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XRB EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Board Meeting Agenda

Wednesday 7 August 2019
Video Conference: External Reporting Board, Level 7, 50 Manners Street, Wellington
and External Reporting Board, Level 6, 59 High Street, Auckland

Est Time	Item	Topic	Objective		Page
B: PUBLIC SESSION					
PBE Items for Approval					
10.55 am	**5**	***Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12)**	(GS)		
	5.1	Cover memo	Consider	Paper	
	5.2	*Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12)	Approve	Paper	
	5.3	Draft signing memo	Approve	Paper	
11.10 am	**6**	**Amendments to PBE IFRS 17**	(VSF)		
	6.1	Cover memo	Consider	Paper	
	6.2	Draft Invitation to Comment	Approve	Paper	
	6.3	Draft NZASB ED 2019-3	Approve	Paper	
PBE Item for Consideration					
11.25 am	**7**	**PBE First-time Adoption**	(JS)		
	7.1	Cover memo	Consider	Paper	
	7.2	Working paper – changes to PBE FRS 47	Consider	Paper	
For-profit and PBE Item for Consideration					
11.55 am	**8**	**Disclosure – Entity Classification**	(TC)		
	8.1	Cover memo	Consider	Paper	
Standards for Noting					
12.10 pm	**9**	**Standards Approved**	(VSF)		
	9.1	Approval 108 PBE IPSAS 40 *PBE Combinations*	Note	Paper	
	9.2	Approval 109 PBE IFRS 17 *Insurance Contracts*	Note	Paper	

Next NZASB meeting: Wednesday 11 September 2019 (Auckland)

NZ ACCOUNTING STANDARDS BOARD

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

Date: 26 July 2019

To: NZASB Members

From: Gali Slyuzberg

Subject: ***Uncertainty over Income Tax Treatments*** **(Amendments to PBE IAS 12)**

Recommendations[1]

1. We recommend that the Board:

   (a) APPROVES for issue *Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12); and

   (b) APPROVES the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue these amendments.

Background

2. The IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments* in June 2017, in response to a query received by the IFRS Interpretations Committee (the Committee) relating to disputed tax treatments. The Committee noted that while IAS 12 *Income Taxes* contained recognition and measurement requirements for tax assets and liabilities, it did not specify how to reflect uncertainty, and entities applied diverse reporting methods when the application of tax law was uncertain. The Committee therefore decided to complement the requirements in IAS 12 by addressing how an entity deals with uncertainty over income tax treatments.

3. The NZASB issued NZ IFRIC 23 *Uncertainty over Income Tax Treatments* in August 2017. Following the application of the *Policy Approach to the Development of PBE Standards* (PBE Policy Approach), the NZASB agreed to propose incorporating equivalent amendments in PBE IAS 12 *Income Taxes*.

Reasons for the amendments

4. The NZASB noted that IFRIC 23 was issued in response to a request for clarification and because there had been diversity in practice. Although few PBEs are subject to income tax, for those that are, this clarification could be helpful. In addition, the NZASB prefers to keep PBE IAS 12 aligned with the requirements in NZ IFRS.

[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).

Summary of the amendments

5. The amendments establish application guidance on how an entity applies the measurement and recognition requirements of PBE IAS 12 when there is uncertainty over income tax treatments. The amendments address:

   (a) whether an entity considers uncertain tax treatments separately;

   (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;

   (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and

   (d) how an entity considers changes in facts and circumstances.

6. The amendments have a proposed effective date of 1 January 2020.

7. There is one difference between the amendments to PBE IAS 12 and NZ IFRIC 23. NZ IFRIC 23 is accompanied by non-integral illustrative examples. These examples are not included in the amendments to PBE IAS 12. Rather, the Basis for Conclusions to PBE IAS 12 notes that the examples can be found in the "other material" to NZ IFRIC 23 (available on the XRB website). This is consistent with the approach currently applied to the non-integral illustrative examples that accompany NZ IAS 12.

RDR concessions

8. There are no RDR concessions in relation to the application guidance. This is consistent with NZ IFRIC 23.

Due process

9. NZASB ED 2019-1 *Uncertainty over Income Tax Treatments* (Proposed amendments to PBE IAS 12) was issued in March 2019, with comments due by 28 June 2019.

10. The NZASB did not receive any submissions on the proposed amendments to PBE IAS 12.

11. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.

12. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the amending standard is likely to require the disclosure of personal information. In our view the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Draft amending standard and signing memo

13. Attached as agenda item 6.2 is a copy of *Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12). It applies to Tier 1 and Tier 2 public benefit entities only.

14. Attached as agenda item 6.3 is a draft certificate signing memo from the Chair of the NZASB to the Chair of the XRB Board.

Questions for the Board

Q1. Does the Board approve for issue *Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12)?

Q2. Does the Board approve the signing memo?

Attachments

Agenda item 5.2: Draft *Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12)

Agenda item 5.3: Draft signing memo

NZ ACCOUNTING STANDARDS BOARD

Uncertainty over Income Tax Treatments (Amendments to PBE IAS 12)

This Standard was issued on 15 August 2019 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 12 September 2019.

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

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

This Standard amends PBE IAS 12 *Income Taxes* to incorporate guidance based on that in NZ IFRIC 23 *Uncertainty over Income Tax Treatments*. NZ IFRIC 23 clarifies how to apply the recognition and measurement requirements in NZ IAS 12 *Income Taxes* when there is uncertainty over income tax treatments.

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CONTENTS

UNCERTAINTY OVER INCOME TAX TREATMENTS (AMENDMENTS TO PBE IAS 12)

Part A: Introduction

This Standard incorporates into PBE IAS 12 *Income Taxes* the guidance from NZ IFRIC 23 *Uncertainty over Income Tax Treatments*.

The amendments clarify how to apply the recognition and measurement requirements in PBE IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in PBE IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this guidance.

Part B: *Uncertainty over Income Tax Treatments*

Scope

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

Amendments to PBE IAS 12 *Income Taxes*

Paragraph 88A and its preceding headings and paragraph 98.10 are added.

Transition

Uncertainty over Income Tax Treatments (Appendix B)

88A. On initial application, an entity shall apply Appendix B either:

(a) Retrospectively applying PBE IPSAS 3, if that is possible without the use of hindsight; or

(b) Retrospectively with the cumulative effect of initially applying Appendix B recognised at the date of initial application. If an entity selects this transition approach, it shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying Appendix B as an adjustment to the opening balance of accumulated comprehensive revenue and expense (or other component of net assets/equity, as appropriate). The date of initial application is the beginning of the annual reporting period in which an entity first applies Appendix B.

