure about an NZ IFRS that has been issued but is not yet effective).

- (c) Amendments to FRS-44 *New Zealand Additional Disclosures* to:
 - (i) require an entity to disclose information when it has not applied an NZ IFRS that has been issued but is not yet effective (previously required by paragraphs 30 and 31 of NZ IAS 8); and
 - (ii) delete the paragraphs dealing with elements in the statement of service performance.
- (d) Amendments to NZ IFRS 7 *Financial Instruments: Disclosures* to delete the remaining paragraphs in Appendix E *New Zealand-specific Additional Disclosure Requirements Applicable to NBDTs*.^{2 3}
- (e) Editorial corrections to:
 - (i) NZ IFRS 7 to delete two RDR paragraphs that are no longer needed;
 - (ii) NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans* to delete or amend references to legislation that has been repealed;
 - (iii) NZ IAS 39 *Financial Instruments: Recognition and Measurement* to reflect editorial corrections issued by the IASB in December 2018; and
 - (iv) NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* to delete paragraph D1(o) to reflect an editorial correction issued by the IASB in February 2019.

5. These proposals are explained in more detail in the ITC.
6. We note that the ED includes a couple of New Zealand specific editorial corrections and a couple that have already been issued by the IASB. Our usual process for dealing with IASB editorial corrections⁴ is to seek annual approval by the NZASB of IASB corrections that also need to be incorporated in NZ IFRS. However, this omnibus ED gives us an opportunity to pick up a couple of IASB editorial corrections in a more timely manner. As noted in the ITC, the IASB has also made an editorial correction to the 2018 Conceptual Framework. We have noted this in the ITC but have not included the amendment in the ED itself (because conceptual frameworks are issued as authoritative notices, not standards).
7. We are also proposing to add an NZASB Basis for Conclusions to FRS-44 to summarise the NZASB's considerations in amending FRS-44. (The proposed NZASB Basis for Conclusions is included in NZASB ED 2019-2.)

² NBDTs – Non-bank deposit takers.

³ 2017 Omnibus Amendments to NZ IFRS deleted most of the paragraphs in Appendix E of NZ IFRS 7.

⁴ IASB technical staff periodically make editorial corrections to technical documents to remedy drafting errors that are made when writing or typesetting the document, provided that the corrections do not alter the technical meaning of the text. Editorial corrections normally fix spelling errors, grammatical mistakes or incorrectly marked consequential amendments.

Trans-Tasman harmonisation

8. FRS-44 was issued in April 2011 as part of the trans-Tasman harmonisation project. The trans-Tasman harmonisation project aligned NZ IFRS and Australian Accounting Standards with IFRS Standards and also harmonised, to the extent possible, NZ IFRS and Australian Accounting Standards so that entities reporting in both New Zealand and Australia would be required to prepare only one set of financial statements.
9. We have raised the amendments proposed to NZ IAS 8 and FRS-44 with AASB staff. AASB staff are not aware of the issue (outlined in paragraphs 13–19 of the ITC) arising in practice in Australia. AASB staff do not have plans to propose similar amendments to AASB standards.
10. Although this would result in a trans-Tasman harmonisation difference, in practice we don't think that this will result in a difference as we would typically expect Tier 1 for-profit entities in New Zealand and Australia to make the disclosures necessary to be able to assert compliance with IFRSs. There is no impact on trans-Tasman harmonisation as a result of the other amendments proposed in NZASB ED 2019-2.

Effective date

11. The proposed effective date for the proposed amendments is annual periods beginning on or after 1 January 2020, with early application permitted.

Comment period

12. We propose a comment period of 90 days, with comments due by Friday 13 September 2019.

Questions for the Board

1. Does the Board agree with the proposed effective date of annual periods beginning on or after 1 January 2020?
2. Does the Board agree with a comment period of 90 days, with comments due by 13 September 2019?
3. Does the Board approve for issue NZASB ED 2019-2 *2019 Omnibus Amendments to NZ IFRS* and the accompanying ITC?

Attachments

Agenda item 6.2: Invitation to Comment NZASB ED 2019-2

Agenda item 6.3: NZASB ED 2019-2 *2019 Omnibus Amendments to NZ IFRS*



NZ ACCOUNTING
STANDARDS
BOARD

NZASB EXPOSURE DRAFT 2019-2

2019 OMNIBUS AMENDMENTS TO NZ IFRS

(NZASB ED 2019-2)

Invitation to Comment

[Month]

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Manners St Central, Wellington 6142
New Zealand
<http://www.xrb.govt.nz>

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Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposed amendments to NZ IFRS.

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.

Comments should be submitted electronically using our 'Open for comment' page at: <https://www.xrb.govt.nz/accounting-standards/standards-in-development/open-for-comment/>.

Please include *2019 Omnibus Amendments to NZ IFRS* in the subject line and indicate whether the comments are made on your own behalf, or on behalf of a group of people, or an entity.

The closing date for submissions is **13 September 2019**.

Publication of submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

¹ The NZASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting accounting standards.

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IASB	International Accounting Standards Board
ITC	Invitation to Comment
NBDT	Non-bank deposit taker
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
RDR	Reduced Disclosure Regime

Questions for respondents

		Paragraphs
1	Do you agree with the proposal to defer the mandatory effective date of <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> (Amendments to NZ IFRS 10 and NZ IAS 8) to annual periods beginning on or after 1 January 2025? If you disagree, please explain why.	8–12
2	Do you agree with the proposed amendments to NZ IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> to require an entity applying NZ IFRS to disclose information about an IFRS® Standard that has been issued but is not yet effective? If you disagree, please explain why.	13–20
3	Do you agree with the proposed amendments to FRS-44 <i>New Zealand Additional Disclosures</i> to require an entity applying NZ IFRS to disclose information about an NZ IFRS that has been issued but is not yet effective? If you disagree, please explain why.	13–20
4	Do you agree that paragraphs 30 and 31 of NZ IAS 8 and paragraphs 6.1 and 6.2 of FRS-44 should be identified as disclosure concessions for Tier 2 for-profit entities? If you disagree, please explain why.	21–22
5	Do you agree with the proposed amendments to FRS-44 <i>New Zealand Additional Disclosures</i> to delete the paragraphs dealing with the elements in the statement of service performance? If you disagree, please explain why.	23–25
6	Do you agree with the proposals to delete the remaining paragraphs and defined terms from Appendix E of NZ IFRS 7? If you disagree, please explain why.	26–27
7	Do you agree with the proposed effective date of 1 January 2020, with early adoption permitted? If you disagree, please explain why.	44
8	Do you have any other comments on the ED?	—

1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment (ITC) and associated Omnibus Exposure Draft (ED) is to seek comments on the proposal to amend a number of NZ IFRS.
2. Some of the amendments are editorial in nature and do not change the requirements in the standards. We are not specifically seeking comments on those editorial corrections, but you may comment on them if you so wish.

1.2 Background

3. During the normal course of business, matters come to our attention that are not urgent but do require amendments to accounting standards.
4. Rather than issuing an ED for each amendment, it is more efficient to propose the amendments to accounting standards in an Omnibus ED.

1.3 Timeline and next steps

5. Submissions on NZASB ED 2019-2 are due by **13 September 2019**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.
6. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise these amendments soon afterwards.

2. Overview of Invitation to Comment and ED

2.1 Summary

7. NZASB Exposure Draft 2019-2 *2019 Omnibus Amendments to NZ IFRS* (NZASB ED 2019-2) proposes the following.
 - (a) Amendments to NZ IFRS 10 *Consolidated Financial Statements* and NZ IAS 28 *Investments in Associates and Joint Ventures* to defer the effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) from annual periods beginning on or after 1 January 2020 to annual periods beginning on or after 1 January 2025.
 - (b) Amendments to NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to require an entity applying NZ IFRS to disclose information when it has not applied an IFRS® Standard that has been issued but is not yet effective.
 - (c) Amendments to FRS-44 *New Zealand Additional Disclosures* to:
 - (i) require an entity applying NZ IFRS to disclose information when it has not applied an NZ IFRS that has been issued but is not yet effective; and
 - (ii) delete the paragraphs dealing with elements in the statement of service performance.
 - (d) Amendments to NZ IFRS 7 *Financial Instruments: Disclosures* to delete the remaining paragraphs in Appendix E *New Zealand-Specific Additional Disclosure Requirements Applicable to NBDTs*.²
 - (e) Editorial corrections to:
 - (i) NZ IFRS 7 to delete two RDR paragraphs that are no longer needed;
 - (ii) NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans* to update references to legislation;
 - (iii) NZ IAS 39 *Financial Instruments: Recognition and Measurement* to delete paragraphs 103A and amend paragraph 103U to reflect an editorial correction issued by the IASB in December 2018; and.
 - (iv) NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* to delete paragraph D1(o) to reflect an editorial correction issued by the IASB in February 2019.

2.2 Amendments to NZ IFRS 10 and NZ IAS 28

8. In September 2014, the IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) with an effective date of annual periods beginning on or after 1 January 2016. The NZASB issued the equivalent amendments to NZ IFRS 10 and IAS 28 in October 2014, also with an effective date of annual periods beginning on or after 1 January 2016.
9. In August 2015, the IASB deferred the effective date of those amendments – but did not specify the new effective date. The IASB deferred the amendments “to a date to be determined by the IASB”. In New Zealand, standards are required to have an effective date.

² NBDTs – Non-bank deposit takers.

Therefore, in February 2016 the NZASB approved *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28*, which deferred the effective date of the amendments to NZ IFRS 10 and NZ IAS 28 to annual periods beginning on or after 1 January 2020.³

10. The effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) was deferred to enable the IASB to consider more fully the equity method of accounting. The IASB plans to undertake a post-implementation review of IFRS 11 *Joint Arrangements* before considering further the equity method of accounting. As the IASB is still some time away from determining an effective date for these amendments, the NZASB has decided to further defer the effective date of the equivalent amendments in NZ IFRS.
11. NZASB ED 2019-2 proposes to defer the effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 8) to annual periods beginning on or after 1 January 2025.
12. If the IASB specifies an effective date for *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 8) before annual periods beginning on or after 1 January 2025, the NZASB will align the effective date for the amendments in NZ IFRS.

Question for respondents

1. Do you agree with the proposal to defer the mandatory effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 8) to annual periods beginning on or after 1 January 2025? If you disagree, please explain why.

2.3 Amendments to NZ IAS 8 and FRS-44

Amendments to NZ IAS 8 and FRS-44

13. In accordance with the Accounting Standards Framework, for-profit entities that comply with NZ IFRS should be able to simultaneously assert compliance with NZ IFRS and IFRSs. The NZASB has been made aware of a situation in which this would not be possible and is proposing an amendment to address this matter. This situation arises when the IASB has issued an IFRS Standard but the equivalent NZ IFRS has not yet been issued.
14. Paragraph 16 of IAS 1 *Presentation of Financial Statements* requires an entity to make an explicit and unreserved statement of compliance with IFRSs when the entity's financial statements comply with all the requirements of IFRSs. This requirement is also found in paragraph 16 of NZ IAS 1 *Presentation of Financial Statements*.
15. Paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires an entity to disclose:
 - (a) the fact that it has not applied a new IFRS that has been issued but is not yet effective; and
 - (b) information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

³ All legislative instruments in New Zealand are required to have an effective date. Accounting standards are legislative instruments so they are required to have an effective date.

16. Paragraph 31 of IAS 8 lists the type of information that an entity considers disclosing in order to comply with paragraph 30 of IAS 8.
17. Paragraphs 30 and 31 NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* are identical to paragraphs 30 and 31 of IAS 8, except that the references to IFRS were changed to NZ IFRS.
18. Although the NZASB issues the New Zealand equivalent to a new IFRS Standard as soon as possible after the IASB issues the standard, the NZASB acknowledges that there may be times when an entity's reporting date falls between the date of the IASB issuing the IFRS Standard and the NZASB issuing the equivalent NZ IFRS. Under these circumstances, an entity would not be able to assert compliance with IFRSs unless it made the disclosures required by paragraphs 30 and 31 of IAS 8 in addition to the disclosures required by NZ IAS 8.
19. To ensure that for-profit entities applying NZ IFRS are able to assert compliance with IFRSs, NZASB ED 2019-2 proposes to:
 - (a) amend paragraphs 30 and 31 of NZ IAS 8 to refer to an IFRS (rather than an NZ IFRS) that has been issued but is not yet effective; and
 - (b) add paragraphs 5.2 and 5.3 to FRS-44 to require a for-profit entity applying NZ IFRS to disclose information about an NZ IFRS that has been issued but is not yet effective (effectively relocating the existing requirements in paragraphs 30 and 31 of NZ IAS 8 to FRS-44).
20. Although the proposed amendments to NZ IAS 8 and FRS-44 will result in different disclosure requirements compared with the equivalent Australian Accounting Standards, in practice this is not expected to result in a difference as Tier 1 for-profit entities in New Zealand and Australia would typically make the disclosures necessary to be able to assert compliance with IFRSs.

Questions for respondents

2. Do you agree with the proposed amendments to NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to require an entity applying NZ IFRS to disclose information about an IFRS Standard that has been issued but is not yet effective? If you disagree, please explain why.
3. Do you agree with the proposed amendments to FRS-44 *New Zealand Additional Disclosures* to require an entity applying NZ IFRS to disclose information about an NZ IFRS that has been issued but is not yet effective? If you disagree, please explain why.

RDR

21. Currently, there are disclosure concessions for Tier 2 for-profit entities for paragraphs 30 and 31 of NZ IAS 8. As these paragraphs are effectively being relocated from NZ IAS 8 to FRS-44, the disclosure concessions are retained in FRS-44.
22. Consistent with the disclosure concessions in FRS-44, disclosure concessions have been proposed for amended paragraphs 30 and 31 of NZ IAS 8.

Question for respondents

4. Do you agree that paragraphs 30 and 31 of NZ IAS 8 and paragraphs 6.1 and 6.2 of FRS-44 should be identified as disclosure concessions for Tier 2 for-profit entities? If you disagree, please explain why.

2.4 Amendments to FRS-44

Elements in the statement of service performance

23. Paragraphs 12.1–12.10 of FRS-44 establish requirements that apply when a for-profit entity presents a statement of service performance. They specify the elements of service performance.
24. These requirements were retained in NZ IFRS when FRS-44 was first issued in 2011 as some public sector entities reporting in accordance with for-profit standards were required or chose to present statements of service performance.
25. NZASB ED 2019-2 proposes to delete these paragraphs for the following reasons.
 - (a) The requirements in FRS-44 are no longer consistent with the legislative requirements for some for-profit public sector entities to establish and report against targets and performance measures.⁴ The relevant legislation is now less prescriptive regarding the terminology to be used in reporting on targets and performance measures.
 - (b) In addition, the requirements in FRS-44 are no longer consistent with the requirements in the PBE Standard dealing with service performance reporting. PBE FRS 48 *Service Performance Reporting* (issued in 2017) establishes principles and requirements for Tier 1 and 2 public benefit entities to present service performance information, but does not require that the terms inputs, outputs and outcomes be used.

Question for respondents

5. Do you agree with the proposed amendments to FRS-44 *New Zealand Additional Disclosures* to delete the paragraphs dealing with the elements in the statement of service performance? If you disagree, please explain why.

2.5 Amendments to NZ IFRS 7

Appendix E of NZ IFRS 7

26. Appendix E of NZ IFRS 7 was originally issued to establish additional disclosure requirements for financial institutions. Over time the issuance of NZ IFRS 9 *Financial Instruments* and changes in the regulatory reporting requirements for registered banks meant that most of the disclosures in Appendix E were no longer required.
27. *2017 Omnibus Amendments to NZ IFRS*, issued in November 2017, deleted most of Appendix E. The remaining paragraphs require disclosures to be made by a non-bank deposit-taker (NBDT, as defined in the Non-bank Deposit Takers Act 2013) and define relevant terms. The NZASB has previously signalled that Appendix E would be withdrawn once the reporting regime for NBDTs had been finalised.⁵

Question for respondents

6. Do you agree with the proposals to delete the remaining paragraphs and defined terms from Appendix E of NZ IFRS 7? If you disagree, please explain why.

⁴ For example, the Port Companies Act 1988 and the Crown Research Institutes Act 1992.

⁵ ED 2017-2 *2017 Omnibus Amendments to NZ IFRS for Tier 1 and Tier 2 For-profit Entities*

2.6 Editorial corrections

28. This section of the ITC identifies editorial amendments that are required to NZ IFRS. Some are being proposed by the NZASB in relation to NZ-specific material in NZ IFRS.
29. The remainder have already been issued by the IASB.

Amendments to NZ IFRS 7

30. NZASB ED 2019-2 proposes to delete paragraphs RDR 8.2 and RDR 23.1 of NZ IFRS 7 as these paragraphs are no longer required.

Paragraph RDR 8.2

31. Paragraph 8 of NZ IFRS 7 requires an entity to disclose, either on the face of the statement of financial position or in the notes, the carrying amounts of categories of financial assets and financial liabilities (for example, those measured at fair value through profit or loss and those measured at amortised cost).
32. Paragraphs 8(a) and (e) require a further breakdown of financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss respectively. Paragraph 8 was amended to require this detail by NZ IFRS 9 *Financial Instruments*.
33. Although paragraphs 8(a) and (e) are identified as disclosure concessions paragraph RDR 8.1 still requires that Tier 2 for-profit entities disclose the carrying amounts of financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss. That is, Tier 2 for-profit entities are required to disclose the total amounts rather than the breakdown of financial assets and financial liabilities required by paragraphs 8(a) and (e) respectively.
34. Paragraph RDR 8.2 states that a Tier 2 entity is not required to make the separate disclosure required by paragraph 8(e). This paragraph is not needed because paragraph RDR 8.1 already sets out the requirements for Tier 2 entities.