Effective Date

…

98.10 *Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12), issued in August 2019, added paragraph 88A and Appendix B. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

The Application Guidance is renamed Appendix A and the paragraphs are renumbered as A1 etc rather than AG1 etc. New text is underlined and deleted text is struck through.

Appendix A

Application Guidance—Changes in the Tax Status of an Entity or its Owners

This Application Guidance forms an integral part of PBE IAS 12.

A~~G~~1. […]

A~~G~~2. […]

A~~G~~3. […]

Appendix B is added.

Appendix B

Application Guidance—Uncertainty over Income Tax Treatments

This Appendix is an integral part of PBE IAS 12.

Introduction

B1. PBE IAS 12 *Income Taxes* specifies requirements for current and deferred tax assets and liabilities. An entity applies the requirements in PBE IAS 12 based on applicable tax laws.

B2. It may be unclear how tax law applies to a particular transaction or circumstance. The acceptability of a particular tax treatment under tax law may not be known until the relevant taxation authority or a court takes a decision in the future. Consequently, a dispute or examination of a particular tax treatment by the taxation authority may affect an entity's accounting for a current or deferred tax asset or liability.

B3. In this Appendix:

(a) 'Tax treatments' refers to the treatments used by an entity or that it plans to use in its income tax filings.

(b) 'Taxation authority' refers to the body or bodies that decide whether tax treatments are acceptable under tax law. This might include a court.

(c) An 'uncertain tax treatment' is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. For example, an entity's decision not to submit any income tax filing in a tax jurisdiction, or not to include particular income in taxable profit, is an uncertain tax treatment if its acceptability is uncertain under tax law.

Scope

B4. This Appendix clarifies how to apply the recognition and measurement requirements in PBE IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in PBE IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Appendix.

Application of PBE IAS 12 to Uncertain Income Tax Treatments

B5. When there is uncertainty over income tax treatments, this Appendix addresses:

(a) Whether an entity considers uncertain tax treatments separately;

(b) The assumptions an entity makes about the examination of tax treatments by taxation authorities;

(c) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and

(d) How an entity considers changes in facts and circumstances.

Whether an Entity Considers Uncertain Tax Treatments Separately

B6. An entity shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. In determining the approach that better predicts the resolution of the uncertainty, an entity might consider, for example, (a) how it prepares its income tax filings and supports tax treatments; or (b) how the entity expects the taxation authority to make its examination and resolve issues that might arise from that examination.

B7. If, applying paragraph B6, an entity considers more than one uncertain tax treatment together, the entity shall read references to an 'uncertain tax treatment' in this Appendix as referring to the group of uncertain tax treatments considered together.

Examination by Taxation Authorities

B8. In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

Determination of Taxable Profit (Tax Loss), Tax Bases, Unused Tax Losses, Unused Tax Credits and Tax Rates

B9. An entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment.

B10. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings.

B11. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates. An entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which method the entity expects to better predict the resolution of the uncertainty:

(a) The most likely amount—the single most likely amount in a range of possible outcomes. The most likely amount may better predict the resolution of the uncertainty if the possible outcomes are binary or are concentrated on one value.

(b) The expected value—the sum of the probability-weighted amounts in a range of possible outcomes. The expected value may better predict the resolution of the uncertainty if there is a range of possible outcomes that are neither binary nor concentrated on one value.

B12. If an uncertain tax treatment affects current tax and deferred tax (for example, if it affects both taxable profit used to determine current tax and tax bases used to determine deferred tax), an entity shall make consistent judgements and estimates for both current tax and deferred tax.

Changes in Facts and Circumstances

B13. An entity shall reassess a judgement or estimate required by this Appendix if the facts and circumstances on which the judgement or estimate was based change or as a result of new information that affects the judgement or estimate. For example, a change in facts and circumstances might change an entity's conclusions about the acceptability of a tax treatment or the entity's estimate of the effect of uncertainty, or both. Paragraphs B15–B17 set out guidance on changes in facts and circumstances.

B14. An entity shall reflect the effect of a change in facts and circumstances or of new information as a change in accounting estimate applying PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*. An entity shall apply PBE IPSAS 14 *Events after the Reporting Date* to determine whether a change that occurs after the reporting period is an adjusting or non-adjusting event.

B15. In applying paragraph B13, an entity shall assess the relevance and effect of a change in facts and circumstances or of new information in the context of applicable tax laws. For example, a particular event might result in the reassessment of a judgement or estimate made for one tax treatment but not another, if those tax treatments are subject to different tax laws.

B16. Examples of changes in facts and circumstances or new information that, depending on the circumstances, can result in the reassessment of a judgement or estimate required by this Appendix include, but are not limited to, the following:

(a) Examinations or actions by a taxation authority. For example:

(i) Agreement or disagreement by the taxation authority with the tax treatment or a similar tax treatment used by the entity;

(ii) Information that the taxation authority has agreed or disagreed with a similar tax treatment used by another entity; and

(iii) Information about the amount received or paid to settle a similar tax treatment.

(b) Changes in rules established by a taxation authority.

(c) The expiry of a taxation authority's right to examine or re-examine a tax treatment.

B17. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by this Appendix.

Disclosure

B18. When there is uncertainty over income tax treatments, an entity shall determine whether to disclose:

(a) Judgements made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraph 137 of PBE IPSAS 1 *Presentation of Financial Statements*; and

(b) Information about the assumptions and estimates made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraphs 140–144 of PBE IPSAS 1.

B19. If an entity concludes it is probable that a taxation authority will accept an uncertain tax treatment, the entity shall determine whether to disclose the potential effect of the uncertainty as a tax-related contingency applying paragraph 88 of PBE IAS 12.

Paragraph BC6–BC9 and the preceding heading are added.

Basis for Conclusions

Uncertainty over Income Tax Treatments (Appendix B)

BC6. In June 2017 the IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments*. The NZASB subsequently issued this interpretation in August 2017 as NZ IFRIC 23 *Uncertainty over Income Tax Treatments*, which is effective for for-profit entities for annual reporting periods beginning on or after 1 January 2019. NZ IFRIC 23 clarifies how to apply the recognition and measurement requirements of NZ IAS 12 *Income Taxes* when there is uncertainty over income tax treatments.