Paragraph RDR 23.1

35. Paragraph RDR 23.1 requires that a Tier 2 entity disclose more aggregated information than paragraph 23(d). Paragraph RDR 23.1 is no longer needed because paragraph 23 has been deleted from NZ IFRS 7.

Amendment to NZ IAS 26

36. NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans* (paragraphs 27 and NZ 36.1) refers to the Superannuation Schemes Act 1989. However, this legislation has been repealed.
37. NZASB ED 2019-2 therefore proposes to amend paragraph NZ 36.1 and the footnote to paragraph 27 to refer to the Financial Markets Conduct Act 2013.

Amendment to NZ IAS 39

38. In December 2018 the IASB issued an editorial correction to the consequential amendments to IAS 39 *Financial Instruments: Recognition and Measurement* that were set out in Appendix C of IFRS 9 *Financial Instruments*. The editorial correction amends one effective date paragraph (paragraph 103U) and deletes another effective date paragraph (paragraph 103A).

39. NZASB ED 2019-2 therefore proposes to amend NZ IAS 39 *Financial Instruments: Recognition and Measurement* by amending paragraph 103U and deleting paragraph 103A.

Amendment to NZ IFRS 1

40. In February 2019 the IASB issued an editorial correction to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The editorial correction deletes paragraph D1(o) of IFRS 1 (which should have been deleted when IFRS 15 *Revenue from Contracts with Customers* was issued).
41. NZASB ED 2019-2 therefore proposes to delete paragraph D1(o) of NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

Amendment to 2018 NZ Conceptual Framework

42. In February 2019 the IASB issued an editorial correction to amend the definition of material information in Appendix D of the 2018 *Conceptual Framework*. When the 2018 *Conceptual Framework* was amended by *Definition of Material* (Amendments to IAS 1 and IAS 8), issued by the IASB in October 2018, the definition of material information in Appendix D was unintentionally not updated.
43. This editorial correction will be reflected in the next compiled version of the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 NZ *Conceptual Framework*). It is not shown in the ED.

2.7 Effective date and other comments

44. The proposed effective date of the amendments in NZASB ED 2019-2 is annual periods beginning on or after 1 January 2020. Earlier adoption is permitted.

Questions for respondents

7. Do you agree with the proposed effective date of 1 January 2020, with early adoption permitted? If you disagree, please explain why.
8. Do you have any other comments on the ED?



NZASB EXPOSURE DRAFT 2019-2

2019 Omnibus Amendments to NZ IFRS

This [draft]¹ Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date, which is set out in Part D.

In finalising this [draft] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] Standard has been issued to make minor amendments to NZ IFRS.

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

2019 OMNIBUS AMENDMENTS TO NZ IFRS
[DATE]

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Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
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Part A

Introduction

This [draft] Standard amends NZ IFRS applied by Tier 1 and Tier 2 for-profit entities as follows.

- (a) Amendments to NZ IFRS 10 *Consolidated Financial Statements* and NZ IAS 28 *Investments in Associates and Joint Ventures* to defer the effective date of the amendments in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) to annual periods beginning on or after 1 January 2025.
- (b) Amendments to NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to require an entity to disclose information when it has not applied an IFRS Standard that has been issued but is not yet effective.
- (c) Amendments to FRS-44 *New Zealand Additional Disclosures* to:
 - (i) require a Tier 1 for-profit entity to disclose the information required by paragraphs 30 and 31 of NZ IAS 8 when it has not applied an NZ IFRS that has been issued but is not yet effective; and
 - (ii) delete paragraphs 12.1–12.10, which deal with elements in the statement of service performance.
- (d) Amendments to NZ IFRS 7 *Financial Instruments: Disclosures* to delete the remaining paragraphs in Appendix E *New Zealand-specific Additional Disclosure Requirements Applicable to NBDTs*.²
- (e) Editorial corrections to:
 - (i) NZ IFRS 7 to delete two RDR paragraphs that are no longer needed;
 - (ii) NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans* to update references to legislation;
 - (iii) NZ IAS 39 *Financial Instruments: Recognition and Measurement* to amend effective date paragraphs amended by the IASB as part of the editorial corrections issued in December 2018; and
 - (iv) NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* to incorporate an editorial correction issued by the IASB in February 2019.

² NBDTs – Non-bank deposit takers.

Part B: Amendments to NZ IFRS

Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

NZ IFRS 10 *Consolidated Financial Statements*

The footnote to paragraph C1C is amended. New text is underlined and deleted text is struck through.

Effective date

...

C1C [This paragraph relates to amendments that are not yet effective, and is therefore not included in this Standard.]²

² The IASB has deferred the mandatory effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) indefinitely. The NZASB ~~has initially~~ deferred the effective date of these amendments to 1 January 2020, and subsequently deferred the effective date of these amendments to 1 January 2025.

In Appendix C, paragraph C1C which was originally added by *Sale and Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) and subsequently amended by *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28* is further amended and paragraph NZ C1D.2 is added. New text is underlined and deleted text is struck through.

Paragraph C1C has not yet been compiled into NZ IFRS 10 on the XRB website. The paragraph will be compiled into NZ IFRS 10 once the IASB decides the effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28).

Effective date

...

C1C *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28), issued in October 2014, amended paragraphs 25–26 and added paragraph B99A. An entity shall apply those amendments prospectively to transactions occurring in annual periods beginning on or after ~~1 January 2020~~ 1 January 2025. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

...

NZ C1D.2 2019 Omnibus Amendments to NZ IFRS, issued in [date], amended paragraph C1C. An entity shall apply that amendment for annual periods beginning on or after [date]. Earlier application is permitted.

Paragraphs BC1 and BC2 are amended and paragraph BC4 is added to the NZASB's Basis for Conclusions on NZ IFRS 10. New text is underlined and deleted text is struck through.
--

NZASB Basis for Conclusions on NZ IFRS 10

This Basis for Conclusions accompanies, but is not part of, NZ IFRS 10.

- BC1 The New Zealand Accounting Standards Board (NZASB) issued ~~this amending standard~~ Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28 based on *Effective Date of Amendments to IFRS 10 and IAS 28* as issued by the IASB in December 2015. The IASB's amending standard deferred indefinitely the effective date of *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) issued in October 2014. The IASB deferred the effective date of these amendments pending the completion of its equity accounting project.
- BC2 The Financial Reporting Act 2013 requires all accounting standards issued in New Zealand to have an effective date. The NZASB ~~has~~ therefore determined that the *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28* should be effective for annual periods beginning on or after 1 January 2020. The NZASB considered that this date would satisfy New Zealand's legislative requirements and provided an appropriate period for the IASB to complete its equity accounting project. If the IASB continues to defer the effective date of *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) beyond annual periods beginning on or after 1 January 2020, the NZASB will reassess the effective date of these amendments in New Zealand.
- BC3 In all other respects *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28* is consistent with *Effective Date of Amendments to IFRS 10 and IAS 28*.
- BC4 2019 Omnibus Amendments to NZ IFRS subsequently deferred the effective date of *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) to annual periods beginning on or after 1 January 2025.

NZ IAS 28 *Investments in Associates and Joint Ventures*

The footnote to paragraph 45C is amended. New text is underlined and deleted text is struck through.

Effective date and transition

...
45C *[This paragraph relates to amendments that are not yet effective, and is therefore not included in this Standard.]*¹

¹ The IASB has deferred the mandatory effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) indefinitely. The NZASB ~~has initially~~ deferred the effective date of these amendments to 1 January 2020, and subsequently deferred the effective date of these amendments to 1 January 2025.

Paragraph 45C which was originally added by *Sale and Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) and subsequently amended by *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28* is further amended and paragraph NZ 45K.1 is added. New text is underlined and deleted text is struck through.

Paragraph 45C has not yet been compiled into NZ IAS 28 on the XRB website. The paragraph will be compiled into NZ IAS 28 once the IASB decides the effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28).

Effective date

...
45C *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28), issued in October 2014, amended paragraphs 28 and 30 and added paragraphs 31A–31B. An entity shall apply those amendments prospectively to the sale or contribution of assets occurring in annual periods beginning on or after ~~1 January 2020~~ 1 January 2025. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

...
NZ 45K.1 2019 Omnibus Amendments to NZ IFRS, issued in [date], amended paragraph 45C. An entity shall apply that amendment for annual periods beginning on or after [date]. Earlier application is permitted.

NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 30 and 31 are amended and paragraph NZ 54H.1 is added. New text is underlined and deleted text is struck through.

Disclosure

*30 When an entity has not applied a new ~~NZ-IFRS~~ that has been issued but is not yet effective, the entity shall disclose:

- (a) **this fact; and**
- (b) **known or reasonably estimable information relevant to assessing the possible impact that application of the new NZ-IFRS will have on the entity's financial statements in the period of initial application.**

*31 In complying with paragraph 30, an entity considers disclosing:

- (a) the title of the new ~~NZ-IFRS~~;
- (b) the nature of the impending change or changes in accounting policy;

2019 OMNIBUS AMENDMENTS TO NZ IFRS
[DATE]

- (c) the date by which application of the ~~NZ-IFRS~~ is required;
- (d) the date as at which it plans to apply the ~~NZ-IFRS~~ initially; and
- (e) either:
 - (i) a discussion of the impact that initial application of the ~~NZ-IFRS~~ is expected to have on the entity's financial statements; or
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

Effective date

...

NZ 54H.1 2019 Omnibus Amendments to NZ IFRS, issued in [date], amended paragraphs 30 and 31. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted.

FRS-44 New Zealand Additional Disclosures

Paragraphs 6.1 and 6.2 and their related heading and paragraph 19 are added and paragraphs 12.1–12.10 and their related heading are deleted. New text is underlined and deleted text is struck through.

Disclosures

...

NZ IFRS issued but not yet effective

...

***6.1 When an entity has not applied a new NZ IFRS that has been issued but is not yet effective, the entity shall disclose:**

- (a) this fact; and**
- (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new NZ IFRS will have on the entity's financial statements in the period of initial application.**

***6.2 In complying with paragraph 5.2, an entity considers disclosing:**

- (a) the title of the new NZ IFRS;**
- (b) the nature of the impending change or changes in accounting policy;**
- (c) the date by which application of the NZ IFRS is required;**
- (d) the date as at which it plans to apply the NZ IFRS initially; and**
- (e) either:**
 - (i) a discussion of the impact that initial application of the NZ IFRS is expected to have on the entity's financial statements; or**
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.**

...

Elements in the statement of service performance

~~12.1–12.10 [Deleted] Where a statement of service performance is presented it shall describe and disclose the *outputs* of an entity. Similar individual outputs may be aggregated.~~

~~12.2 This Standard refers to the statement in paragraph 12.1 as a “statement of service performance”. The statement might, however, be differently named in legislation. The aim of such statements, by whatever name called, remains the providing of:~~

- (a) ~~narrative and statistics on the entity's performance in supplying goods and services; and~~
(b) ~~information on the effects on the community of the entity's existence and operations.~~
- 12.3 ~~An entity not required by legislation to prepare a statement of service performance is encouraged to include a statement of service performance in its financial statements where:~~
- (a) ~~the entity receives significant revenue intended to benefit third parties without giving reciprocal benefit or consideration to the party providing the revenue; or~~
(b) ~~the entity has non-financial objectives of such importance that non-financial performance reporting is significant to users of the financial statements.~~
- 12.4 ~~The elements of service performance are *inputs*, outputs and *outcomes*. Where relevant and appropriate for users of the entity's financial report, each output disclosed in the statement of service performance is to be described in terms of the output's:~~
- (a) ~~quantity;~~
(b) ~~quality;~~
(c) ~~time; and~~
(d) ~~location.~~
- ~~The cost of each output is to be described and disclosed.~~
- 12.5 ~~The information used to describe service performance is to be selected so as to provide a complete description of delivery of each output (or aggregation of outputs) reported, but without undue emphasis on easily measured dimensions, and without resulting in an overload of only partially relevant statistics.~~
- 12.6 ~~For each output disclosed in a statement of service performance, where practical and appropriate, the outcome(s) to which the output is intended to contribute is to be disclosed.~~
- 12.7 ~~The statement of service performance shall present both projected service performance and actual service performance.~~
- 12.8 ~~Projected service performance is described by presenting projected outputs at the beginning of the period which an entity aimed to produce by the end of the period. These projected outputs will often be derived from the annual or corporate plan.~~
- 12.9 ~~To report the degree of success in achieving objectives, it is necessary to present both projected and actual results together with full disclosures of any changes in objectives during the period.~~
- 12.10 ~~Actual and projected service performance are to be reported consistently with one another. The information is to be sufficiently specific for performance to be assessed.~~

Effective date

- ...
- 19 2019 Omnibus Amendments to NZ IFRS, issued in [date], added paragraphs 6.1 and 6.2 and their related heading and deleted paragraphs 12.1–12.10. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted.

An NZASB Basis for Conclusions is added to FRS-44.
--

NZASB Basis for Conclusions on FRS-44 *New Zealand Additional Disclosures*

This Basis for Conclusions accompanies, but is not part of, FRS-44.

Introduction

- BC1 This Basis for Conclusions summarises the New Zealand Accounting Standards Board's (NZASB's) considerations in amending FRS-44. The FRSB Basis for Conclusions on FRS-44 sets out the matters considered when FRS-44 was first issued in 2011.

2019 Omnibus amendments to NZ IFRS

Standards issued but not yet effective

- BC2 In 2019 the NZASB considered the most appropriate location for disclosures about standards issued but not yet effective. Paragraph 16 of IAS 1 *Presentation of Financial Statements* requires an entity to make an explicit and unreserved statement of compliance with IFRSs when the entity's financial statements comply with all the requirements of IFRSs. This requirement is also found in paragraph 16 of NZ IAS 1 *Presentation of Financial Statements*.
- BC3 Paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires an entity to disclose:
- (a) the fact that it has not applied a new IFRS that has been issued but is not yet effective; and
 - (b) information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.
- BC4 Paragraph 31 of IAS 8 lists the type of information that an entity considers disclosing in order to comply with paragraph 30 of IAS 8.
- BC5 When NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* was first issued paragraphs 30 and 31 were identical to paragraphs 30 and 31 of IAS 8, except that the references to IFRS were changed to NZ IFRS.
- BC6 Although the NZASB issues the New Zealand equivalent to a new IFRS Standard as soon as possible after the IASB issues the standard, the NZASB acknowledged that there may be times when an entity's reporting date falls between the date of the IASB issuing the IFRS Standard and the NZASB issuing the equivalent NZ IFRS. Under these circumstances, an entity would not be able to assert compliance with IFRSs unless it made the disclosures required by paragraphs 30 and 31 of IAS 8 in addition to the disclosures required by NZ IAS 8. The NZASB decided to amend the disclosure requirements in NZ IFRS so that they addressed this situation.
- BC7 To ensure that for-profit entities applying NZ IFRS are able to assert compliance with IFRSs, *2019 Omnibus Amendments to NZ IFRS* amended paragraphs 30 and 31 of NZ IAS 8 to refer to an IFRS that has been issued but is not yet effective, and added paragraphs 6.1 and 6.2 and their related heading to FRS-44 to require the same information in respect of an NZ IFRS that has been issued but is not yet effective.

Elements of service performance

- BC8 When FRS-44 was first issued in 2011 it specified the elements of a statement of service performance and required that a for-profit entity presenting a statement of service performance describe and disclose its outputs. In 2019 the NZASB deleted this section of FRS-44 (paragraphs 12.1–12.10) for the following reasons.
- (a) The requirements in FRS-44 are no longer consistent with the legislative requirements for some public sector entities to establish and report against targets and performance measures. The relevant legislation is now less prescriptive regarding the terminology to be used by an entity in reporting targets and performance measures.
 - (b) In addition, the requirements in FRS-44 are no longer consistent with the requirements in the PBE Standard dealing with service performance reporting. PBE FRS 48 *Service Performance Reporting* (issued in 2017) establishes principles and requirements for Tier 1 and 2 public benefit entities to present service performance information, but does not require that the terms inputs, outputs and outcomes be used.

A footnote to paragraph BC22 of the FRSB's Basis for Conclusions is added.
--

Elements of statements of service performance (paragraphs 12.1–12.10)

- BC22 The FRSB has retained the guidance relating to the elements of statements of service performance because statements of service reporting are a unique feature of New Zealand's financial reporting environment.*

* 2019 Omnibus Amendments to NZ IFRS, issued in [date], deleted paragraphs 12.1–12.10 (see NZASB Basis for Conclusions paragraph BC8).

NZ IFRS 7 *Financial Instruments: Disclosures*

Effective date and transition

Paragraph NZ 44CC.2 is added. New text is underlined and deleted text is struck through.

...

NZ 44CC.2 2019 Omnibus Amendments to NZ IFRS, issued in [date], deleted paragraphs RDR 8.2, RDR 23.1, E1, E2, E11, E12, E14 and the defined terms in Appendix E. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted.

Paragraphs E1, E2, E11, E12, E14 and the defined terms in paragraph E23 of Appendix E are deleted.

Appendix E New Zealand-Specific Additional Disclosure Requirements Applicable to NBDTs

~~[Deleted by NZASB] This appendix is an integral part of the Standard.~~

Objective

E1 — ~~The objective of this appendix is to require an NBDT applying this Standard to present disclosures in its financial statements that provide a transparent reporting of its risks due to concentrations of credit exposure and funding, and counterparty risk consistent with New Zealand's regulatory framework for NBDTs.~~

Scope

E2 — ~~This appendix shall be applied by NBDTs as defined in this appendix.~~

~~E2.1 E10 [Deleted]~~

Nature and extent of risks arising from financial instruments

~~Quantitative disclosures~~

~~Concentration of funding, credit and market exposure~~

E11 — ~~Paragraphs 34(c) and B8 of Appendix B of this Standard require disclosures about concentrations of risk in certain circumstances. In addition to the requirements of paragraphs 34(c) and B8, an NBDT shall disclose concentrations of credit exposure and funding in terms of:~~

~~(a) — customer, industry or economic sector; and~~

~~(b) — geographical concentrations, showing, where applicable, the following:~~

~~(i) — concentrations within New Zealand; and~~

~~(ii) — concentrations in respect of other countries, showing the amount for each country.~~

E12 — ~~One method of disclosing customer or industry sectors is to use codes adopted for official statistical reporting purposes, such as the Australian and New Zealand Standard Industrial Classification (ANZSIC). NBDTs shall disclose the methods used to identify customer, industry or economic sectors.~~

Credit risk

E13 ~~—— [Deleted]~~

Counterparty risk

E14 ~~—— An NBDT shall disclose, by class of financial instrument, the number of individual counterparties (not being members of a *group of closely related counterparties*) and groups of closely related counterparties to which the NBDT has a credit exposure (net of allowance for impairment loss) which equals or exceeds 10% of equity. These disclosures shall be presented in successive ranges of 10% of equity, commencing at 10% of equity.~~

E15 ~~E22 [Deleted]~~

Defined terms

E23 ~~—— For the purposes of this Appendix the following terms are defined:~~

~~credit exposures to an individual counterparty or a group of closely related counterparties~~

~~means the maximum loss amount that could be incurred under all contracts with that counterparty or group of closely related counterparties in the event of those counterparties failing to discharge their obligations.~~

~~group of closely related counterparties~~

~~means a group of legal or natural persons, one or more of which is a counterparty, who are related in such a way that:~~

~~(a) the financial soundness of any one of them may materially affect the financial soundness of the other(s);~~

~~(b) one has the power to control the other(s); or~~

~~(c) one has the capacity to exercise significant influence over the other(s).~~

~~A counterparty is any other party to a contract with the entity reporting.~~

~~NBDT~~

~~means NBDT as defined in the Non-bank Deposit Takers Act 2013.~~

E24 ~~—— [Deleted]~~

Part C: Editorial corrections

NZ IFRS 7 *Financial Instruments: Disclosures*

Paragraphs RDR 8.2 and RDR 23.1 are deleted. New text is underlined and deleted text is struck through. Paragraphs 8, RDR 8.1 and 23 are not amended but are shown for context.

Statement of financial position

Categories of financial assets and financial liabilities

8 The carrying amounts of each of the following categories, as specified in NZ IFRS 9, shall be disclosed either in the statement of financial position or in the notes:

*(a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of NZ IFRS 9 and (ii) those mandatorily measured at fair value through profit or loss in accordance with NZ IFRS 9.

(b)–(d) [deleted by IASB]

*(e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of NZ IFRS 9 and (ii) those that meet the definition of held for trading in NZ IFRS 9.

(f) financial assets measured at amortised cost.

(g) financial liabilities measured at amortised cost.

(h) financial assets measured at fair value through other comprehensive income, showing separately (i) financial assets that are measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of NZ IFRS 9; and (ii) investments in equity instruments designated as such upon initial recognition in accordance with paragraph 5.7.5 of NZ IFRS 9.

RDR 8.1 A Tier 2 entity shall disclose, either in the statement of financial position or in the notes, the carrying amounts of (i) financial assets measured at fair value through profit or loss and (ii) financial liabilities measured at fair value through profit or loss.

~~RDR 8.2 A Tier 2 entity is not required to make the separate disclosure required by paragraph 8(e).~~

...

The amount, timing and uncertainty of future cash flows

23 [Deleted by IASB]

~~RDR 23.1 A Tier 2 entity is required to show only the total amount of cash flow hedges reclassified from equity and included in profit or loss for the period in accordance with paragraph 23(d).~~

NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

Paragraph NZ 36.1 and the footnote to paragraph 27 are amended. New text is underlined and deleted text is struck through.

Frequency of actuarial valuations

27 In many countries, actuarial valuations are not obtained more frequently than every three years. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation is used as a base and the date of the valuation disclosed.¹

¹ The ~~Superannuation Schemes Act 1989~~ Financial Markets Conduct Act 2013 contains requirements regarding the frequency of actuarial examinations of registered superannuation schemes.

...

Defined Benefit Plans – Summary of Actuarial Report

- NZ 36.1 In addition to the information required by paragraph 36, the financial statements of a defined benefit plan shall also have appended to them or shall include by a way of note, a summary of the most recent actuarial report prepared for the plan in accordance with the requirements of the Superannuation Schemes Act 1989 Financial Markets Conduct Act 2013, or an equivalent report for unregistered plans. That summary shall include:
- (a) ...

NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*

In Appendix D, paragraph D1(o) is deleted. New text is underlined and deleted text is struck through.

Appendix D

Exemptions from other NZ IFRSs

This appendix is an integral part of the Standard.

- D1 An entity may elect to use one or more of the following exemptions:
- ...
- (o) [deleted by IASB] transfers of assets from customers (paragraph D24);
- ...

NZ IAS 39 *Financial Instruments: Recognition and Measurement*

Paragraph 103U is amended and paragraph 103A is deleted. New text is underlined and deleted text is struck through.

Effective date and transition

- 103 ...
- 103A [Deleted by IASB] An entity shall apply the amendment in paragraph 2(j) for annual periods beginning on or after 1 January 2006. If an entity applies NZ IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* for an earlier period, this amendment shall be applied for that earlier period.
- ...
- 103U NZ IFRS 9, as issued in September 2014, amended ...and deleted paragraphs 1, 4–7, 10–70, 79, 103A, 103B, 103D, ...
- ...

Part D: Effective date

The amendments in this [draft] Standard are effective for annual periods beginning on or after [date]. Earlier application is permitted.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 18 April 2019

To: NZASB Members

From: Aimy Luu Huynh

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

Recommendations

1. We recommend that the Board:
 - (a) PROVIDES FEEDBACK on the draft comment letter on IPSASB ED 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) (the ED); and
 - (b) AGREES that a sub-Board or the Chair of the NZASB shall finalise the draft comment letter (subject to the feedback from the Board).

Background

2. The IPSASB published the ED in February 2019. Comments were due to the NZASB by 5 April 2019 and to the IPSASB by 31 May 2019. We did not receive any submissions from constituents.
3. Subsequent to the March Board papers being distributed we have received informal feedback from another public sector entity. The respondent's feedback is consistent with the other informal feedback received in that the ED would not change current practice and there are no concerns with the ED.
4. Staff have updated the draft comment letter (agenda item 7.2) taking into consideration the Board's comments from its last meeting.

Next steps

5. Comments are due to the IPSASB before the June Board meeting, so this meeting is the final chance for the full Board to provide feedback.
6. Staff recommend the Board provides feedback on the draft comment letter and agrees that the comment letter is finalised by a sub-Board (if there are substantial changes) or the Chair of the NZASB (if there are minor changes).

Attachments

Agenda item 7.2: NZASB draft comment letter on ED 67

Agenda item 7.3: IPSASB ED 67 *Collective and Individual Services and Emergency Relief*
(Amendments to IPSAS 19) (in supporting papers)



NZ ACCOUNTING
STANDARDS
BOARD

XX May 2019

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

Dear John

Exposure Draft 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19)

Thank you for the opportunity to comment on Exposure Draft 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) (the ED). The ED has been exposed in New Zealand and some New Zealand constituents may comment directly to you.

The New Zealand Accounting Standards Board (NZASB) is pleased the IPSASB is making progress on its project on non-exchange expenses. This is an important topic for the New Zealand public and not-for-profit sectors which both apply IPSAS-based standards.

We understand this stream of the broader non-exchange expenses project addresses transactions for collective and individual services and emergency relief. We understand that grants, contributions and other transfers will be addressed in a subsequent exposure draft. While we acknowledge the IPSASB's decision to address these transactions in separate streams, in our opinion where non-exchange expense transactions have similar characteristics, a consistent approach to liability and expense recognition is required.

Our key points are summarised below and are elaborated upon in Appendices 1 and 2.

We agree with the proposed outcome in the ED for collective and individual services and those types of emergency relief services that are an ongoing activity of the government, i.e. no provision is recognised before the services/relief are/is delivered.

For those types of emergency relief services that are not an ongoing activity of the government (or other public sector entity) we agree that in some circumstances it may be appropriate to recognise a provision or disclose a contingent liability.

Whilst we agree with the proposed outcomes in the ED for collective and individual services and emergency relief, we are of the view that the rationale in the ED is inadequate. In our opinion there is insufficient analysis of the principles of IPSAS 19 *Provisions, Contingent Liabilities and Contingent* to these transactions to justify the proposed outcomes in the ED.

We explain our concerns with the ED's rationale in Appendix 1.

We also consider it important for the IPSASB to consider the linkage between the ED and the current project on grants, contributions and other transfers. Where emergency relief has similar characteristics to grants, we would expect a consistent and coherent approach to the accounting of such transactions.

In our view, the IPSASB should:

1. establish requirements on collective and individual services and emergency relief in the body of IPSAS 19 (we would suggest under the section heading "*Application of the Recognition and Measurement Rules*");
2. provide guidance on how to apply the principles in IPSAS 19 to these transactions (i.e. how do the general recognition criteria in IPSAS 19 apply to collective and individual services and emergency relief);
3. provide more guidance on the distinction between the two types of emergency relief, including considering adding examples in the implementation guidance which accompanies IPSAS 19; and
4. provide more guidance on the distinction between other situations that are not part of the ongoing activities of the government and not emergency relief provided in response to specific events.

Our responses to the Specific Matters for Comment in the ED are set out in Appendix 2 to this letter. If you have any questions or require clarification of any matters in this submission, please contact Aimy Luu Huynh (aimy.luuhuynh@xrb.govt.nz) or me.

Yours sincerely

Kimberley Crook
Chair – New Zealand Accounting Standards Board

APPENDIX 1 General Comments and the NZASB's Proposals

Scope

We understand that when the IPSASB issued IPSAS 42 *Social Benefits* in January 2019, it made consequential amendments to the scope paragraph of IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. These consequential amendments meant that non-exchange expenses that did not meet the narrow definition of social benefits in IPSAS 42 fell within the scope of IPSAS 19.

In particular, we understand that this includes non-exchange expenses arising from transactions in which governments and public sector entities deliver a wide range of goods, services and other benefits that are not social benefits (as defined in IPSAS 42). Governments and public sector entities would now need to apply the general recognition criteria in IPSAS 19 to determine whether to recognise a provision for these goods, services and other benefits.

We would like the IPSASB to consider whether any additional text should be added to the scope exclusion in paragraph 1(a) of IPSAS 19¹ to clarify that although social benefits within the scope of IPSAS 42 are out of scope of IPSAS 19, a wide range of goods, services and other benefits provided by governments and public sector entities are in scope. Given that the term “social benefits” is commonly used to refer to a wide range of government assistance programmes, not just those within the scope of IPSAS 42, we consider that clarifying text will assist entities in determining which types of transactions fall within the scope of IPSAS 19 rather than IPSAS 42. We would then suggest a reference to the requirements in the body of IPSAS 19 in relation to collective and individual services and emergency relief.

Location of requirements

We do not agree with the addition of application guidance to IPSAS 19 as proposed in Exposure Draft 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) (the ED). As noted in our cover letter, we consider that the accounting requirements for collective and individual services and emergency relief would be better located in the body of IPSAS 19 under a separate section in “*Application of the Recognition and Measurement Rules*”. We would envisage that this section is set out like the existing section in IPSAS 19 on restructuring.² As explained further below, we consider that it is not sufficient to rely on an interpretation of one particular sentence in paragraph 26 of IPSAS 19 to support the conclusion reached in the ED on how to account for collective and individual services. In addition, as demonstrated by the differences in accounting treatment of the two types of emergency relief, it is important to provide clear guidance on when it is appropriate to conclude that no provision should be recognised until services are delivered. In our view, locating the requirements on collective services, individual services and emergency relief in the body of the standard, together with clearer links with the principles of IPSAS 19 (as we discuss below), will assist public sector entities to apply the Standard to these types of transactions.

¹ This was part of the consequential amendments to IPSAS 42.

² Paragraphs 81–96 of IPSAS 19.

Applying the principles in IPSAS 19

We consider that the rationale provided in the ED, which appears to be based solely on one specific part of IPSAS 19 (being one specific sentence in paragraph 26), is insufficient justification for the conclusions reached. In our view, the IPSASB should have provided:

- an analysis of the links between its conclusions in IPSAS 42 and its conclusions in the ED; and
- clearer links between its conclusions in the ED and the principles in IPSAS 19.

We explain these points below.

We are of the view that there are no significant conceptual differences between social benefits and collective and individual services. However, in our comment letter on Exposure Draft 63 *Social Benefits*, we acknowledge that determining the relevant past event for all forms of social benefits (whether provided in the form of cash or services) is difficult and has been the subject of much debate over the years. Nevertheless, having reached a conclusion in IPSAS 42, we would have expected to see in the basis for conclusions (BC) the IPSASB's considerations on how that conclusion might apply to individual and collective services and emergency relief. For example, if a beneficiary of a particular health service (such as a hip replacement operation) has met all of the eligibility criteria to receive that service before balance date, with the services scheduled to be provided after balance date, should a liability to the beneficiary be recognised at balance date?

In addition, as noted earlier, we consider that there should be clearer links between the conclusions reached in the ED and the principles in IPSAS 19. We consider that these links are important, both for supporting the conclusions reached and for preparers when applying the requirements and guidance added to IPSAS 19.

Paragraph 22 of IPSAS 19 establishes the conditions that must be satisfied for a provision to be recognised. Amongst other things, the entity must have a present obligation as a result of a past event. Paragraphs 23–30 then provide guidance on when such a present obligation arises. The second sentence in paragraph 26, which the IPSASB has used as the basis for the new requirements and guidance on collective and individual services, is merely one sentence of that existing requirements and guidance. In our view, it is not appropriate to rely upon one sentence, taken in isolation. Although it may not have been the IPSASB's intention, the information provided in the BC gives the appearance that the IPSASB has selected that sentence in order to “retrofit” into IPSAS 19 a conclusion the IPSASB had already reached on the treatment of collective and individual services in developing an earlier Consultation Paper on social benefits. The result is the ED does not contain sufficient analysis of how the principles of IPSAS 19 apply to collective and individual services.

We therefore considered the application of IPSAS 19 to collective and individual services. As noted above, under IPSAS 19, the recognition principle requires, amongst other things, that an entity has a present obligation (legal or constructive) as a result of a past event. In the case of many types of government assistance programmes, a key issue is determining when an obligating event has occurred. As noted earlier, in our comment letter on ED 63, we acknowledge that determining the relevant past event for various forms of social benefits (whether provided in the form of cash or services) is difficult and has been the subject of much debate over the years. It is possible to argue that an obligation to provide services to beneficiaries (especially in the case of individual services)

arise in advance of those services being delivered. However, applying this argument would result in an entity having to recognise large liabilities for services to be delivered in the future without the recognition of future taxes to pay for those services. We consider that such an outcome is unlikely to meet the objectives of financial reporting and satisfy the qualitative characteristics.

Therefore, we support the outcome in the ED for collective and individual services and those types of emergency relief services that are an ongoing activity of the government, i.e. no provision is recognised before the services/relief are/is delivered. However, given that IPSAS 19 will now cover these types of services, in addition to a range of other types of transactions, it becomes important to determine:

1. When is it appropriate to set aside arguments about when an obligating event has occurred and apply the conclusion that no provision is recognised until a service is delivered?
2. When is it appropriate to apply the usual accounting principles in IPSAS 19 to recognising provisions and other liabilities, which does entail considering when the obligating event has occurred and hence could result in the recognition of a provision for services to be delivered in the future?

In thinking about this question, we consider it helpful to also consider the way in which IPSAS 19 deals with executory contracts. Although the definition of, and guidance on, executory contracts is focused on exchange transactions, we consider this guidance provides a helpful analogy when thinking about the accounting treatment of collective and individual services that are part of the ongoing activities of government. We note that under IPSAS 19, no provision is recognised for executory contracts (unless the contract is onerous). This is because, before either party has performed:

- the rights and obligations under an executory contract are interdependent, e.g. an entity's obligation to pay for goods from a supplier is dependent upon (i.e. conditional upon) the supplier delivering those goods; and
- there is no obligation for a net outflow of resources (unless the contract is onerous).