BC7. PBE IAS 12 *Income Taxes* is based on NZ IAS 12. In August 2019, the NZASB issued *Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12), which incorporated into PBE IAS 12 the guidance from NZ IFRIC 23 as Appendix B. The NZASB noted that some public benefit entities may pay income tax, either directly or through their controlled entities, and that this guidance would be useful for public benefit entities.

BC8. When developing IFRIC 23, the IFRS Interpretations Committee observed that retrospective application of IFRIC 23 without the use of hindsight would often be impossible for entities. Consequently, IFRIC 23 and NZ IFRIC 23 do not require the restatement of comparative information when an entity first applies the guidance. However, retrospective application is permitted if that is possible without the use of hindsight. The transitional provisions in NZ IFRIC 23 are included as transitional provisions in PBE IAS 12.

BC9. Illustrative examples on the application of Appendix B are available as part of the additional material for NZ IFRIC 23 *Uncertainty over Income Tax Treatments* on the XRB website at www.xrb.govt.nz.

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

Paragraph 42.11 is added.

42.11 *Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12) added paragraph D4. An entity shall apply that amendment when it applies *Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12).

In Appendix D, paragraph D4 and its related heading are added.

Uncertainty over Income Tax Treatments

D4. A first-time adopter whose date of transition to PBE Standards is before 1 October 2019 may elect not to reflect the application of Appendix B of PBE IAS 12 (Uncertainty over Income Tax Treatments) in comparative information in its first PBE Standards financial statements. An entity that makes that election shall recognise the cumulative effect of applying Appendix B of PBE IAS 12 as an adjustment to the opening balance of accumulated comprehensive revenue and expense (or other component of net assets/equity, as appropriate) at the beginning of its first reporting period under PBE Standards.

Paragraphs BC11, BC12 and the preceding heading are added.

Basis for Conclusions

Uncertainty over Income Tax Treatments (Amendments to PBE IAS 12)

BC11. When developing IFRIC 23 *Uncertainty over Income Tax Treatments*, the IFRS Interpretations Committee observed that retrospective application of IFRIC 23 without the use of hindsight would often be impossible for entities. The Committee also observed that if a first-time adopter's date of transition to IFRS Standards is before the date IFRIC 23 is issued, the first-time adopter may face the same hindsight difficulties as entities that already apply IFRS Standards. Consequently, IFRS 1 provides that first-time adopters whose date of transition to IFRS Standards is before 1 July 2017 are not required to present in their first IFRS financial statements comparative information that reflects IFRIC 23.

BC12. The same provision was included in NZ IFRS 1 when NZ IFRIC 23 *Uncertainty over Income Tax Treatments* was issued in August 2017. The NZASB therefore decided to include this provision in PBE FRS 47 when issuing *Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12), albeit referring to a date of transition to PBE Standards before 1 October 2019.

Part C: Effective Date

The amendments in this Standard are effective for annual financial statements covering periods beginning on or after 1 January 2020. Earlier application is permitted.

NZ ACCOUNTING STANDARDS BOARD

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

Date:	7 August 2019
To:	Michele Embling, Chair External Reporting Board
From:	Kimberley Crook, Chair NZASB
Subject:	***Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12)**

Introduction[1]

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12).

2. The amendments will align the guidance in PBE IAS 12 *Income Taxes* with the guidance in the recently-effective NZ IFRIC 23 *Uncertainty over Income Tax Treatments*, which is used by for-profit entities applying NZ IAS 12 *Income Taxes.*[2] NZ IFRIC 23 establishes guidance on how to apply the measurement and recognition requirements of NZ IAS 12 when there is uncertainty over income tax treatments.

3. The IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments* in June 2017, in response to a request to clarify how to deal with disputed tax treatments. NZ IFRIC 23 was issued shortly afterwards. The NZASB considered that this guidance could also be helpful for PBEs applying PBE IAS 12.

Due process

4. Following the application of the *Policy Approach to the Development of PBE Standards* to NZ IFRIC 23, the NZASB issued Exposure Draft ED 2019-1 *Uncertainty over Income Tax Treatments* (Proposed amendments to PBE IAS 12) in March 2019, with comments due by 28 June 2019. The NZASB did not receive any comments from constituents.

5. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.

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[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).

[2] PBE IAS 12 is based on the for-profit standard NZ IAS 12. The International Public Sector Accounting Standards Board does not have a standard on income taxes.

6. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Consistency with XRB Financial Reporting Strategy

7. The amending standard incorporates into PBE IAS 12 the guidance in NZ IFRIC 23.[3] NZ IFRIC 23 is accompanied by non-integral illustrative examples that are available on the XRB's website as additional material. A link to this additional material for NZ IFRIC 23 will be included on the webpage for PBE IAS 12.

8. This amending standard is applicable to Tier 1 and Tier 2 public benefit entities.

9. Consistent with NZ IFRIC 23 there are no RDR concessions in relation to the guidance.

10. The issue of this amending standard is consistent with the current Financial Reporting Strategy: it adopts the international guidance (i.e. IFRIC 23) and is consistent with the Accounting Standards Framework.

Effective date

11. The amending standard will be applicable for annual financial statements covering periods beginning on or after 1 January 2020, with early application permitted.

Other matters

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

Recommendation

13. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachments

Uncertainty over Income Tax Treatments (Amendments to PBE IAS 12)

Certificate of determination

Kimberley Crook
Chair NZASB

[3] The guidance in NZ IFRIC 23 is included in PBE IAS 12 (rather than being included as a separate PBE Standard) because there are no separate interpretations in PBE Standards.

NZ ACCOUNTING STANDARDS BOARD

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

Date:	26 July 2019
To:	NZASB Members
From:	Vanessa Sealy-Fisher
Subject:	**Amendments to PBE IFRS 17**

Recommendation[1]

1. We recommend that the Board APPROVES for issue NZASB ED 2019-3 *Amendments to PBE IFRS 17* (Agenda item 6.3) and its accompanying Invitation to Comment (Agenda item 6.3), with comments due by 19 November 2019.

Background

2. The IASB issued IFRS 17 *Insurance Contracts* in May 2017. IFRS 17 is currently effective for annual reporting periods beginning on or after 1 January 2021. On adoption, IFRS 17 supersedes IFRS 4 *Insurance Contracts.*

3. The Board issued NZ IFRS 17 *Insurance Contracts* in August 2017. NZ IFRS 17 is identical to IFRS 17 except for the additional New Zealand scope paragraph specifying that NZ IFRS 17 applies to Tier 1 and Tier 2 for-profit entities. NZ IFRS 17 is also effective for annual reporting periods beginning on or after 1 January 2021.