Whilst not a perfect analogy (as the IPSASB found when it previously considered a similar idea, the social contract approach, during its work on developing IPSAS 42), we think that analogising to executory contracts helps to provide a rationale that no provision should be recognised for collective and individual services prior to the delivery of the services. Collective and individual services have characteristics similar to executory contracts in that the community will, collectively, provide funds to the government in the future under tax legislation, and the government will, in return, provide goods and services to the community in the future – essentially, there are rights (to future taxes) and obligations (to provide goods and services to beneficiaries) already established under legislation, and there is an interdependency between those rights and obligations. In these circumstances, even if it is argued that the rights and obligations are separable (e.g. as they involve different individual parties), unlike a typical executory contract for an exchange transaction (which is one reason why the executory contract analogy is not perfect), the overall collective interdependency between these rights and obligations is the key reason why it does not provide useful information to recognise large liabilities for obligations to beneficiaries under these types of government programmes that are funded by future taxes.

In addition to the above points, in the case of collective and individual services that are part of the on-going activities of government, even though citizens may have entitlements to receive services in the future established in legislation (e.g. an entitlement to free primary and secondary education), there is often a significant amount of discretion for the public sector entity to make adjustments to the amounts, timing and method of delivery of future services. Some argue that the ability to make such adjustments means that there is no present obligation to service recipients before those services are delivered. (This is similar to some of the situations discussed in paragraph 27 of IPSAS 19 in which a provision is not recognised for future expenditure that is dependent upon an entity's future actions.) Others consider that the ability to make adjustments to future service delivery impacts on the measurement, rather than the existence, of a present obligation to service beneficiaries. Under the latter view, even in situations where it is argued that a present obligation to service recipients arises before services are delivered, the adjustability creates significant measurement difficulties and hence the ability to make a reliable estimate.

In our view, the above analysis could be used to develop a clearer link between the conclusion reached in the ED and the provisions of IPSAS 19, which should also help entities to apply the amended IPSAS 19. Without that clearer link, there may be difficulties in practice in determining whether or not (and the extent to which) a particular government assistance programme involves the delivery of a service to which the requirements and guidance on individual and collective services applies.

In addition, we also note that the ED proposes separate definitions of, requirements and guidance on, "individual services" and "collective services", although the outcome appears to be the same. It is unclear whether this distinction has any practical impact. In paragraph BC11 of the ED, the IPSASB noted that the reasons a provision did not arise for collective and universally accessible services (now referred to as individual services) were not identical. The IPSASB agreed that the guidance should reflect this. We suggest that the IPSASB provides further discussion of the differences between collective services and individual services. This would assist the readers to appreciate the IPSASB's rationale for distinguishing between collective services and individual services as proposed in the ED, including whether that distinction matters in practice.

Emergency relief

The executory contract analogy discussed above would have a similar conclusion when applied to emergency relief that is part of the ongoing activities of government.

However, the executory contract analogy does not apply to emergency relief provided only in response to specific emergencies because the relief is:

- ad hoc, so is additional to and distinct from the ongoing activities of the government; and
- provided only if the government chooses to provide such assistance, so unlike existing government programmes, it is reasonable to conclude that providing the relief is discretionary, i.e. no obligation arises, until the requirements in paragraphs 22–34 of IPSAS 19 for provision recognition is satisfied.

In general, we consider this type of emergency relief has similar characteristics to grants.

Although, in general, we agree with the proposed accounting treatment of emergency relief, we disagree with paragraph AG18 of the ED, which states “Goods and services delivered through emergency relief do not address the needs of society as a whole. This distinguishes emergency relief from collective services and individual services”. We disagree with this statement and are of the opinion that providing aid and funding after a natural disaster helps the individuals and households to resume with their daily activities (amongst other things), which is addressing the needs of society as a whole. The fact that the recipients of emergency relief are specific individuals or households cannot be determinative of whether or not the provision of government assistance addresses the needs of society as a whole – otherwise, it would call into question the conclusions reached by the IPSASB on individual services and cash transfers to individual and/or households (social benefits), as these are intended to address the needs of society as a whole.

We initially questioned why the ED proposes to add specific requirements and guidance on emergency relief. We understand that part of the IPSASB’s rationale for doing so is because the IPSASB has identified that emergency relief can include activities that are part of the ongoing activities of government, which needs to be distinguished from emergency relief provided in response to specific emergencies. This distinction determines whether an entity applies either (a) the requirements and guidance on collective and individual services (for which no provision is recognised before services are delivered) or (b) the requirements and guidance in paragraphs 22–34 of IPSAS 19 (for which a provision might be recognised before services are delivered, if specified criteria are met). The need to make such a distinction reinforces our earlier comments about providing clearer links between the proposals in the ED and the existing principles, requirements and guidance in IPSAS 19. There are likely to be other situations, in addition to emergency relief, in which such a distinction needs to be drawn. For example there may be individual services that are not ongoing activities of the government and not emergency relief such as a government of a developed country providing foreign aid in the form of medical services to a developing country.

To assist entities with applying the requirements and guidance, we suggest the IPSASB:

- (a) provides more guidance on the distinction between the two types of emergency relief;
- (b) considers adding examples in the implementation guidance which accompanies IPSAS 19 on the two types of emergency relief; and
- (c) provides more guidance on the distinction between other situations that are not part of the ongoing activities of the government and not emergency relief provided in response to specific events.

In providing guidance on when it is appropriate to recognise a provision for emergency relief in response to specific emergencies or in other similar situations where goods and services are provided (for example, an ad hoc response to a particular event i.e. not as an ongoing activity of the government), we consider the application guidance of the principles in IPSAS 19 developed by The Treasury³ to be useful. The Treasury Guidance provides application guidance of the following key criteria to consider if there is a provision.

³ The Treasury *Guidance on Recognising Liabilities and Expenses* (The Treasury Guidance)
<https://treasury.govt.nz/sites/default/files/2013-11/rle-nov13.pdf>

- There is a non-reimbursable economic sacrifice
- The expense is not ongoing and adjustable
- The possible obligation arises due to government policy
- At the point the offer is approved and announced it is clear:
 - (i) who will provide the assistance;
 - (ii) what events qualify for assistance;
 - (iii) the types and approximate number of entities who will receive assistance;
 - (iv) what the expected cost was; and
 - (v) when the assistance would be provided; and
- The government has raised a valid expectation in those affected that it will provide cash or the delivery of goods or services because:
 - (i) individuals and entities exist who satisfy the eligibility criteria;
 - (ii) the commitment is not expressed as being subject to future budget decisions, and
 - (iii) the substantial events satisfying the criteria covered by the policy have occurred.⁴

The Treasury Guidance may be of interest to the IPSASB in developing the requirements and guidance as we have suggested in points (a) and (c) above.

⁴ The Treasury Guidance, page 20.

APPENDIX 2 Response to Specific Matters for Comment**Specific Matter for Comment 1**

Do you agree with the definitions of collective services and individual services that are included in this Exposure Draft?

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

We have noted in Appendix 1 that the ED proposes separate definitions of, requirements and guidance on, “individual services” and “collective services”, although the outcome appears to be the same. It is unclear whether this distinction has any practical impact.

We disagree with the proposed definitions of collective services and individual services. Both definitions contain references to “address the needs of society as a whole” and this notion is one of the reasons the ED has distinguished between collective and individual services and emergency relief. There is no definition of or guidance on what is meant by “address the needs of society as a whole” in the context of collective and individual services. We note there is some discussion of this notion in paragraph AG8 of IPSAS 42 but that discussion is unclear and is only in the context of social benefits.

Without this definition and/or guidance it is difficult to distinguish between (a) an individual service within the scope of paragraphs AG12 and AG13 of the ED (for which no provision is recognised before the service is delivered) and (b) the delivery of services to individuals in other circumstances, such as emergency relief (which could fall into paragraph AG20, AG21 or AG22 of the ED, depending on the circumstances). In the case of emergency relief, the ED relies on the assertion in the first sentence of paragraph AG18, but we disagree with this assertion. So given that we have different views to the IPSASB on the circumstances in which services address the needs of society as a whole, and the ED contains no explanation of the meaning of this notion, this suggests that the two definitions are not clear.

Specific Matter for Comment 2

Do you agree that no provision should be recognised for collective services?

If not, under what circumstances do you think a provision would arise?

Specific Matter for Comment 3

Do you agree that no provision should be recognised for individual services?

If not, under what circumstances do you think a provision would arise?

We agree with the conclusion that no provision should be recognised for collective services and individual services that are part of the ongoing activities of government.

For those types of emergency relief services that are individual service and not an ongoing activity of the government (or other public sector entity), we agree that in some circumstances it may be appropriate to recognise a provision or disclose a contingent liability.

We have noted in our discussion in Appendix 1 that we disagree with adding application guidance to IPSAS 19; instead, in our view, the IPSASB should establish requirements and guidance on collective and individual services and emergency relief in the body of IPSAS 19 (we would suggest under the section heading “*Application of the Recognition and Measurement Rules*”). In our view the IPSASB should explain how it has applied the principles in IPSAS 19 to collective and individual services and emergency relief (i.e. how do the general recognition criteria in IPSAS 19 apply to collective and individual services and emergency relief). In Appendix 1 we have outlined some thoughts on how this might be done and some matters to consider.

Specific Matter for Comment 4

Do you agree with the proposed accounting for emergency relief?

If not, how do you think emergency relief should be accounted for?

We agree with not recognising a provision for those types of emergency relief services that are part of the ongoing activities of government.

For those types of emergency relief services that are not an ongoing activity of the government (or other public sector entity), we agree that in some circumstances it may be appropriate to recognise a provision or disclose a contingent liability.

We have noted in our discussion in Appendix 1 that we disagree with adding application guidance to IPSAS 19; instead, in our view, the IPSASB should establish requirements and guidance on collective and individual services and emergency relief in the body of IPSAS 19 (we would suggest under the section heading “*Application of the Recognition and Measurement Rules*”). In our view, the IPSASB should explain how it has applied the principles in IPSAS 19 to collective and individual services and emergency relief (i.e. how do the general recognition criteria in IPSAS 19 apply to collective and individual services and emergency relief). In Appendix 1 we have outlined some thoughts on how this might be done and some matters to consider.

Other comments

We note that paragraph AG16 of the ED seems to suggest that if expenses are classified based on their function then collective and individual services could be presented separately. For some entities there is no separation between the provision of collective and individual services, so it would require system changes to collate this information. We are of the view that this information provides no benefit to the users of the financial statements. We could see this presentation having the same challenges as the current disclosure on exchange and non-exchange revenue under IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. Whilst the terms collective services and individual services are used in the ED, this should not result in separate presentation in the financial statements. We recommend that the IPSASB reconsiders the presentation needs of users and reviews the guidance in paragraph AG16.

Editorials

On page 15 of the ED we have found an editorial in paragraph 35A of IPSAS 42 *Social Benefits*, the paragraph reference to 5A should be paragraph 4A.

NB: For Board information only – this will be deleted in the final comment letter

Category	Non-Exchange Expenses Project				Social Benefits		Other IPSAS/IFRS	
	Grants, Contributions and Other Transfers	Emergency Relief	Collective Services	Individual Services	Social Benefits	Employee Benefits	Contracts for Insurance	Contracts for Goods and Services
Examples	Grants to other public sector entities Grants to charities	Emergency relief Planning and preparation activities	Defense Street lighting	Education Healthcare	State pensions Unemployment benefits Income support	Employee pensions Healthcare Salaries	Vehicle insurance Private medical insurance	Purchase of goods Payment for services
Exchange or Non-Exchange Transaction?	Both	Non-Exchange	Non-Exchange	Non-Exchange	Non-Exchange	Exchange	Exchange	Exchange
Provided as cash transfers to specific individuals/households	Sometimes	Sometimes	No	No	Yes	Sometimes	No	No
Provided to specific individuals/households who meet eligibility criteria?	Sometimes	Sometimes	No	Sometimes	Yes	Yes	No	No
Mitigates effect of social risks?	No	No [we think may be yes]	No	Sometimes	Yes	Yes	No	No
Addresses needs of society as a whole?	Sometimes	No [we think may be yes]	Yes	Yes	Yes	No	No	No

Scope of Social Benefits in GFS



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 18 April 2019

To: NZASB Members

From: Joanne Scott

Subject: Service Performance Reporting Guidance

Recommendation

1. We recommend that the Board:
 - (a) NOTES the process used to obtain feedback on an earlier draft of the guidance; and
 - (b) PROVIDES FEEDBACK on the content and layout issues in this memo.

Structure of the memo

2. This memo has the following sections:
 - (a) Background;
 - (b) Comments received;
 - (c) Qualitative characteristics; and
 - (d) Next steps.

Background

3. PBE FRS 48 *Service Performance Reporting* was issued in November 2017 with an effective date of 1 January 2021. The Board decided to develop guidance to assist smaller Tier 2 not-for-profit entities to apply the standard. The Board has previously agreed that the examples in the guidance should be generic and illustrate aspects of the standard (rather than being a comprehensive example for an entity).
4. We sought feedback from the Board on earlier drafts in June and December 2018. Following the meeting in December we:
 - (a) revised the guidance to reflect the Board's comments; and
 - (b) included more examples and further developed some sections.
5. In February we circulated the draft guidance to a number of people (19) and invited comments on the draft. People contacted included the NZAuASB, public sector entities, not for profit entities (including oversight agencies and major funders), a couple of Tier 3 entities, accounting firms and an accounting body. An extract from the email sent in February follows.

We also included a few notes for reviewers in the document itself (for example, asking about the use of the thinking icon).

Extract from email sent in February

We welcome your feedback in whatever form is easiest for you (for example, emailing separate comments, emailing comments in the document itself, hard copy comments, or a phone call to staff). Some aspects of the draft guidance that you might like to comment on are listed below, but please don't feel constrained by these suggestions.

Draft guidance:

- which sections/paragraphs work well
- which sections/paragraphs need to be revised or rewritten
- what is missing

Examples:

- which to keep, delete or revise
- ideas for additional examples to illustrate aspects of the Standard
- preferred location for examples (currently most examples are grouped at the end of a section)

Planning prompts (at the end of relevant sections)


- which planning prompt items to keep, delete or revise
- any suggestions for better ways of linking the prompts with Diagram 1 or the guidance as a whole

6. This was an informal process and people were not asked to go on record. We have therefore referred to respondents as R1 etc. This memo refers to 10 respondents, but one response contained comments from a couple of individuals. A few people replied saying that due to the small size of their entity (or their client entities) they wouldn't comment on the draft. However, we are very grateful that so many people took the time to look at the guidance, with some providing quite detailed feedback.
7. We have addressed as many comments as we could in the time available and have highlighted some of the bigger issues for consideration by the Board. Agenda item 8.2 is a marked-up copy of the version distributed in February, together with comments from respondents and the changes made. We appreciate that the marked-up copy looks a bit messy, but we think that it is the most useful document for this meeting. It also gives us a record of which comments have not yet been addressed.
8. At this meeting we would like to work through the comments received and get feedback about what we have and haven't done. We have put the content and layout issues on which we are seeking feedback in this memo. We would also like to go through agenda item 8.2, section by section in case the Board disagrees with some of the changes we've made or has other suggestions.

Comments received

9. We have grouped the comments into three tables. Table 1 deals with general issues. Table 2 deals with comments on layout and readability. Table 3 deals with some comments on which we would appreciate discussion and direction. The comments on qualitative characteristics are more fundamental and are discussed in a separate section of the memo.

Table 1 General comments

	Respondent comment	Staff response
R5, R7, R9	<p>Planning prompts</p> <p>We asked what people thought about the planning prompts. There was general support for the prompts, together with some suggestions.</p> <p>R7 thought they were a good idea but should be short and punchy.</p> <p>R7 also had layout suggestions – see below.</p> <p>R5 suggestions:</p> <ul style="list-style-type: none"> incorporate prompts in Diagram 1. Or insert a copy of Diagram 1 together with the planning prompts at the end of the document. could rename planning prompts “Points to consider” or “Questions to ask”. <p>R9 suggested, in refining the planning prompts, to think about the needs of smaller as well as larger entities.</p>	<p>We agree and have changed some, as suggested by R7.</p> <p><i>Board views sought.</i></p> <p>We haven’t actioned this comment yet.</p> <p>It might be best considered when finalising the layout of the Guide.</p> <p><i>Board views sought.</i></p> <p>We are not sure how to address this comment.</p> <p><i>Could the Board keep this comment in mind when looking at agenda item 8.2?</i></p>
R4, R5	<p>Thinking icon</p> <p> We used this icon to highlighting areas where preparers will need to make decisions and judgements. We asked reviewers if the icon is helpful or if there is a better way of highlighting these areas.</p> <p>There was general support for the icon, but a few people noted that there are decisions all the way through the process.</p> <p>R8 considered that there should be extensive use of the thinking icon in the section on <i>Reporting on Service Performance</i>.</p> <p>R10 thought the icon was useful given that there aren’t many visuals or graphics in the document.</p>	<p>We accept the reviewers’ points about the need to make decisions and judgements at many points. We’re not sure what to do about the icon.</p> <p><i>Should we seek external advice on layout of the document, including the use of this icon?</i></p>
R1, R3, R6	<p>Examples – complete or partial</p> <p>A few people (R1, R6) would have preferred complete worked examples.</p> <p>R6 suggested 2–3 complete worked examples, with the other examples in an appendix.</p> <p>However, R3 supported the use of multiple examples to show how the standard can be applied to different scenarios and reduce the risk of boilerplate reporting.</p>	<p>We have kept all the examples for now.</p> <p>The Board has previously agreed not to develop complete examples for the reasons identified by R3.</p> <p>We would like expert advice on how to present the examples so as not to disrupt text.</p> <p><i>Board views sought.</i></p>

	Respondent comment	Staff response
R1, R2	Examples – embedded Review all examples embedded in paragraphs (and check if that is the best place for them).	We have reviewed the embedded examples. We left some as paragraph text but created a separate example for disability services (following paragraph 48). <i>Board asked to note.</i>
R2	Activities vs services The term “activities” is used often. The risk of using this term is that entities will focus on low level internal processes (or activities) rather than levels of service. Using the term “services” would lessen this risk, as this would focus them on what they deliver or provide (for third parties) (and why).	We have tried to use “services” rather than “activities” throughout the guidance. However we have left some references to service performance activities as paragraph 18 of the Standard uses this term.
R2, R8, R9	Qualitative characteristics Some respondents felt that the lack of discussion on qualitative characteristics was a significant shortcoming in the document.	These comments are discussed in a separate section of this memo.