4. At the February 2018 Board meeting, the Board considered the application of the *Policy Approach to Developing the PBE Suite of Standards* (PBE Policy Approach) to IFRS 17 and agreed to develop a PBE Standard based on IFRS 17.

5. NZASB ED 2018-7 PBE IFRS 17 *Insurance Contracts* was issued for comment in December 2018, with comments due by 17 May 2019. After considering the submissions received, the Board approved for issue PBE IFRS 17 for Tier 1 and Tier 2 not-for-profit public benefit entities (NFP PBEs) with an effective date of financial statements covering periods beginning on or after 1 January 2022. When adopted, PBE IFRS 17 will supersede PBE IFRS 4 *Insurance Contracts* for NFP PBEs.

6. During the development of PBE IFRS 17, the Board was aware that the IASB was considering concerns raised by stakeholders about IFRS 17, and that amendments to the standard were likely to be proposed.

[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).

7. PBE IFRS 17 *Insurance Contracts* was approved for issue at the June Board meeting. Noting that the amendments were not expected to unduly disrupt the implementation of IFRS 17, the Board decided to issue PBE IFRS 17 before waiting for the IASB to finalise amendments to IFRS 17 to allow NFP PBEs to have as much time as possible to implement the standard before its effective date.

8. The Board was informed that we would seek approval of an equivalent ED of proposed amendments to PBE IFRS 17 and accompanying Invitation to Comment as soon as possible after the IASB issued proposals to amend IFRS 17.

9. The IASB issued for comment IASB ED/2019/4 *Amendments to IFRS 17* on 26 June 2019. Comments are due to the IASB by 25 September 2019. The IASB expects to finalise the proposals in IASB ED/2019/4 in early to mid-2020.

Application of the PBE Policy Approach to IASB ED/2019/4

10. Section 4.2.3 of the PBE Policy Approach (paragraphs 36–39) deals with amendments to an NZ IFRS that the NZASB has included in the PBE Standards. Paragraph 39 acknowledges that "those PBE Standards based on an NZ IFRS may need to be updated or replaced to align with the current equivalent NZ IFRS.".

11. We have, therefore, developed NZASB ED 2019-3 which proposes amendments to PBE IFRS 17.

Proposed amendments to PBE IFRS 17

12. The amendments proposed to PBE IFRS 17 are identical to the amendments to IFRS 17 proposed in IASB ED/2019/4 except as outlined below.

    (a) IASB ED/2019/4 proposes to defer the effective date of IFRS 17 by one year to annual reporting periods beginning on or after 1 January 2022. PBE IFRS 17 is effective for financial statements covering periods beginning on or after 1 January 2022 so this amendment is not included in NZASBED 2019-3.

    (b) A consequence of deferring the effective date of IFRS 17 is an amendment to IFRS 4 *Insurance Contracts* to extend the temporary exemption from applying IFRS 9 *Financial Instruments* by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022. PBE IPSAS 41 *Financial Instruments* has the same effective date as PBE IFRS 17 so this amendment is not needed in PBE IFRS 4 *Insurance Contracts*.

    (c) ED PBE IFRS 17 included some editorial corrections to IFRS 17 that were tentatively approved by the IASB in June 2018. The editorial corrections that were included in ED PBE IFRS 17 and were not changed by the IASB have not been included in the ED of proposed amendments to PBE IFRS 17 (for example, an editorial correction to the effective date paragraph added to IFRS 3 *Business Combinations* (PBE IPSAS 40 *PBE Combinations* in the PBE Standards.).

13. We recommend that NZASB ED 2019-3 be issued with a comment period of 90 days. Comments would be due by 19 November 2019.

14. However, the proposed amendments to PBE IFRS 17 would not be finalised until the IASB finalises the *Amendments to IFRS 17* in 2020.

Next steps

15. If the Board agrees to issue NZASB ED 2019-3, we plan to:

    (a) upload the ED and the ITC onto the XRB website together with the IASB's Basis for Conclusions on IASB ED/2019/4 and the IASB staff Snapshot of the proposed amendments IFRS 17; and

    (b) monitor the IASB's project.

Attachments

Agenda item 6.2: Draft ITC

Agenda item 6.3: Draft NZASB ED 2019-3 *Amendments to PBE IFRS 17*

NZ ACCOUNTING STANDARDS BOARD

NZASB Exposure Draft 2019-3

Amendments to PBE IFRS 17

(NZASB ED 2019-3)

Invitation to Comment

August 2019

PO Box 11250
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 *Amendments to PBE IFRS 17*.

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/.

The closing date for submissions is **15 November 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
NFP PBE	Not-for-profit public benefit entity
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board

Questions for respondents

		Paragraphs
1	**Additional scope exclusions**	
	Do you agree with the proposal to exclude from the scope of PBE IFRS 17: (a) some credit card contracts (paragraph 7(h)); and (b) some loan contracts (paragraph 8A)? Why or why not?	13–15
2	**Allocation of acquisition costs to expected contract renewals**	
	(a) Do you agree with the proposals in paragraphs 28A–28D and AG35A–AG35C to require an entity to: (i) allocate part of the acquisition costs (eg commissions paid to brokers) to related expected contract renewals; (ii) recognise those costs as an asset until the entity recognises contract renewals; and (iii) assess the recoverability of the asset at each reporting date? Why or why not?	16–19
	(b) Do you agree with the proposed disclosures in paragraphs 105A–105C regarding acquisition costs? Why or why not?	20
3	**Attribution of surplus to service relating to investment activities**	
	(a) Do you agree with the proposal that for insurance contracts to which the general model applies, an entity would recognise the expected surplus for insurance contract services in surplus or deficit as both insurance coverage and any service relating to investment activities (investment-return service) are provided over time (paragraphs 44–45 and AG119–AG119B and the definition of contractual service margin in paragraph 13.1)? Why or why not?	21–25
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4	**Reduced accounting mismatches for reinsurance**	
	Do you agree with the proposal that an entity that recognises losses on loss-making insurance contracts on initial recognition would at the same time also recognise a gain on reinsurance contracts held, to the extent that the reinsurance contracts held: (a) cover the claims of the insurance contracts on a proportionate basis (ie a fixed percentage of claims is recovered); and (b) are entered into before or at the same time the loss-making insurance contracts are issued? (See paragraphs 62, 66A–66B and AG119C–AG119F.) Why or why not?	27–35