10. A number of respondents commented favourably on the use of examples and the plain English approach. We agree that we need to do more to turn this into an easy and engaging read.¹ Some respondents made suggestions along these lines – see Table 2.

Table 2 Layout and readability

	Respondent comment
R2	While the overview of the Standard at the start is useful, the guidance could be shortened through more cross-referencing to the Standard and by rationalising some of the paragraphs.
R7	The format of this document could be changed to make it more inviting for the reader. Getting a professional designer to make this more user friendly may add a huge amount of value by encouraging people to turn the pages more easily. R7 suggested the following changes. <ol style="list-style-type: none"> 1. A bright, cheerful cover page with a title like “Helping Tier 1 & 2 charities with their performance reporting” would encourage people to look at this guide. 2. Replace headings like ‘Introduction’ with a more friendly approach “What you need to know” “What has changed” etc. 3. Change the type face so that headings stand out more. 4. Change the format so it doesn’t look like a reporting standard. 5. Remove the paragraph numbering – this is not a legal document but a guidance document and so it should encourage people to read it. 6. The document is “word-heavy”. Shorten paragraphs to make them easier to read. 7. Add more colour and pictures. [Staff note: see Native Bird Trust example] 8. Use light bulbs to identify the things that readers need to think about. 9. Planning prompts: Use consistent colour/format to make them stand out. They should

¹ The Board has previously noted the easier reading style of some NZAuASB booklets such as [Small charities’ assurance needs](#).

	Respondent comment
	<p>be short and punchy.</p> <p>10. Have boxes showing top tips etc.</p> <p>11. Use different fonts and designs for the listed examples to make these more interesting to read.</p> <p>12. Put all the copyright details on the back of the booklet.</p> <p>13. Use an easier abbreviation than PBE FRS 48 throughout.</p>
R7	Will there be an online guide that is user friendly?
R10	<p>1. The content is great because it's got really good detail and not too much jargon (a glossary might also help).</p> <p>2. Flow of the document might be better if you use para headers/sub headers.</p>

Questions for the Board on Table 2

- Q1. Does the Board agree that the suggestions in Table 2 would make the guidance more user-friendly?
- Q2. Does the Board agree that we should seek professional help to improve the presentation and accessibility of the guidance?
- Q3. We do not normally create online versions of document – does the Board have any views on whether an online version would have any benefits over a PDF version?

Table 3 More specific comments

	Respondent comment	Staff response
R9	<p>Introduction – Governance body</p> <p>R9 felt that the front section of the Guide should explain the respective roles of the governance body (with reference to it being the committee of a society or trustees of a trust) in a way that emphasises the governing body's oversight role and how that is distinguished from the role of staff.</p>	<p>We have added a reference to the responsibility of the governance body for information in paragraph 14.</p> <p><i>Does the Board think there should be more discussion of the oversight body? If so, what?</i></p>
R1, R2	<p>Evidence of contribution to outcomes</p> <p>Both R1 and R2 queried whether the guidance is contradictory because it says that the Standard does not require evidence of an entity's contribution to outcomes. However in various places the guidance gives examples of how an entity might provide evidence of its contribution to outcomes.</p> <p>R2 noted that it will depend on what the entity has chosen to focus on, as permitted by the Standard.</p>	<p>The intention was to highlight that the Standard does not mandate that <u>all</u> entities report on contribution to outcomes.</p> <p>We have rewritten to address comments (see paragraph 32 – deleted and the additional sentences in paragraph 35) .</p> <p><i>Note.</i></p>
R2	<p>Disclosure of judgements</p> <p>There is already earlier commentary on selecting "activities" to report and selecting the mix of performance measures/descriptions. It may be</p>	<p>The respondent has identified some overlap between the sections. Not yet addressed.</p>

	Respondent comment	Staff response
	better to shorten the section on disclosure of judgements and focus it firmly on examples of where disclosures relating to these decisions may be appropriate.	<i>Does the Board agree that we should limit the section on disclosure of judgements as suggested by R6?</i>
R6	Forecasts/Targets Guidance should encourage larger Tier 2 entities to provide forecast performance targets. This information would be useful to funders in seeing what funding would be used for over the medium to long term.	<p>We have not changed the guidance to encourage reporting of forecast targets because:</p> <ul style="list-style-type: none"> • it is aimed at smaller Tier 2 entities; • it is about year-end reporting; and • most Tier 2 NFPs do not publish targets and the Standard doesn't require this. <p>However, the comment reflects the competition for funding and funders' desire to understand key drivers of performance.</p> <p><i>Is there any other way we could acknowledge this issue and support NFPs wanting to report on targets?</i></p>
R1 R2	Judgements about selection – Nature Loving example There were two comments about the Nature Loving example (which follows paragraph 87). <ul style="list-style-type: none"> • R1 noted the example includes contextual information and judgements and queried whether it should just show the judgements (without the contextual information). • R2 noted that the example might need to be changed if we picked up the suggestion to refer to services rather than activities. 	<p>We haven't addressed either of these comments yet.</p> <p><i>Does the Board think we should delete the contextual information in the example?</i></p>

Question for the Board on Table 3

Q4. Does the Board have any other comments on the matters raised in Table 3?

Qualitative characteristics

11. Three respondents felt that the guidance needed more emphasis on qualitative characteristics and more explanation of how an entity would apply the qualitative characteristics in selecting and aggregating information (R2, R8, R9).
12. R8's comments were the most extensive and we have summarised these here. R8 commented that the material in the section on *Reporting on Service Performance* was not sufficient to assist preparers to do what is required by the standard in terms of applying the qualitative characteristics and constraints. R8 felt that
 - (a) the examples included illustrations of information that would be highly unlikely to be consistent with the qualitative characteristics;

- (b) the guidance should include worked examples which apply the qualitative characteristics and pervasive constraints to select what to report and how the information will be measured or described. The examples should clearly be seen to be consistent with the qualitative characteristics and pervasive constraints; and
 - (c) more work is needed on the discussion of judgements made in relation to measurement and aggregation.
- 13. We have made a few changes to highlight the qualitative characteristics.
 - (a) We have rewritten the beginning of the section on reporting on service performance (see paragraphs 45–46 and the Table).
 - (b) We have rewritten the planning prompts at the end of *Performance Measures and/or Descriptions* (between paragraphs 57 and 58).
- 14. However, these changes won't address R8's comments on the need to illustrate application of the qualitative characteristics in the reporting and presentation examples and the section on disclosure of judgements. We've struggled with how to do this in the section on *Reporting on Service Performance* as these examples were written to give readers ideas. We think we would need to add in more information about each entity to discuss the application of the qualitative characteristics to various examples.
- 15. We think there is more scope to address these comments in the section on *Disclosure of Judgements*. Although this section was difficult to draft the first time round and is likely to be difficult second time around, we accept that it probably isn't hitting the mark. We would appreciate the Board's thoughts as to whether rewriting the *Disclosure of Judgements* section is the best way to address R8's comments and any suggestions about how to do this.

Question for the Board on qualitative characteristics

Q5. Does the Board think that rewriting the *Disclosure of Judgements* section is the best way to address R8's comments?

Next steps

- 16. We are working towards completing this project by the end of this year. We will use the Board's feedback to work towards this goal.

Attachments

Agenda item 8.2: Draft guidance (showing mark-ups).



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*.

It is primarily intended to assist smaller Tier 2 not-for-profit 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.

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

Commented [JS1]: R1. delete because the entity might call the report something else and annual report already covered in para 3.

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ISBN

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Introduction

New Requirements

1. From 1 January 2021 all ~~not-for-profit Tier 1 and Tier 2 public benefit~~ entities (PBEs) 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 refers to service performance information as information about what an entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information.
3. 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.
- 3.4. A new audit standard also takes effect from 1 January 2021. Auditors engaged to audit general purpose financial reports that include service performance information will apply New Zealand Auditing Standard (NZ AS) 1 *The Audit of Service Performance Information*.

Who is this Guide for?

4. ~~The primary audience for this Guide are The Guide is intended to help smaller~~ 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. ~~It might also be of interest to 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 by this Guide, but the Guide could still give a useful overview of the Standard.~~
5. ~~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. but such entities Public sector PBEs will still need to consider whether their current service performance information reporting practices would satisfy all of the requirements in the Standard.~~
6. The Guide is not intended for entities reporting in accordance with the Tier 3 and Tier 4 PBE Accounting Requirements as set out in the Simple Format Reporting Standards. Those requirements are less detailed than the requirements in PBE FRS 48. Separate guidance accompanies the Simple Format Reporting Standards.

Getting Started

7. This Guide is intended to help an entity understand PBE FRS 48 and ~~help it~~ think about how it ~~intend~~ could to meet the requirements in the Standard. ~~The Guide~~ does this by working through the sections in the Standard, but that ~~doesn't~~ mean service performance information has to be organised that way. An entity 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?

8. ~~The following dDiagram 1~~ may help an entity ~~work identify the key things it will need to think about as it identifies what information it intends to report in accordance with the Standard~~ PBE FRS 48 and ~~how it will do this. Diagram 1 This is a generic diagram – not all entities will use the words 'outcomes', and some might have work with multiple levels of outcomes. Regardless of the terminology that an entity uses, in order to tell a coherent story about its service performance an entity will need to think about the connection between why it exists and what it does in order to tell a coherent story about its service performance.~~

Commented [JS2]: R7

Commented [JS3]: R7 suggests using a shorter abbreviation as this is used extensively throughout the document. Could change all references to "the Standard" but haven't done so yet

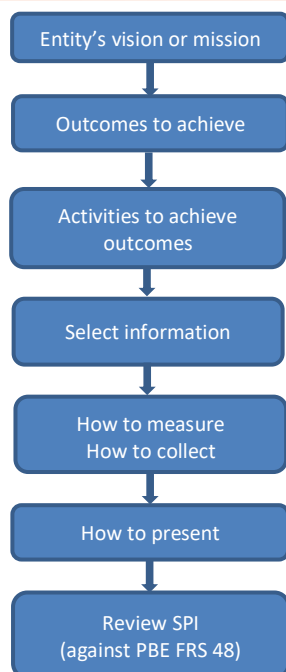
Commented [JS4]: R9 suggested referring to audit requirements and encouraging interaction with the auditor. See also change made to para 9

Commented [JS5]: R7 suggested shortening

Commented [JS6]: R9 queried why this is the target audience and why the Guide wouldn't apply equally to larger entities. The board has previously agreed the target audience should be smaller Tier 2 NFPs as they are less likely to have reported SPI and likely to have fewer resources and expertise.

Commented [JS7]: Style choice. Need to confirm use of contractions.

Diagram 1 Applying the Standard



Commented [JS8]: There were mixed views on this diagram. R4 didn't find the diagram helpful. R7 liked it. R9 thought it was comprehensive.

9. As an entity works through the requirements in the Standard it 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 the entity's key decisions – this will help in future years and inform discussions with the entity's auditor. Key decisions need to be made before the beginning of the reporting period. These key decisions could include:

- The selection of performance measures and/or descriptions;
- Whether an entity is going to report against targets (and if so, which targets);
- What evidence an entity needs to report on performance measures and/or descriptions and how it will obtain that evidence; and
- How much to focus on what the entity has done this year ~~current period~~ activities versus progress towards long-term objectives.

Commented [JS9]: R9 felt this paragraph started at the wrong point. It could also include references to context, mission statement and outcomes. The statement in para 32 could be moved forward or para 9(b) could refer to para 25(c). We have not yet addressed this comment.

10. Documenting key decisions will also help to identify, ~~for reporting purposes,~~ the judgements to be disclosed in accordance with the Standard.

Commented [JS10]: To address R2 comment about referring to services rather than "activities"

Commented [JS11]: R7

11. 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.

Commented [JS12]: R7 Good paragraph

12. This Guide is intended to help an entity get started on reporting service performance information ~~in its annual report~~. Just as what an entity does ~~can be likely to~~ change over time, ~~reporting also the way in which an entity reports is likely to~~ evolve over time. Feedback from others can provide useful ideas. Ideas for getting feedback include:

- (a) ~~Polling stakeholders about what they consider to be important about the entity's service performance. Asking users (including funders) to submit feedback on the service performance information and providing information on how to do this;~~
- (b) Seeking advice from independent experts;
- (c) Liaising with other entities with similar objectives ~~and/or activities~~; and
- (d) Entering annual reporting contests.

13. PBE FRS 48 acknowledges that ~~the contents of~~ an entity's service performance reportings will evolve over time. The Standard requires that an entity provide information about those changes (see ~~the section headed Comparative Information and Consistency of Reporting~~).

~~13-14.~~ ~~The preparation of service performance information in accordance with the Standard is the responsibility of the entity, and more particularly, the governing body (such as the Board of Trustees). Because the service performance information reported by Tier 1 and Tier 2 PBEs will be audited, service performance reporting should form part of the entity's audit planning and discussions with the auditor.~~

Commented [JS13]: R1

Commented [JS14]: R9 recommends polling stakeholders for more open and deep thinking, rather than seeking feedback on current information.

Commented [JS15]: R9 Encourage interaction with auditor when developing the SP report

Overview of PBE FRS 48

High-level Principles and Flexibility

~~14-15.~~ 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 ~~deliver undertake~~ a wide range of ~~services 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."

~~15-16.~~ PBE FRS 48 needs to work for the smallest of the Tier 2 entities and the largest of the Tier 1 entities. It needs to work for public sector entities and not-for-profits. It also needs to work for entities whose ~~service performance activities~~ ~~is are~~ agreed in advance with external parties and entities that do what they can with the resources that they acquire through the year. In order to meet these needs PBE FRS 48 focuses on principles rather than establishing detailed requirements.

~~16-17.~~ 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.

~~17-18.~~ 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.

Commented [JS16]: To address R2 comment about activities

Commented [JS17]: To address R2 comment about activities

Key Requirements

~~18-19.~~ 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/or Descriptions.

19-20. Users need both financial statements and service performance information to get a complete and consistent picture of an entity's performance. The Standard therefore requires that service performance information cover the same reporting entity and the same time period as the financial statements.

20-21. The key requirements for service performance information are set out in paragraph 15 of the Standard.

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) 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.

21-22. Contextual information is merely information that puts the service performance information in context – it is information about the entity, what it does, and why and how it does it. Users need this contextual information in order to make sense of the performance measures and/or descriptions.

22-23. Paragraph 15(b) is worded very generally. This gives entities flexibility to decide how best to report on what they have done. However, 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 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 (whether described as outcomes or impacts). 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.

23-24. 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." – ~~It~~ These may be quantitative measures, qualitative measures and qualitative descriptions. Examples of each are set out in paragraph 20 of the Standard follow.

- (a) ~~Examples of quantitative measures are the number or amount quantity of goods and services provided, the cost of those goods and services, the time taken to provide those 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) ~~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 an external party experts.~~
- (c) ~~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?~~

24-25. 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 measures of quality could be quantitative or qualitative. 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.

25-26. 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).

Commented [JS18]: R10 queried whether we couldn't just refer to outcomes here.
We have added the words in brackets to be more direct but haven't referred solely to outcomes because some NFPs use impacts in the way that public sector entities would use outcomes.

Commented [JS19]: R10 suggested explaining Tier 2.

Commented [JS20]: R2; Could shorten by deleting the examples which come directly from the Standard

Commented [JS21]: R1 suggestions. Have changed even though quantity used in the Standard

Commented [JS22]: If we were to keep b and c R10 noted that the term qualitative can also be used to refer to creating/ implementing frameworks, policies and processes.

Commented [JS23]: R1 have changed this even though Standard says experts

Commented [JS24]: To address R2 comment about activities

¹ XRB A1 Application of the Accounting Standards Framework establishes the Tier criteria for PBEs. Size is one of the criteria. To meet the Tier 2 criteria an entity's total expenses must be less than \$30 million. To meet the Tier 3 criteria an entity's total expenses must be less than or equal to \$2 million. Although Tier 2 PBEs may have total expenses between \$2 million and \$30 million the majority of Tier 2 not-for-profit PBEs are at the lower end of that range.

- (b) Comparative information for the previous period is required.
- (c) Although comparisons against prospective service performance information (such as targets or forecasts) can show whether the entity has done what it set out to do, the Standard does not require that all entities report against forecasts or targets. It requires comparisons against forecasts or targets only if the entity has previously published forecasts or targets in a general purpose financial report. This is because only some entities publish forecasts and targets.
- (d) In order to avoid unnecessary duplication of information, some cross-referencing to other reports is permitted. However, the Standard still requires that the complete set of service performance information reported in accordance with the Standard can be identified.