		Paragraphs
5	**Simplified presentation in the statement of financial position**	
	Do you agree with the proposals in paragraphs 78–79, 99 and 132 to require an entity to present insurance contract assets and insurance contract liabilities on the statement of financial position using portfolios of insurance contracts rather than groups of insurance contracts? Why or why not?	36–38
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7	**Additional transition reliefs**	
	Do you agree with the proposals regarding transition modifications and reliefs for entities applying PBE IFRS 17 for the first time (see paragraphs 132.3(b), 132.5A, 132.9A, 132.22A and AG115–AG116)? Why or why not?	47–50
8	**Minor amendments**	
	Do you agree with the proposals for each of the minor amendments described in this Exposure Draft? Why or why not?	51–52
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	(a) Is the additional definition of 'insurance contract services' helpful (paragraph 13.1)? (b) Would you find the change of terminology from 'coverage' to 'service' helpful in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage'? Why or why not?	53–54
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	Are any NFP PBE specific modifications needed in respect of the proposed amendments in this exposure draft? If so, what are they and why are they needed?	55–56
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1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment (ITC) and associated Exposure Draft (ED) is to seek comments on proposed amendments to PBE IFRS 17 *Insurance Contracts*.

2. The proposed amendments are aligned with the amendments proposed to IFRS 17 *Insurance Contracts* issued by the International Accounting Standards Board (IASB) in June 2019.

1.2 Background

3. In July 2019 the NZASB issued PBE IFRS 17, which is based on IFRS 17 issued by the IASB in May 2017 and NZ IFRS 17 *Insurance Contracts* issued by the NZASB in August 2017. PBE IFRS 17 applies to Tier 1 and Tier 2 not-for-profit public benefit entities (NFP PBEs) for financial statements covering periods beginning on or after 1 January 2022.

4. When PBE IFRS 17 was issued, the NZASB was aware that the IASB would be issuing an exposure draft of proposed targeted amendments to IFRS 17, including deferral of the mandatory effective date of IFRS 17 by one year (from annual reporting periods beginning on or after 1 January 2021 to 1 January 2022).

5. To allow NFP PBEs sufficient time to implement PBE IFRS 17, the NZASB decided to issue PBE IFRS 17 before waiting for the IASB to finalise the amendments to IFRS 17. In anticipation of the deferral of the effective date of IFRS 17, the NZASB set the effective date of PBE IFRS 17 for financial statements covering periods beginning on or after 1 January 2022. The NZASB agreed to issue an ED of proposed amendments to PBE IFRS 17 (excluding proposals to defer the effective date) once the IASB issued its ED of proposed targeted amendments to IFRS 17.

6. IASB ED/2019/4 *Amendments to IFRS 17* was issued at the end of June 2019. Comments are due to the IASB by 25 September 2019. The proposed targeted amendments address some concerns and challenges raised by IASB stakeholders with the implementation of IFRS 17. Amendments are also proposed to some of the consequential amendments in Appendix D of IFRS 17.

7. To ensure, where appropriate, the requirements for NFP PBE licensed insurers and for-profit licensed insurers remain aligned and to address similar concerns and challenges NFP PBEs may face with the implementation of PBE IFRS 17, the NZASB is issuing this ED to seek feedback on the equivalent amendments to PBE IFRS 17. The amendments to PBE IFRS 17 include the amendments to the Amendments to other Standards in Appendix D of PBE IFRS 17. However, the amendments exclude the proposal to defer the effective date of the standard as the effective date of PBE IFRS 17 is aligned with the IASB's proposed deferred effective date of IFRS 17.

8. The IASB expects to finalise the amendments to IFRS 17 in the first half of 2020.

1.3 Timeline and next steps

9. Submissions on NZASB ED 2019-3 are due by **15 November 2019**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

10. After the consultation period ends, we will consider the submissions received, and subject to the IASB's decisions regarding comments received on IASB ED/2019/4 and comments received by the NZASB on the proposals in this ED, we expect to finalise and issue amendments to PBE IFRS 17.

2. Overview of Invitation to Comment and ED

2.1 Summary

11. This Invitation to Comment seeks feedback on NZASB ED 2019-3 *Amendments to PBE IFRS 17* and identifies issues on which we are particularly keen to receive your comments.

12. The Invitation to Comment is organised as follows.

    (a) Additional scope exclusions.

    (b) Allocation of acquisition costs to expected contract renewals.

    (c) Allocation of surplus to service relating to investment activities.

    (d) Reduced accounting mismatches for reinsurance.

    (e) Simplified presentation in the statement of financial position.

    (f) Extension of the risk mitigation option.

    (g) Additional transition reliefs.

    (h) Minor amendments.

    (i) Terminology.

    (j) Not-for-profit PBE specific modifications.

    (k) Effective date.

2.2 Additional scope exclusions

13. The IASB has heard concerns that IFRS 17 imposes significant costs, without a corresponding level of benefits, on entities that do not issue contracts in the scope of IFRS 17 other than some loan contracts and credit card contracts that IFRS 17 currently requires to be accounted for as insurance contracts. To address these concerns the IASB has proposed additional scope exclusions to IFRS 17.

14. The NZASB is proposing the equivalent scope exclusions for PBE IFRS 17. The ED proposes to exclude two additional types of insurance contracts from the scope of the Standard.

    (a) Paragraph 7(h) is added to propose that an entity be required to exclude from the scope of PBE IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. Such contracts would be accounted for by applying PBE IPSAS 41 *Financial Instruments* rather than PBE IFRS 17.

    (b) Paragraph 8A is added to propose that an entity be permitted to apply either PBE IFRS 17 or PBE IPSAS 41 to contracts that are not excluded from the scope of PBE IFRS 17 by paragraphs 7(a)–(h) but which meet specified criteria. The contracts meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make

that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.

15. Examples of insurance contracts described in paragraphs 14(a) and (b) include:

    (a) credit card contracts that provide insurance coverage for purchases made using the credit card; and

    (b) loan contracts that combine a loan with an agreement from the entity to compensate the borrower if a specified uncertain even occurs (for example, waiving some or all the payments due from the borrower if the borrower dies).

Question for respondents

Question 1: Additional scope exclusions

Do you agree with the proposal to exclude from the scope of PBE IFRS 17:

(a) some credit card contracts (paragraph 7(h)); and

(b) some loan contracts (paragraph 8A)?

Why or why not?

2.3 Allocation of acquisition costs to expected contract renewals

16. IFRS 17/PBE IFRS 17 requires an entity to consider acquisition costs in determining the expected profit/surplus of insurance contracts. The entity considers these costs by recognising them as an asset until the contracts are recognised or by including them in the cash flows expected to fulfil the insurance contracts.

17. In some cases, an entity pays non-refundable commissions for new contracts it expects policyholders to renew in the future. IFRS 17/PBE IFRS 17 currently requires such a commission to be attributed fully to the initial contract. Sometimes, the commission exceeds the premium for the initial contract because the insurer expects this commission will be recovered from renewals. In such situations the initial contract would be accounted for as loss-making (onerous).

18. The IASB has proposed amendments to address concerns with the treatment of insurance contracts as onerous in such situations. The NZASB is proposing the equivalent amendments to PBE IFRS 17.

19. The ED proposes to add paragraphs 28A–28D and AG35A–AG35C to require that an entity:

    (a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group;

    (b) recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised; and

    (c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.

20. The ED also proposes to add paragraphs 105A–105C to require disclosures about such assets.

Questions for respondents

Question 2: Allocation of acquisition costs to expected contract renewals

(a) Do you agree with the proposals in paragraphs 28A–28D and AG35A–AG35C to require an entity to:

(i) allocate part of the acquisition costs (eg commissions paid to brokers) to related expected contract renewals;

(ii) recognise those costs as an asset until the entity recognises contract renewals; and

(iii) assess the recoverability of the asset at each reporting date?

Why or why not?

(b) Do you agree with the proposed disclosures in paragraphs 105A–105C regarding acquisition costs?

Why or why not?

2.4 Attribution of surplus to service relating to investment activities

21. The IASB has heard concerns that the timing of profit recognition for insurance contracts to which the general model applies does not necessarily reflect that:

(a) many contracts combine insurance coverage and service relating to investment activities; and

(b) the timing of provision of service relating to investment activities might differ from the timing of provision of insurance coverage.

22. To address these concerns the IASB has proposed amendments to IFRS 17. The NZASB is proposing the equivalent amendments to PBE IFRS 17.

23. The ED proposes to amend paragraphs 44, 45 and AG119 and add AG119A to:

(a) require that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage; and

(b) clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

24. Paragraph AG119B proposes to specify criteria for when contracts may provide an investment-return service.

25. The ED also proposes:

(a) that insurance coverage, investment-return service (for insurance contracts without direct participation features) and investment-related service (for insurance contracts with direct participation features) are defined together as 'insurance contract services'; and

(b) consequential amendments to some of the definitions in paragraph 13.1 of PBE IFRS 17.

26. Additionally, the ED proposes the following disclosures.

    (a) Quantitative information about when the entity expects to recognise in surplus or deficit the contractual service margin remaining at the end of the period (paragraph 109).

    (b) The approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service (paragraph 117(c)(v)).

Questions for respondents

Question 3: Attribution of surplus to service relating to investment activities

(a) Do you agree with the proposal that for insurance contracts to which the general model applies, an entity would recognise the expected surplus for insurance contract services in surplus or deficit as both insurance coverage and any service relating to investment activities (investment-return service) are provided over time (paragraphs 44–45 and AG119–AG119B and the definition of contractual service margin in paragraph 13.1)?

    Why or why not?

(b) Do you agree with the proposals to disclose information about:

    (i) the expected recognition in surplus or deficit of the remaining expected surplus for insurance contract services at the end of the reporting period (paragraph 109); and

    (ii) the judgement the entity uses to determine the profit generated by any service relating to investment activities, in addition to the insurance coverage (paragraph 117(c)(v))?

    Why or why not?

2.5 Reduced accounting mismatches for reinsurance

27. IASB stakeholders have raised concerns that IFRS 17 requires an entity to recognise losses on insurance contracts at initial recognition even when the entity has a right to recover a fixed percentage of those losses through reinsurance, resulting in an accounting mismatch.

28. An entity might purchase reinsurance contracts to transfer to another company (reinsurer) a portion of the risks assumed when issuing insurance contracts. IFRS 17/PBE IFRS 17 requires an entity to:

    (a) account for a reinsurance contract held separately from any underlying insurance contracts issued;

    (b) recognise losses immediately in profit or loss/surplus or deficit for insurance contracts that at initial recognition are expected to be loss making; and

    (c) recognise any net cost or net gain from reinsurance contracts held in profit or loss/surplus or deficit over time as the entity receives reinsurance coverage.

29. To reduce the accounting mismatch, the IASB has proposed amendments so that an entity that recognises losses on loss-making insurance contracts on initial recognition would, at the same time, also recognise a gain on reinsurance contracts held, to the extent that the reinsurance contracts held:

    (a) cover the claims of the insurance contracts on a proportionate basis (ie a fixed percentage of claims is recovered); and

(b) are entered into before or at the same time as the loss-making insurance contracts are issued.

30. The NZASB is proposing the equivalent amendments to PBE IFRS 17.

31. Paragraph 66A of the ED proposes that an entity adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage, and as a result recognise revenue, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting revenue is determined by multiplying:

    (a) the loss recognised on the group of underlying insurance contracts; and

    (b) the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held.

32. Applying the proposed amendment, an entity would immediately recognise in surplus or deficit the recovery through reinsurance of the fixed percentage of the loss and would recognise the adjusted net cost of reinsurance as the entity receives reinsurance coverage.

33. The IASB's proposed amendments to IFRS 17 also include proposals to add an additional illustrative example covering the measurement of a group of reinsurance contracts held that provides proportionate coverage for groups of underlying insurance contracts, including an onerous group, to the Illustrative Examples that accompany IFRS 17.

34. The proposed new Illustrative Example is included in the Appendix to this ITC.

35. Illustrative Examples that accompany IFRS 17 are not part of the standard. They are also not included in PBE IFRS 17 but are available on the XRB website to constituents with NZ-assigned IP addresses.

Question for respondents

Question 4: Reduced accounting mismatches for reinsurance

Do you agree with the proposal that an entity that recognises losses on loss-making insurance contracts on initial recognition would at the same time also recognise a gain on reinsurance contracts held, to the extent that the reinsurance contracts held:

(a) cover the claims of the insurance contracts on a proportionate basis (ie a fixed percentage of claims is recovered); and

(b) are entered into before or at the same time the loss-making insurance contracts are issued?