~~26-27.~~ The Standard also establishes disclosure requirements, including disclosure of the judgements made by an entity in applying the Standard.

~~27-28.~~ The next few sections in this Guide discuss the service performance information required by the Standard in more detail and give some examples of how entities might meet these requirements. The final sections discuss presentation, comparatives and disclosure of judgements.

Set the Scene – Providing Context

~~28-29.~~ Paragraph 15(a) 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”.

~~29-30.~~ Context is important to readers of service performance information. They need a general understanding of the entity, the environment within which it operates and the way it works. Paragraphs 17 to 19 of the Standard give more detail about what is meant by contextual information.

Information is Drawn from the Relevant Documents

~~30-31.~~ The Standard says that a not-for-profit entity considers documents such as its constitution, trust deed, mission statement (vision, purpose) and its most recent plans and strategies when putting together its contextual information. ~~Although an entity’s contextual information should reflect its constitution, there might be better explanations of 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 (for example, planning documents, funding applications, Board reports, newsletters, websites etc) might better explain what the entity is currently doing.~~

Commented [JS25]: R6 suggested adding Board reports and newsletters

~~31-32.~~ 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 ~~and/or~~ how it assesses its performance. If an entity ~~provides~~undertakes a limited number of ~~services~~activities, all of which are clearly linked to its mission, this explanation may be quite short. In other cases, an entity might need to explain why it has chosen to focus its efforts on certain ~~services~~activities or do things in a certain way (when it could equally well have done other things or done them in other ways). An explanation of why an entity is trying out new ~~services~~activities or new ways of doing things can also be helpful for readers.

Commented [JS26]: To address R2 comment about activities

~~32.~~ ~~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.~~

Commented [JS27]: R1 and R2 queried whether this paragraph contradicted other parts of the guidance. Have deleted this para and added new sentence two paragraphs down, towards the end of the discussion of contextual information.

33. Paragraph 17 of 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.” 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. These frameworks, theories of change or intervention logics can be expressed as diagrams, charts or narratives. They often

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develop over time as entities learn about what works ~~and doesn't work~~ from their own experiences, the experiences of others and research.

34. Contextual information can be provided in various ways, including infographics, narrative and numbers. An entity could describe the difference it is seeking to achieve, the ~~services that it delivers~~ ~~activities it will undertake~~ to lead to this difference and why it believes ~~its services~~ ~~these activities~~ will contribute to the resulting outcomes. The entity could identify any outcomes frameworks or theory of change it works with. If relevant the entity could also include population level indicators that it is working towards and trends/changes in results.

35. ~~Although all entities have to provide contextual information about what they intend to achieve (which might be quite aspirational) what an entity actually reports in terms of its service performance for the period might be more concrete. The factors that an entity considers in deciding what to report are discussed later in this guidance. One factor will be whether the entity has evidence of what it has done.~~

35-36. Some brief examples of contextual information about mission and strategies ~~(for hypothetical entities)~~ are shown below.
[Note to Board: R7 suggested adding pictures to examples. The pictures for Native Bird Trust show how this could look.]

Youth Charity

The mission of the Charity is to reduce suicide among young people in the ABC region.

The entity works to fulfil this mission through three strategies:


- Provide crisis counselling to young people thinking of suicide.
- Offer resources, supportive counselling and a sense of community to young people to reduce the risk that they become suicidal.
- 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:~~

- Car~~ing~~ for and rehabilitat~~ing~~ injured birds;
- Breed~~ing of~~ endangered species;
- Rid~~ing~~ natural habitats of predators that are a danger to native birds; and
- Educat~~ing~~ people about the risk to native birds of dogs, cats and other predators that are kept as pets.



Commented [JS28]: To address R2 comment about activities

Commented [JS29]: R9 suggested that, in addition to a separate discussion of the auditing concept elsewhere in the Guide, there be a mention in this section. We added the last sentence.

Commented [JS30]: R7 liked these examples.

Commented [JS31]: R10 note that there is quite a lot of detail here and it is not that brief.
No change – these were described as brief because the next set of examples have more detail.

Commented [JS32]: R7 suggests different fonts and designs for the examples.

Commented [JS33]: R7: Use pictures to show readers what can be displayed with narrative.

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.

Advocacy service

Our mission is to be a high quality, influential advocacy provider and model of good practice. We aim to make a difference:

- in the lives of individuals who use our advocacy service
- in the way that the health and social care sector delivers services and responds to people
- in the way communities support participation and involvement of all people.

We aim to learn and grow by listening to our clients and learning from experience.

36-37. More detailed examples describing what an entity does and why are shown below.

Youth Charity

~~Youth Charity~~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 ~~and adopting a one-stop shop approach~~.

The aim of our work is to reduce rates of teenage suicide and measures of teenage risk-taking (including smoking, ~~drug and~~ 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.

The one stop shop approach makes it easier for young people to access all the services they need in one location and in a coordinated way.

~~Youth Charity~~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

Commented [JS34]: R1

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.

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.

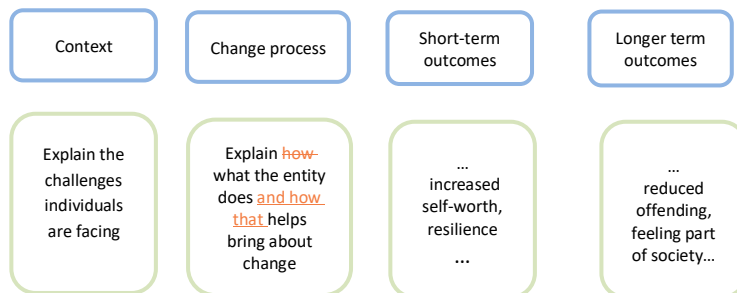
The Trust employs a property manager who is responsible for the maintenance of the properties. The property manager is the first port of call for residents if repairs are needed and also undertakes property inspections every two months. This ensures that the properties are well-maintained and repairs 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 able to do this gardeners, volunteers maintain the flower beds and shrubberies as well as mowing the lawns and generally keeping everything tidy. Studies show 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 include 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.

37-38. There are many ways that an entity could explain the links between what it wants to achieve over the long-term and how it goes about working towards that. Two possible layouts follow.

Diagram 2 Explaining the Links



Commented [JS35]: R10 thinks the diagrams need a bit more explanation or the linkages need explained better. Not yet addressed.

Diagram 3 Explaining the Links

Long-term outcomes	Short-term outcomes	Outputs	Highlights for this year
<i>Need to add an example in this table</i>			

Commented [JS36]: R7: Great template—better with a worked example. We propose to add an example.

Information about Monitoring, Feedback and Evaluation

38.39. The Standard does not specifically require that an entity ~~report on~~ *report on* ~~what it does in terms of its~~ monitoring, *seeking* feedback and evaluation ~~activities~~ but such information can provide context for an entity's service performance information. Entities often want to know whether what they do works or what they could do better and, as a result of such information may change what they do or how they operate. It can be helpful for readers to know why an entity has made ~~such~~ changes. A brief description of monitoring, feedback and evaluation follow.

- (a) Ongoing monitoring (checking progress or quality over time) might involve collecting information about who is being served and with what level of frequency and intensity. An entity might regularly review that information to assess progress in meeting targets, quality of services and whether its ~~service performance is~~ *activities are* in line with its objectives.
- (b) Seeking feedback might involve systematically soliciting, listening to, and responding to the experiences of users or other participants and about their perceptions of the entity's services or products. An entity might then use information about users' experiences, preferences, and ideas to improve the quality and effectiveness of its services.
- (c) Evaluations tend to be more formal, conducted periodically and might be carried out by, or in conjunction with, an external party.
- (d) Research can inform any aspect of an entity's service performance. For example, it might lead to a better understanding of clients' needs or better information about the effectiveness of alternatives.

39.40. Examples of what an entity might report about monitoring, feedback and evaluation follow.

Youth Charity

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.

Foodbank

Some recent research (cite study) conducted in City X looked at how food banks are embedded in a broader environment of community organisations, resources and networks. The study found that food banks are important to people because of the way people feel when they are there, as well as because of the help that is offered. We have therefore created areas for people to socialise at two churches where we operate distribution centres.

Emergency assistance

As part of our ongoing process of seeking feedback from clients we learned that some clients were having to queue for extended periods for certain services. This negatively affected their view of our services. We have therefore changed our process to greet all clients on arrival and assess whether we can assist someone immediately or need to set up an appointment for another day. We have also allocated more volunteers to service x/location x.

Example: Independent evaluation

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

Example: Trialling new method of delivering services

Over the last year, in addition to offering services from our offices in the main centres, we have used a bus to offer education and support services in rural communities. The bus operates in public places such as shopping centres and libraries and we operate information stands in nearby public buildings. The team is made up of health professionals, counsellors, financial advisors and volunteers. The team is available to talk to people, offer advice and distribute information pamphlets.

We will decide whether to continue the mobile service at the end of this year. In the meantime we are collecting data on how many people use the mobile service that would not otherwise be able to access our services.



Planning Prompts

~~What does your Do you have a clear mission statement say about setting out your purpose and reflecting your values?~~

~~Can you describe who or what will benefit from your work?~~

~~What Can you describe the types of positive outcomes are you seeking want for recipients of your services?~~

~~What sources of information lead to changes in your work? Do you use evidence to better understand the need for your work?~~

Commented [JS37]: R7 really liked the prompts. They need to be highlighted in consistent colour/design throughout the report to make them stand out.

Commented [JS38]: R1 suggested saying "beneficiaries" as might not be services. We have generalised the question as not all recipients or target populations can be described as beneficiaries.

Note for reviewers:-

~~We have included "Planning Prompts" throughout the guide. Your thoughts on whether these are helpful or if there are better prompts, or a better way of doing this are welcome.~~

Reporting on Service Performance

~~40-41.~~ Paragraph 15(b) of PBE FRS 48 requires that an entity "provide users with information about what the entity has done during the reporting period in working towards its broader aims and objectives." Paragraph 19 of the Standard notes that the nature of this information will depend on the circumstance of the entity and outlines the factors that an entity shall consider in deciding what to report.

~~41-42.~~ These factors are:

- (a) What it is accountable/responsible for.
- (b) What it intended to achieve during the reporting period.
- (c) How it went about achieving its service performance objectives.
- (d) Other factors.

43. Paragraph 20 of PBE FRS 48 requires that in reporting on what it has done during the period, an entity provides users with an appropriate and meaningful mix of performance measures and/or descriptions. Paragraphs 21–28 provide guidance on this requirement.
44. There are therefore two decision-making points for an entity: first, what to report on (for example, each service delivered, or an aggregation of services) and secondly, what performance measures and/or descriptions to report on for these services/aggregated services.
45. In both cases it might be helpful to start by considering a wide set of possibilities and then narrowing down the choices. These decisions would be guided by the principles in the Standard (accountability and decision making, qualitative characteristics and pervasive constraints) and the factors identified in paragraph 19 of the Standard. Relevance and materiality are particularly important considerations when deciding what to report (and how to avoid overwhelming readers with too much information).

Commented [JS39]: Written with the comments about lack of guidance on QCs in mind (R2, R8, R9).



<u>What guides decisions about reporting service performance information?</u>	
Principles <u>See paragraphs 6 and 7 of the Standard</u>	<u>Is information useful for accountability and decision-making?</u> <u>Is information appropriate and meaningful?</u> <u>(Apply the qualitative characteristics and pervasive constraints)</u>
Qualitative characteristics <u>See paragraphs 8 and 9 of the Standard</u>	<u>Relevance</u> <u>Faithful representation</u> <u>Understandability</u> <u>Timeliness</u> <u>Comparability</u> <u>Verifiability</u>
Pervasive constraints <u>See paragraph 10 of the Standard</u>	<u>Materiality</u> <u>Cost-benefit</u> <u>Consider the balance between the qualitative characteristics</u>
Factors <u>See paragraph 19 of the Standard</u>	<u>What is the entity accountable/responsible for?</u> <u>What did the entity intend to achieve during the reporting period?</u> <u>How did the entity go about achieving its service performance objectives?</u> <u>Other factors – for example external factors</u>

Commented [JS40]: To give more emphasis to QCs and pervasive constraints

46. The decision-making process could also be influenced by current practice, best practice, funders' requirements and feedback from others, including service recipients. The process is likely to involve conversations about (i) what the entity should measure and why and (ii) how to use performance measures and/or descriptions to convey key messages about service performance to stakeholders. Audit considerations also need to be taken into account at the initial planning stages. A record of key decisions and the judgements involved will help later in the year when deciding which judgements should be disclosed.
47. The next section of this Guide discusses performance measures and descriptions in more detail.
42. 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. One way of making these decisions is to begin with a list of all the information that could be reported, grouping information into categories, assessing the relative importance of that information against the requirements in the Standard, and seeking feedback on tentative decisions from others within the organisation, service recipients or other external parties. As mentioned earlier, it is a good idea to keep a record of key decisions made and any judgements

Commented [JS41]: In response to R9 comment to "encourage interaction with the auditor when developing the SP report"

involved in reaching those decisions. This will help when considering the requirements regarding the disclosure of judgements.

Note for reviewers:-

We have included a thinking icon throughout the guide (where it talks about the decisions or judgements that an entity needs to make). We welcome your thoughts on whether the icon is helpful or if there is a better way of highlighting areas where preparers will need to make decisions and judgements.

48. Examples of how service performance information can be grouped follow.

Example: Disability services

Entity Disability Services decides to organise its service performance information by service as follows.

- Accommodation support
- Therapy
- Counselling
- Respite care
- Advocacy

Example: Advocacy

Entity Advocacy decides to report on its service performance at a national level separately from its service performance at a regional level.

- National level: submissions to national groups; participation in national reviews; and use of a leadership group to monitor developments and identify opportunities for advocacy; open day to increase awareness of needs and opportunities
- Regional level: representation on bodies that are consulted during the development of regional strategies

Commented [JS42]: R1 suggested highlighting specific examples

43. An entity that provides disability services might have a range of activities including accommodation support, therapy, counselling, respite care and advocacy.

44. 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.

Commented [JS43]: R9 felt that the deleted paras were dense.

45. If an entity already has selected performance measures and/or descriptions 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.

Commented [JS44]: R10 suggested that if these paragraphs were kept they might be more readable in bullet form.

46. If an entity has not already selected performance measures and/or descriptions 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 descriptions to convey key messages about its service performance to stakeholders.

47. The Standard does require consistency in reporting so, ideally, the measures and descriptions that are selected will be used for some time.


48-49. ~~In reporting on a particular~~ Each year an entity ~~will~~ needs to identify the key messages that it wants to share with its convey to readers – things to think about. The following questions might be useful discussion points.

~~What is most material and relevant to the user?~~

~~What are the entity's key service performance achievements for the year?~~

~~How do the entity's achievements compare to last year/what it hoped to achieve this year?~~

~~What didn't happen as expected or work as expected, and why?~~

	<p>Planning Prompts</p> <p><u>What is most material and relevant to the user?</u></p> <p><u>What are the entity's key service performance achievements for the year?</u></p> <p><u>How do the entity's achievements compare to last year/what it hoped to achieve this year?</u></p> <p><u>What didn't happen as expected or work as expected, and why?</u></p> <p><u>What is the future outlook?</u></p>
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Performance Measures and/or Descriptions

49-50. ~~As noted above, p~~Paragraph 20 of PBE FRS 48 requires that ~~in reporting on what it has done during the period,~~ an entity ~~report provides users with an~~ appropriate and meaningful mix of performance measures and/or descriptions ~~for the reporting period. Paragraphs 21–28 provide guidance on this requirement.~~

50-51. 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. Some entities will focus more on reporting what they have done whereas others will focus more on reporting the difference that they have made. ~~An entity that has a clear view of its mission, a strategic plan to achieve that, and internal reporting on progress in relation to the strategic plan may already have much of the information it needs to report on performance measures and/or descriptions in accordance with the Standard. Such entities will need to think about what to change for an external audience. However, entities that are not already collecting performance-related information will be starting from scratch and will need to think about both their internal and external reporting.~~

51-52. Some ~~aspects of performance~~things are readily quantifiable and are therefore easier to measure, record and report than others. ~~Such measures may be appropriate. There is nothing inherently wrong with reporting things that are easy to measure if they those measures convey~~ information about what is important to the entity and the readers of its service performance information. ~~It is worth taking some time at the beginning of the process to think about what measures or descriptions will help the entity to report the most important aspects of its work.~~ For example, the number of people attending a course run by an entity may be an appropriate measure, but other measures ~~and/or~~ descriptions (such as numbers attaining qualifications, satisfaction with the course content or delivery, or changes in knowledge or behaviours as a result of the course) may be more relevant.

52-53. The nature of an entity's services may also affect what it ~~chooses to~~ measures and reports. If services are remedial in nature (that is, ~~they~~at are geared to address current and observable problems) the entity may be able to measure the difference it has made to people's lives or an environment. However, such assessments are more challenging if services are preventative, one-off or anonymous.

53-54. An entity wanting to assess the difference its services have made to clients could ask itself "What would I see, hear, read about clients that means progress?" If an entity has been offering a course of service for a while, this type of statement could include numbers and percentages. For example, xxx (50%) of the participants will have stopped doing x (or be doing x) by the end of the course (or within a specified timeframe). If an entity is offering a course or service for the first time it is less likely to specify numbers and percentages.