(See paragraphs 62, 66A–66B and AG119C–AG119F.)

Why or why not?

2.6 Simplified presentation in the statement of financial position

36. Currently IFRS 17/PBE IFRS 17 requires entities to present separately on the statement of financial position (i) groups of insurance contracts that are assets, and (ii) groups of insurance contracts that are liabilities. The IASB has proposed amendments to simplify the presentation of insurance contract assets and insurance contract liabilities to address concerns with the implementation costs of using groups of insurance contracts. The NZASB is proposing the equivalent amendments to PBE IFRS 17.

37. The ED proposes to amend PBE IFRS 17 to require an entity to present insurance contract assets and insurance contract liabilities on the statement of financial position using portfolios of insurance contracts rather than groups of insurance contracts (see paragraphs 78–79, 99 and 132). This proposal is expected to reduce the implementation costs of PBE IFRS 17.

38. The proposed amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.

Question for respondents

Question 5: Simplified presentation in the statement of financial position

Do you agree with the proposals in paragraphs 78–79, 99 and 132 to require an entity to present insurance contract assets and insurance contract liabilities on the statement of financial position using portfolios of insurance contracts rather than groups of insurance contracts?

Why or why not?

2.7 Extension of the risk mitigation option

39. Some insurance contracts provide returns to policyholders based on the fair value of underlying items, such as equity shares. The entity and its policyholders share those returns, which are affected by market-driven changes in the fair value of the underlying items. IFRS 17/PBE IFRS 17 has a specific approach (the 'variable fee approach') for accounting for some of those contracts, which are defined as 'insurance contracts with direct participation features'.

40. The variable fee approach requires the entity to reflect some changes in insurance contract liabilities caused by changes in market values by adjusting the unearned profit/surplus on the statement of financial position, rather than recognising them in profit or loss/surplus or deficit).

41. This approach does not apply to reinsurance contracts.

42. When an entity uses derivatives to mitigate the financial risks of insurance contracts with direct participation features, IFRS 17/PBE IFRS 17 currently allows the entity to choose to recognise changes in financial risks in profit or loss/surplus or deficit instead of adjusting the unearned profit/surplus on the statement of financial position as normally required by the variable fee approach. This is described as the 'risk mitigation option'.

43. The IASB has heard concerns from stakeholders that:

    (a) reinsurance contracts may be used by an entity (insurer) to transfer risks arising from the insurance contracts with direct participation features that it issues (underlying insurance contracts) to another entity (reinsurer): and

    (b) mismatches might arise for changes in financial risks recognised in profit or loss for assets for reinsurance contracts held, whereas changes in the underlying insurance contracts with direct participation features are recognised by adjusting the unearned profit on the statement of financial position when applying the variable fee approach.

44. To address these concerns the IASB has proposed to extend the use of the risk mitigation option. The proposed amendment is expected to reduce accounting mismatches and make the accounting for insurance contracts more understandable to investors. The NZASB is proposing the equivalent amendment to PBE IFRS 17.

45. The ED proposes to permit an entity to use the risk mitigation option when the entity uses reinsurance contracts held to mitigate financial risks of insurance contracts with direct participation features (see paragraph AG116).

46. The proposed amendment is relevant to entities that use reinsurance contracts held to mitigate financial risks of insurance contracts with direct participation features that they issue. Entities that use the risk mitigation option would recognise in surplus or deficit both changes in liabilities for underlying insurance contracts with direct participation features and changes in assets for reinsurance contracts held caused by changes in financial risks.

Question for respondents

Question 6: Extension of the risk mitigation option

Do you agree with the proposal in paragraph AG116 to permit an entity to use the risk mitigation option when the entity uses reinsurance contracts held to mitigate financial risks of insurance contracts with direct participation features?

Why or why not?

2.8 Additional transition reliefs

47. The IASB has heard that the transition requirements in IFRS 17 are costly and burdensome to apply. To address these concerns the IASB has proposed additional transition relief. The NZASB is proposing to provide the equivalent additional transition relief to PBE IFRS 17.

48. The ED proposes to add simplifications to the modified retrospective approach and the fair value transition approach for the benefit of entities applying PBE IFRS 17 for the first time. The simplifications are:

    (a) to permit an entity, in some circumstances, to account for liabilities for claims settlement acquired in a PBE combination as a liability for incurred claims rather than as a liability for remaining coverage (see paragraphs 132.9A and 132.22A);

    (b) to permit an entity that designates risk mitigation relationships before the date of transition to PBE IFRS 17 to apply the risk mitigation option to those relationships from the date of transition to PBE IFRS 17 (see paragraphs 132.3(b) and AG115–AG116); and

    (c) to permit an entity to use the fair value transition approach to measure a group of insurance contracts at transition that would otherwise be accounted for retrospectively (see paragraph 132.5A). This would be permitted if the entity:

        (i) chooses to apply the risk mitigation option to the group of insurance contracts prospectively from the date of transition to PBE IFRS 17; and

        (ii) has used derivatives or reinsurance contracts held to mitigate financial risks arising from the group of insurance contracts before the date of transition to PBE IFRS 17.

49. When an entity first applies PBE IFRS 17, it is required to account for its insurance contracts as if PBE IFRS 17 had always been applied. However, when it is impracticable to do so, the entity can measure the unearned surplus of insurance contracts using alternative approaches – a modified retrospective or a fair value transition approach. These approaches allow the entity to benefit from the use of the transition reliefs.

50. Entities that apply the two proposed transition reliefs regarding the use of the risk mitigation option would reflect:

    (a) in comparative information, the effects of risk mitigation when first applying PBE IFRS 17; and

    (b) consistently, in equity at transition and in future profitability, the effects of risk mitigation activities in place before the date of transition to PBE IFRS 17.

Question for respondents

Question 7: Additional transition and reliefs

Do you agree with the proposals regarding transition modifications and reliefs for entities applying PBE IFRS 17 for the first time (see paragraphs 132.3(b), 132.5A, 132.9A, 132.22A and AG115–AG116)?

Why or why not?

2.9 Minor amendments

51. The ED includes a number of minor amendments to PBE IFRS 17 that are proposed to address a number of cases in which the drafting in IFRS 17 does not achieve the IASB's intended outcome. These minor amendments are explained in paragraphs BC147–BC163 of the IASB's Basis for Conclusions on IASB ED/2019/4.[2]

52. The proposed minor amendments are outlined below.

    (a) The words 'or liability' are deleted from paragraph 27 (now paragraphs 28B and 28C) because insurance acquisition cash flows paid before the related group of insurance contracts is recognised are always an asset.