54. ~~The performance measures and/or descriptions that an entity initially selects are likely to change over time as the entity does new things and refines its measures and/or descriptions. However, careful selection at the outset avoids unnecessary changes and makes it easier for readers to compare performance over time.~~

Commented [JS45]: R7 shorten

Commented [JS46]: R7: Good points for a planning prompts box.
We've added a prompt but not sure how well it fits with the focus on this year's performance in the Standard.

Commented [JS47]: R9 wanted to convey the message that for some well run entities this is not a major compliance exercise. We have tried to convey that message.

Commented [JS48]: R9 wondered if we had enough acknowledgement of entities that are new to all of this and may have to start from scratch. We have added a sentence here but there may be other places where we should reiterate this point.

Commented [JS49]: R1 partial

Commented [JS50]: R1 suggested pulling out example but I think it fits as narrative

Commented [JS51]: R1 noted duplication with preceding section. Now addressed in preceding section.

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55. An entity's internal performance measures and/or descriptions will often be more detailed and comprehensive than is appropriate for an external report. For external reporting purposes it may be necessary to aggregate measures (for example, reporting measures for the entity as a whole rather than by location) or to select a more limited set of measures and/or descriptions to report. The selection of measures and/or descriptions is guided by the principles and requirements in PBE FRS 48. In selecting what it considers to be the most meaningful and appropriate measures and/or descriptions an entity will need to balance a number of factors including best practice, the information it currently collects, funders' requirements, feasibility of collecting reliable information and cost. An entity will also need to think about whether it wants its service performance information to focus more on what it has done during the year or whether it wants to focus more on how effective it has been in helping those it seeks to help or bringing about the changes that it seeks. PBE FRS 48 allows an entity to determine the most appropriate balance of information.

Commented [JS52]: R1 noted repetition with preceding section. Have left for now.

Commented [JS53]: Moved this up to preceding section as it is about selection

56. Ideas for possible performance measures and/or descriptions can come from the reports of entities with similar objectives and ~~services~~activities (including larger entities), talking to people involved with similar entities and reading publications dealing with performance measurement. For example, there are studies that assess techniques for measuring the impact and effectiveness of family support projects and the wider provision of support services to vulnerable families. Discussions with like-minded individuals and entities can help identify commonly used measures and/or descriptions, commonly used methods of data collection such as standard questionnaires or scales, the pros and cons of those measures and/or descriptions and methods of data collection. Such discussions might also help an entity find out about any research or studies that provide empirical support for measures ~~and/or descriptions~~, methods of data collection or appropriate timeframes for data collection.

~~56-57.~~ The selection of measures also depends on what an entity is trying to show. Entities might want to report on what has happened (such as the number of accidents that have occurred) or they may want to report measures that show changes in behaviour that will affect what happens (such as the percentage of people using safety equipment). These can be referred to as lagging and leading indicators.

Commented [JS54]: R10 suggested mentioning leading and lagging indicators.

~~57-58.~~ Here are some examples to get you thinking about your own entity. In order to help start conversations about performance measures and/or descriptions, some examples for a limited range of activities are shown below.

Commented [JS55]: R7 edit

Youth Charity

Possible ~~in~~ measures could 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
- Percentage of ~~service~~ users reporting a change in behaviour (eg decrease in drug or alcohol use)
- Number of drug and alcohol awareness sessions delivered to the community
- Changes in level of knowledge pre and post awareness sessions (eg not much, a little, some, a lot, lots and lots)
- ~~If the entity is also aiming to raise awareness about the issues it deals with and the work it does,~~ possible metrics include a Number of website visits, how long users spent on a website page, newsletter subscriptions, social media mentions and level of press coverage.

Commented [JS56]: R7

Commented [JS57]: R1

Commented [JS58]: R10: bounce rates can be more informative than the number of visits.

Ways of collecting information ~~include:~~²

- In-house records of number and type of services provided
- Questionnaires that give feedback on servicesactivities 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.^{3 4}
- Systematically collected 'user feedback' about what participants think of servicesactivities, 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 clientcustomer feedback surveys
- Biannual cClient Ssatisfaction Ssurveys across all services, together with an ongoing feedback programme 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, mMeasures could that might be appropriate~~ include:

- Number of houses, including whether any were added or demolished and replaced
- Occupancy/vacancy rates
- 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)

² Some information may be useful in reporting on the current year's performance and some may be relevant for longer term assessments.

³ Some entities offering youth services use a New Zealand-developed tool called TOMM – The Outcomes Measurement Model.

⁴ 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.

Grantor X

Grantor X supports education and community events across four regions. Types of events include sports-events, cultural-events, community-events, and educational-events.

Grantor X could report:

- Scholarships by region: Number and/or amount
- Scholarships by study type: Number, average amount, total amount
- Personal stories from recipients of scholarships included on Grantor X's website
- Sponsorship by type of event: Number and total amount
- Links on Grantor X's website to articles about events held by recipients of sponsorship

Museum

The appropriateness of measures will depend on a number of factors including the nature of its collections and exhibitions, the museum's objectives and what the museum wants to assess.

From the perspective of the museum itself, the objectives could include

- assessing visitor satisfaction and the customer experience;
- contributing to make a specific art/science/culture form accessible; and
- demonstrating the positive impacts the institution is spreading across the community (social, educational, economic).

Quantitative measures for a museum (mainly focusing on visitor satisfaction) could include:

- Number of visits (overall visits, exhibitions, online visits, repeat visits, school visits...)
- Number of workshops held
- Exhibitions (number held, invitations to hold exhibitions, requests to circulate exhibitions)
- Visitor satisfaction measures

However, if a museum wanted to report on how it was affecting visitors and volunteers (in terms of knowledge, attitudes or behaviours) it could use the following ways of collecting information:

- Interviews with participants and stakeholders about the impact of the museum on their lives
- Structured observations of participants and their reactions
- Testimonials (including the use of apps for participants to upload videos)
- Wellbeing measures (for example, for volunteers to provide feedback about their experience)

Low-interest lender X

Lender X makes low or no-interest loans to people in financial difficulties or who would not qualify for a commercial loan and offers budgeting services. It also runs a ~~help~~HELP programme in which other organisations commit to assisting those in financial difficulties (for example, by offering budgeting services, tailoring repayment plans or making finance more accessible). Lender X helps these organisations develop action plans and monitors the implementation of those plans. Lender X also advocates for policies and practices that will benefit people on low incomes. Possible measures for Lender X include:

Loans

- Number of loans
- Value of loans (granted this year or currently invested)
- Loans fully repaid %
- Repayments on time %
- Description of, or statistics about what loans are used for
- Personal stories about impact of being a loan recipient

Help programme

- Number of organisations joining ~~HELP~~ programme
- % of planned actions in ~~HELP~~ programme that have been implemented (since ... date)

Budgeting services

- Number of people receiving budgeting advice
- Satisfaction with advice
- % of recipients who report changes in behaviour/confidence/stress...
- Personal stories about impact of budget services

Advocacy

- Description of policies or practices on which Lender X has advocated
- Description of media campaign, purpose, who it reached
- Description of surveys or research undertaken by Lender X to support or inform its views and actions and how those findings have been disseminated

Family ~~s~~Support ~~s~~Service

~~Family Support Service~~Entity X assists families in need by providing free food and clothing. The food and clothing is collected in a number of ways including individual and corporate donations of goods in kind, donations of used clothing and food rescue. The food and clothing is difficult to value so ~~the service~~ Entity X uses physical quantities and weights to record the volume of items distributed.

Possible measures for ~~Family Support Service~~Entity X include:

- Number of boxes of food distributed (there could be different types of boxes, such as basic ingredients, fruit and veg) Larger entities might report quantities as shiploads, truckloads or carloads.
- Number of boxes of clothing distributed
- Weight (in kilos or tonnes) of food redistributed
- Number of requests for food and clothing satisfied
- Number of people assisted (total, daily average)
- Unusable donations by volume (eg skip load, trailer load)

Because the items are difficult to count, photographs of items collected and distributed are used as a digital record.

Native Bird Trust

Possible measures for Native Bird Trust include:

- Number of bait stations and traps managed
- Number of predators caught

- Number of trees and shrubs planted
- Number of seedlings distributed to other conservation groups
- Number of plant pots made
- Number of school visits (could be in relation to education or planting days)
- Volume of seeds collected and redistributed
- Area cleared of gorse and weeds (or time spent clearing areas)
- Area being managed
- Changes in bird populations
- Changes in predator populations
- Changes in habitat
- Development of land corridors – narrative explanation of work done to safeguard existing areas, connect areas or create new areas
- Submissions made on land development proposals (narrative explanation of action taken by entity and any response)

Advocacy service

Possible measures for an advocacy service include:

- Number of clients
- Client satisfaction with service
- Percentage of clients meeting their personal advocacy objective (because this is not always possible due to factors outside the control of the entity, this measure is accompanied by narrative about other benefits that clients report from their experience)
- Percentage of cases in various categories (eg satisfactory resolution, some action, not resolved)
- Number of partner agencies that refer people to the service
- Percentage of specified providers that are aware of the advocacy service
- Number of training sessions for health care workers
- Pre and post training session awareness/knowledge of health care workers



Planning Prompts

What information ~~would you like~~ do you plan to report on goods and services/ outcomes/ influence/ impact?

What information is most appropriate and meaningful for users? – How does consideration of the qualitative characteristics influence this?

What internal reporting can To what extent could the information you collect for internal management (and possibly for reporting to funders) be used for external reporting?

What additional information will you need to collect?

What data collection tools will you need ~~use~~ (bearing in mind your needs and circumstances)?

If you plan to use How will you pre-test new measures and/or descriptions ~~how will you pre-test them?~~

How can ~~will~~ you check that information is complete and accurate ~~collection processes are working as planned and that data is complete and reliable?~~

Have you asked permission for any personal data used ~~If you are collecting or using personal data have you addressed privacy/permission issues?~~

When will you review your service performance reporting? ~~What opportunities are there to rethink what you do, how you do things, what works best, what measures give the best indication of performance?~~

Commented [JS59]: R7 Planning prompts should be short and punchy. Some of these changes reflect R7 suggestions.

Commented [JS60]: R2 suggested adding a planning prompt about the QCs. Also note comments by R8 and R9.

Presentation

~~58-59.~~ PBE FRS 48 establishes requirements about the service performance information that an entity must report, but it does not prescribe the format for presenting that 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 users 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.

~~59-60.~~ The use of colour, charts, tools, etc. can help break up large blocks of text and highlight key information. ~~The user experience can also be enhanced by using interactive reporting such as interactives digital charts and tables.~~

Commented [JS61]: R10 suggested mentioning interactive reporting.

~~60-61.~~ Including feedback from users about programmes and services helps to heighten readers' interest in the report.

~~61-62.~~ ~~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. 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 a PBE's annual report.

Commented [JS62]: R7.

~~62-63.~~ 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. 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.



~~63-64.~~ 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).

~~64-65.~~ 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 report will be accessed mainly through the entity's website then consider how information looks on the screen, how user friendly it is and how accessible it is via mobile devices.

~~65-66.~~ ~~In addition to narrative, tables, graphs, pie charts and infographics are all possible ways of presenting information.~~ Some ~~unrelated~~ presentation examples are shown below. Some examples address more than one requirement in the Standard (for example, the last example explains an entity's objectives, the ~~services provided in relation to activities undertaken to meet~~ those objectives and the entity's reliance on volunteers).

Commented [JS63]: R1, R2 and R7 noted duplication

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Possible layout for information		
ABC Counselling 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. We work closely with GPs, 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.	Looking ahead We will continue to deliver our mental health workshops in schools. 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.	Our locations Suburb 1 Suburb 2 Suburb 3 School 1 School 2
Highlights this year We saw xx referrals to the service – up from xx last year. Twenty counsellors offered counselling sessions. We helped Regional Authority X meet its targets to ensure that young people have access to mental health services. With the support of Organisation A we have delivered mental health, wellbeing and early intervention sessions in schools and youth centres. We have had a successful first year of working with ABC Trust delivering counselling to young people in area x.	<div> <div> ABC Counselling helped me understand how to cope with my problems Male 16 </div> <div> My counsellor listens to me and that makes all the difference. Female 17 </div> </div>	Personal story 
200 young people received free counselling 		

Commented [JS64]: R7 really liked this example.

Commented [JS65]: R7 commented favourably on the presentation examples

Helpline

Narrative description of service (see example below)
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



HELPLINE



400

calls from 320 people

COUNSELLING



266

Counsellors provided 266 hours of counselling to 115 individuals

OR

2,500

counselling sessions during the year



20 awareness sessions delivered to the community



10,000
SERVICE USERS

90%

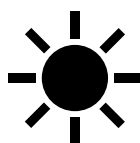
Under 18 years

10%

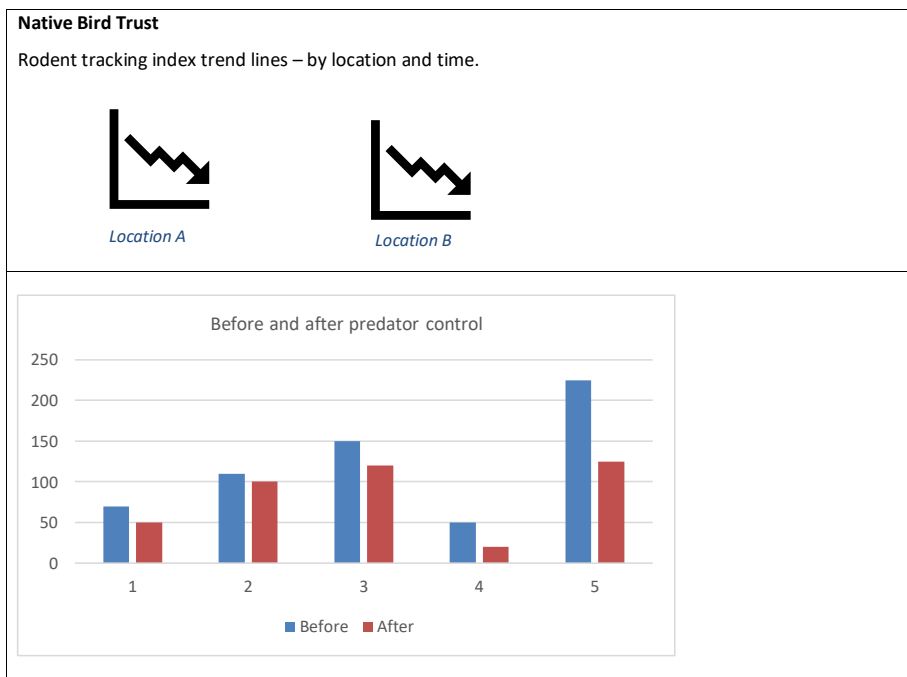
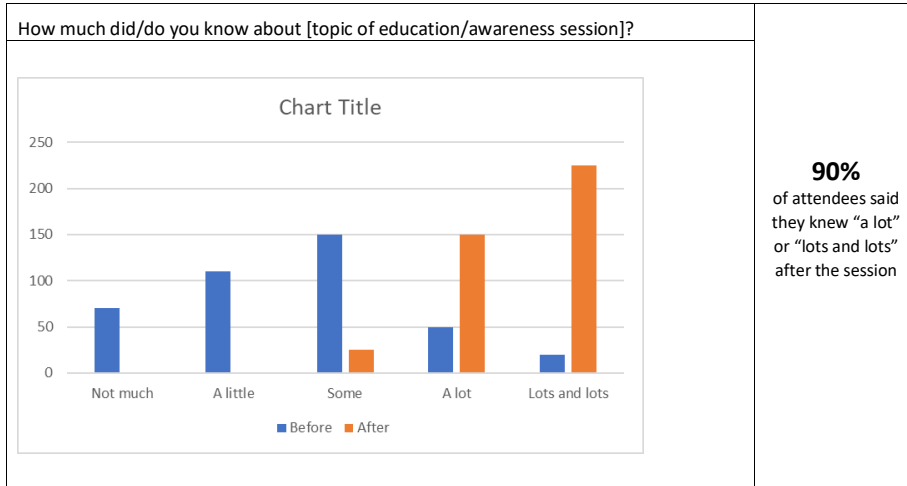
Over 18 years



95% of stakeholders report satisfaction with our services



60% report feeling more optimistic



66. This example shows how the presentation of performance information can meet several requirements of the Standard all at once. The example explains the entity’s objectives, the activities undertaken to meet those objectives and reliance on volunteers using both short narrations and infographics to deliver those messages succinctly.



Commented [JS66]: R7 really liked this infographic.

Linking to the Financial Statements

67. Paragraph 28 of PBE FRS 48 states that in order to convey a coherent picture about the performance of an entity, the service performance information needs to be linked to the financial statements. It also states that this linkage is generally made by reporting on the cost of goods and services ~~(paragraph 28)~~. The Standard allows for the possibility that this may not be practicable or appropriate. Information about donated goods and services may also be required as some entities rely on donated goods and services ~~to perform certain activities~~ and those donated goods and services may not have been recognised in the financial statements. Narrative explanations about changes in funding or changes in costs may also be required.
68. Possible ways of presenting cost information or linking the financial statements and service performance are shown at the end of this section. Pie charts are one way of showing how the entity's spending relates to its main areas of work. Graphics about revenue and expenses could be used alongside narrative to explain how increases or decreases in categories of revenue and expenses affected ~~what the entity's activities has done~~ during the year.
69. Users might be interested in the following matters:
 - (a) If revenue has gone down, what impact has this had on what the entity can do?
 - (b) If services have been discontinued but revenue was stable, where are resources now being used?
 - (c) Are some services being funded by a new revenue stream?
 - (d) Do any significant changes in assets or liabilities relate to particular ~~services~~activities? For example, are some services now being delivered from a different location.
70. 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 ~~services~~activities and has not yet developed costing systems. An entity could explain how its assets support its ~~services~~activities and the staff resource that is required to support various ~~services~~activities.
71. Many not-for-profit entities receive support from volunteers. PBE FRS 48 does not specifically require information about the work done by volunteers. However, a discussion of volunteers' contributions might well be necessary to explain the connection between the financial statements and service performance information. 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, narrative and numbers (for example, number of volunteers, number of volunteer hours), a personal story or infographics.

Example: Cost of outputs

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

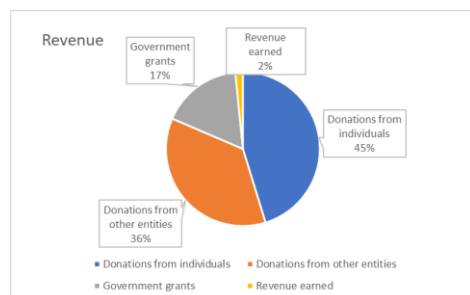
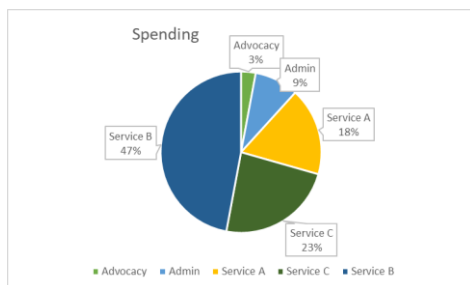
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charged on the basis of actual time incurred. Property and other premises costs, such as maintenance, are charged on the basis of floor area occupied for the production of each output. Other indirect costs are assigned to outputs based on the proportion 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.⁵

	Current period	Prior period
Output 1		
Output 2		
Output 3		
Total output expenses		
Other expenses		
Total expenses (as per statement of financial performance)		

Commented [JS67]: R10 like the use of charts and graphs. R10 also noted the possibility of interactivity of graphics.

Example: Spending and revenue pie charts




Example: Increase in activity due to increased funding

An advocacy service might receive funding for an advocate in a region which was previously unstaffed. This would lead more requests for assistance being reported.

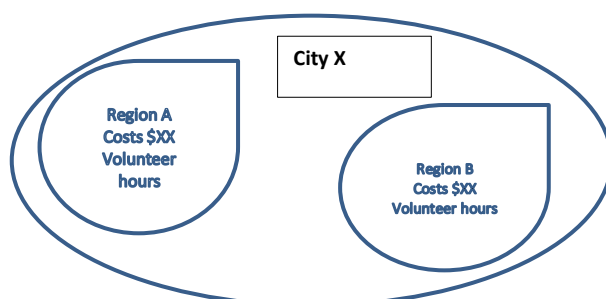
Commented [JS68]: R1 queried whether an example. decided to delete.

⁵ Based on example policy in Ministry of Public Accountability, Audit NZ

Example: Narrative about volunteers	
	Volunteers help us by
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

Example: Volunteer Profile	
	Explain how volunteers contribute towards the entity's service delivery or help keep costs down

Example: Link the financial information with volunteer contributions		
<i>This type of information isn't specifically required by the Standard, but if one of the entity's main activities is bringing people together to share information or create networks, this type of reporting might be an appropriate way of linking the service performance information with the financial statements.</i>		
Conference financials		
	Budget	Actual
Total conference revenue	\$25,000	\$18,370
Total conference expenses	\$24,800	\$20,000
Surplus/ deficit	\$200	(\$1,630)
Number of steering committee volunteers	xx	xx
Number of session leaders	xx	xx
Paying attendees	150	110
Cost per attendee	\$166	\$182
Steering committee members paid all their own expenses. If the event had made a surplus they would have received a contribution towards their costs.		



Working Together and Reporting on Shared Performance

72. Public benefits entities often work with other entities. They may also be contracted to supply services to other entities or contract others to supply services to them. Because there are many different ways of working together, PBE FRS 48 does not establish detailed requirements about reporting on such relationships. Instead it prompts an entity to discuss such relationships in both its contextual information and in reporting on its service performance for the period (paragraphs 15(a) and (b)).
73. Paragraph 18 states that, 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 and gives “working together with other entities that share common objectives” as an example explanation of how an entity might carry out its service performance activities.
74. Paragraph 19 states that the nature of the information an entity provides to meet the requirements of paragraph 15(b) will depend on the circumstances of the entity. It identifies a number of factors that an entity must consider, including “How it went about achieving its service performance objectives”. Paragraph 19(c) states that 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 service performance. It then discusses a couple of scenarios.
75. Some examples of how an entity might report on collaborative activity follow. However, there are many different scenarios and an entity will need to use judgement in deciding how to report on collaborative activity and how much information to report about such on collaborative activities to include in its service performance information. The existence of evidence to support the entity’s involvement will also influence what an entity reports.

Commented [JS69]: Added this to cover the fact that we talk about a contractual arrangement in two examples. R1 queried whether these examples were “working together”. Should we change the title of this section to “shared performance”?

Commented [JS70]: R1 point about needing evidence

Example: Wildlife Trust			
Wildlife Trust has worked closely with Nature Trust to provide training and support to planning staff in local authorities to demonstrate how wildlife sites and networks can be incorporated into planning policy.			
	Local Authority 1	Local Authority 2	Local Authority 3
Training	Wildlife Trust delivered 2 training sessions	Wildlife Trust delivered 2 training sessions	Wildlife Trust and Nature Trust jointly delivered 3 training sessions
Support	Wildlife Trust staff met monthly with local authority staff	Wildlife Trust staff met monthly with local authority staff	Nature Trust met monthly with local authority staff
Wildlife Trust participates in projects led by other entities. This year we participated in the following projects.			
BEE Trust has a project to improve the roadside habitat for bees. Briefly describe the project....		Wildlife Trust took the lead on improving the habitat on 10 road verges in the region. Wildlife Trust has	

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	made a commitment to manage these 10 road verges for the next three years.
Bird sanctuary project is led by Department X and Incorporated Society Y. Briefly describe the project....	<p>During the year volunteers planted 30,000 native trees and regularly checked predator traps. Wildlife Trust supported this project by informing its members about the activities and arranging transport. Wildlife Trust volunteers helped plant trees (100 people in March and 120 people in August) and made up 20% of the trap checking volunteers.</p> <p>Wildlife Trust donated \$5,000 towards the cost of traps and Wildlife Trust volunteers donated 2,000 plants.</p>
Annual beach clean is led by Nature Trust. Briefly describe the project....	<p>Wildlife Trust supported this project by informing its members about the event and arranging transport.</p> <p>Wildlife Trust volunteers made up 150 of the 1,000 that attended. X amount of rubbish was collected at the event.</p>
<p>Example: Senior Care Trust</p> <p>Senior Care Trust works closely with other organisations to meet the social needs of elderly in the region.</p> <p><u>Preschool visits to Resthome R</u></p> <p>The Trust has worked with two preschools to set up regular visits to people living in Resthome R. The Trust worked with the rest home and the preschools to identify appropriate activities, help organise the meetings and hold debrief sessions with representatives from each party.</p> <p>On average 20 children visited Resthome R once a week for six months. Since the scheduled visits finished, some families have continued their visits.</p> <p>Add personal stories or quotes...</p> <p><u>Events and morning tea</u></p> <p>The Trust organises weekly events and morning tea for seniors. Members of Charity A provide transport to and from the events. During the year xxx people attended the events.</p>	
<p>Example: Trust Against Violence</p> <p>Trust Against Violence provides education and counselling and a helpline service. This year it contracted Charity XX, which offers an independent and anonymous helpline service, to provide the helpline service. <i>[Not sure how to say how many calls the Trust funded or how many Trust clients accessed the service – Could only report numbers if there was a separate phone number]</i></p> <p>The Trust worked with a local men’s group to engage clients in community projects and woodworking projects. The Trust provided support to both clients and the group and paid a contribution towards the cost of community projects and the materials used by clients. 30 clients took advantage of this opportunity.</p> <p>The Trust works with a range of government and non-government service providers to service common clients. The agencies share resources and aim to provide integrated services. <i>[Not sure what to say about type or volume of services here]</i></p>	

Example: Child Development

Child Development aims to improve the level of knowledge about childhood development to ensure that children receive the best care possible from their parents, families and organisations that work with children. Child Development obtains information by funding research, and convening working groups to analyse recent research and identify key findings and implications for policy makers and those that work with children. It disseminates information through its website, delivering training courses, publications, and an annual conference. It was contracted by agency XYZ to develop pamphlets for its clients and resources for its website. The pamphlets and website page were completed in Date. Since then Agency XYZ has distributed 1,000 pamphlets.

Example: Nature Foundation

Nature Foundation has partnered with Entity X to support a project to eradicate predators (rats, weasels and stoats) in City X. The two organisations have jointly funded a project director for two years and start-up costs. The Foundation encourages residents to trap pests in their backyards. It distributes traps to community groups who make them available to households and monitor their use. Individual households report back to the community groups about what they have caught. This year the Foundation has focused its efforts on Suburb S. In order to find out more about the number and location of predators in Suburb S, the Foundation and Entity X investigated the waste water system (zero rats found) and used camera traps. The Foundation has distributed 1,000 traps to community groups. 500 households now have traps and have reported catching xx rats. Entity X is focusing its efforts on parks and reserves and works with a range of community groups. Entity X has provided xxx traps to community groups. One of those groups, Group G has used 300 traps to catch xx rats at Reserve R. Group G has used chew cards to monitor population levels in the Reserve. The cards are used in accordance with the guidelines issued by XX. Rat numbers have reduced by 30% in Reserve R over the last two years.



Planning Prompts

Who will review the draft service performance information?

~~Are~~Do the financial statements consistent with the and-service performance information ~~deliver a consistent message?~~

~~Are we showing~~ Does the ~~service performance information give~~ a balanced picture of the positive and negative aspects of the year?

~~Can you tell readers about~~ What other factors ~~that might~~ have influenced ~~the nature and amount of~~ what you did, or the effectiveness of what you did? ~~Can you monitor these other factors? Can you explain their influence?~~

Is there a process to make use of lessons learned ~~for next year?(this could be in relation to the service performance activities themselves or the reporting process).~~

Commented [JS71]: R7: Planning prompts should be punchy.

Comparative Information and Consistency of Reporting

76. ~~PBE~~FRS 48 requires an entity to provide ~~s~~service performance information for the current year and the previous year must be shown in a consistent manner ~~so that~~. ~~This enables~~ users ~~canto~~ compare performance over time ~~and with other entities that undertake similar activities. Although the Standard requires consistency it acknowledges that service performance information may change over time. It requires an explanation of such changes.~~
77. 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 only when it is relevant to an understanding of the current period's service performance information.

Commented [JS72]: R7

Commented [JS73]: staff change

Commented [JS74]: R1 noted duplication of ideas and possible inconsistency with later paras. Decided to address it in full here.

78. — 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.

Example: prior year comparatives

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: reporting against targets

If Charity X had ~~established targets for the number of detector dogs to be trained~~ it could report as follows.

Number of dogs trained means the number of dogs that meet international guidelines for specialist scent detector dogs.

This year we planned to train 30 dogs but we had fewer staff or volunteers than expected/ some dogs took longer to complete training than expected/ a higher proportion of dogs than expected were not suitable for this training.

Possible actions that might be taken (depending on reason for variance):

- revise targets based on current knowledge
- plans to recruit more volunteers
- more frequent assessments for earlier identification of those dogs needing more attention
- use a new method of identifying which dogs are most suited for training

	20X2		20X1	
	Target	Actual	Target	Actual
Number of dogs trained	30	28	30	27

Example: discontinued measure

In the past we have used average waiting time for a request to be satisfied as a measure of the unmet demand for our services. A few years ago the average waiting time was nine months. Now that the average waiting time is less than two months, we have decided not to report this measure.

Example: new measure

A new measure known as the Client Evaluation Tool has been developed to measure the effectiveness of our assistance dogs in improving quality of life for physically disabled people. The tool is administered before receipt of the dog and two months afterwards.

Example: illustrating a new change of activities

Help for Hikers

Help for Hikers' ~~is a registered charity with the purpose is to of enabling~~ people to enjoy their outdoors recreation safely. The entity receives funding from a variety of sources, including from Entity X. It also has an

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online shop which sells outdoor safety resources (with all profits used for the entity's purpose) and a website and social media 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: Search and Rescue Dogs

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
 Social media 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	

	<p>Planning Prompt</p> <p>Are changes in activities, the focus of the information reported, or measures and/or descriptions appropriately identified for readers?</p>
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Disclosure of Judgements



79-78. Paragraph 44 of PBE FRS 48 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 reported. Paragraphs 45–47 of the Standard provide more guidance. These judgements should be presented as part of the service performance information (and not in the notes to the financial statements).

Commented [JS75]: R1 suggested we say where these disclosures should be located— in financial statement notes or as part of SPI. The amended PBE IPSAS 1 para 27(f) now refers to notes to the financial statements so SPI judgements should be part of the SPI. We have added a sentence to make this clear.

80-79. There are two aspects of paragraph 44 that entities will need to consider. The first is *which judgements* have the most significant effect on the service performance information reported. The second is the *relevance of those judgements to a user's understanding* of the entity's service performance information.

81-80. Smaller Tier 2 not-for-profit entities are likely to have fewer activities 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, ~~an the objective of an entity whose objective is to~~ may be provide a the provision and operation of an affordable safe and affordable transportation service tofor the local community (to enable the community to access for the purpose of education, health and recreation services) might have a single service – transportto 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.

Commented [JS76]: R9 suggested explaining, in this and the next two paras, what critical judgements (if any) a smaller entity might need to think about making. We have not yet addressed this comment.

82-81. 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.

83-82. 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 an entity has made a choice to use a particular performance measure when there are a number of well-established options.
- (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.

Judgements about Selection

84-83. 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.

Commented [JS77]: If this section is rewritten it probably needs to focus on the two decision points covered earlier in the document. Decisions about the selection of information and the selection of measures.

84. Information reported internally might also be useful for external reporting but the entity will need to critically assess its usefulness to external users. Questions the entity might need to ask and weigh up include:

Commented [JS78]: Added in response to comments by R8 and R9.

- (a) Is the information about service performance from an external users' perspective or more about internal activities and processes?
- (b) Is there good coverage of what is important to external users?

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- (c) If the entity reports multiple measures which are the most useful to external readers?
(d) If information is objective, how reliable is it and can it be corroborated (important for auditability)?
(e) If information is subjective, is it sufficiently useful for the reader's understanding of the organisation, its performance and its impact on stakeholders, the environment, the community etc?

85. 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).
86. 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.
87. Where a/an entity that receives funding to provide goods or services on behalf of another entity (for example, a district health board or local government) and is targets for the delivery of goods or services are likely to be set out in the funding agreement/contract. The entity would be required to report to the funding organisation on how it has performed in relation to various targets its activities and achievements during the year compared to the targets set out in the funding agreement. An entity may find that the funding agreement or contract forms a useful basis for selecting measures and targets choose to report service performance information in a manner similar to how it reports to the funding organisation. However, the information required by the funding agreement or contract may well be more detailed than is appropriate for the service performance information.

Commented [JS79]: R6 suggested the two points about objective and subjective information.

Commented [JS80]: Delete? Based on assumptions about internal reporting and now hopefully covered by preceding paragraph.

Commented [JS81]: Responding to R2 suggestion

Read Aid

Read Aid's mission is to encourage reading as a means of improving self-confidence. We work mainly with young children and immigrants. Our volunteers take their dogs into schools, libraries and community centres. They read to people and people can also read stories to the dogs. At the request of schools or parents we also work on a one-to-one basis with children.

The governing body has decided to report on the following key activities because they best reflect our mission:

- Number of schools visited and number of children who attended
- Number of libraries visited and number of people who attended
- Number of community centres visited and number of people who attended
- Number of volunteers making visits to schools, libraries and community centres
- Feedback received from participants in the reading programmes

We have not reported on our one-to-one work because that is not our primary focus.

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 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 that 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

Commented [JS82]: R1 felt that this example comprised both contextual information and disclosure of judgements and that only the disclosure of judgements should be shown in this section. No change at this stage: the Standard doesn't say that judgements need to be disclosed in a separate section of the SPI.

Commented [JS83]: R2: The example might need to change if you take up the suggestion on focusing on services rather than activities.
We have not yet addressed this comment.

Judgements about Measurement

- 88. 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.
- 89. 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.
- 90. 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.

Commented [JS84]: R8 thought this section was too brief. R8 requested more examples illustrating the application of the QCs.

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.~~

Commented [JS85]: R2 would not expect to see this type of disclosure

Judgements about Aggregation

91. 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.

Commented [JS86]: R8 thought this section was too brief. R8 requested more examples illustrating the application of the QCs.

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.

92. 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.



Planning Prompts

What judgements have the most significant effect on the service performance information reported and which of these judgements are relevant to a reader's understanding of the service performance information? Consider:

- Selection
- Measurement
- Aggregation
- Presentation