    (b) Changes to paragraphs 45, 48, 50, AG104, AG112 and AG115 to consistently refer to 'change in the amount of the entity's share of the fair value of the underlying items' rather than 'the change/increase/decrease in the fair value of the underlying items'.

    (c) Clarify in paragraph 11(b) that if the separated component of an insurance contract meets the definition of an investment contract with discretionary participation features, that component should be accounted for applying PBE IFRS 17.

    (d) In paragraph 28 replace 'contracts issued by the end of the reporting period' with 'contracts that meet the criteria for recognition in paragraph 25' to clarify that insurance contracts are added to a group when they meet the recognition criteria (which may or may not be when those contracts are issued).

    (e) Clarify that the requirements in paragraphs 48(a) and 50(b) (adjusting the loss component for changes in the risk adjustment for non-financial risk) relate to both changes in estimates of future cash flows and changes in the risk adjustment for non-financial risk.

    (f) Clarify in paragraph 103(c) that an entity is not required to disclose refunds of premiums separately from investment components excluded from insurance revenue and insurance service expenses in the reconciliation from the opening to the closing balances of the insurance contract liability.

[2] The IASB's BC on IASB ED/2019/4 is available at https://www.ifrs.org/-/media/project/amendments-to-ifrs-17/ed-amendments-to-ifrs-17-basis-for-conclusions.pdf

(g) Paragraphs 104, AG121 and AG124 dealing with insurance revenue identify the risk adjustment for non-financial risk separately from other amounts. However, some amounts included in the measurement of the risk adjustment for non-financial risk could be captured in other components described in those paragraphs. The words 'excluding amounts relating to the risk adjustment for non-financial risk' are added to the descriptions of the other components in those paragraphs to prevent potential double counting.

(h) 'Risk exposure' in paragraphs 128–129 (disclosure of sensitivity analysis) is replaced with 'risk variable' to correct the terminology used.

(i) Clarify that an 'investment component' as defined in paragraph 13.1 is the amount an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs.

(j) Clarify in paragraph AG96(c) that changes in fulfilment cash flows that arise from differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period to adjust the contractual service margin exclude the effect of the time value of money, and changes in the time value of money and the effect of financial risk and changes in financial risk. An entity is required to recognise in surplus or deficit or other comprehensive revenue and expenses changes relating to the time value of money and assumptions that relate to financial risk.

(k) Clarify in paragraph AG96(d) that if an entity disaggregates the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance revenue or expenses, it shall adjust the contractual service margin only for the changes related to non-financial risk measured at the discount rates specified in paragraph AG72(c) (which refers to the discount rates specified in paragraph 36).

(l) Clarify in paragraph AG118 that an entity ceases to apply the risk mitigation option in paragraph AG115 if, an only if, the conditions to apply the risk mitigation option (paragraph AG116) cease to be met. This is consistent with PBE IPSAS 41 which does not allow an entity to discontinue hedge accounting unless the hedging relationship ceases to meet the qualifying criteria.

(m) Clarify in paragraph AG123(a) that changes caused by cash flows from loans to policyholders do not give rise to insurance revenue.

(n) Clarify in paragraph AG128 that changes in the measurement of a group of insurance contracts caused by changes in underlying items are changes arising from the effect of the time value of money and assumptions that relate to financial risk for the purposes of PBE IFRS 17. Otherwise, changes in underlying items could adjust the contractual service margin of insurance contracts without direct participation features.

(o) The scope of PBE IPSAS 28 *Financial Instruments: Presentation*, PBE IPSAS 30 *Financial Instruments: Disclosures* and PBE IPSAS 41 *Financial Instruments* are amended to refer to 'insurance contracts as defined in PBE IFRS 17 or investment contracts with discretionary participation features within the scope of PBE IFRS 17' to clarify that, consistent with the scope of these standards before PBE IFRS 17 was issued, insurance contracts held are not in the scope of PBE IPSASs 28, 30 and 41.

Question for respondents

Question 8: Minor amendments

Do you agree with the proposals for each of the minor amendments described in this Exposure Draft?

Why or why not?

2.10 Terminology

53. Consistent with the IASB's proposals, the ED proposes to add a definition of 'insurance contract services' to paragraph 13.1 to be consistent with other proposed amendments in this ED.

54. In light of the proposed amendments in this ED, consequential changes to terminology are proposed by replacing 'coverage' with 'service' in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage'. If the change is made, those terms would become 'service units', 'service period' and 'liability for remaining service' respectively throughout PBE IFRS 17.

Question for respondents

Question 9: Terminology

(c) Is the additional definition of 'insurance contract services' helpful (paragraph 13.1)?

(d) Would you find the change of terminology from 'coverage' to 'service' helpful in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage'?

Why or why not?

2.11 Not-for-profit PBE specific modifications

55. No NFP PBE specific modifications were made to the requirements in IFRS 17 when PBE IFRS 17 was developed.

56. The NZASB has not proposed any NFP PBE specific modifications to the amendments proposed to PBE IFRS 17 in this ED.

Question for respondents

Question 10: Not-for-profit PBE specific modifications

Are any NFP PBE specific modifications needed in respect of the proposed amendments in this exposure draft?

If so, what are they and why are they needed?

2.12 Effective date

57. IASB ED/2019/4 proposes to defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after 1 January 2021 to annual reporting periods beginning on or after 1 January 2022. The IASB proposes that the amendments are effective when an entity applies IFRS 17, that is, for annual reporting periods beginning on or after 1 January 2022.

58. PBE IFRS 17 is effective for financial statements covering periods beginning on or after 1 January 2022. The ED proposes that the proposed amendments to PBE IFRS 17 are effective when an entity applies PBE IFRS 17, that is, for annual financial statements covering periods beginning on or after 1 January 2022.

Questions for respondents

Question 11: Effective date

Do you agree with the proposed effective date of the proposed amendments to PBE IFRS 17?

Why or why not?

Question 12: Other comments

Do you have any other comments on this ED?

Appendix

Example 19—Measurement of a group of reinsurance contracts held that provides proportionate coverage for groups of underlying insurance contracts, including an onerous group (paragraphs 66A–66B and B119C–B119F)

IE200 This example illustrates the initial and subsequent measurement of reinsurance contracts held that provide proportionate coverage, when a group of underlying insurance contracts is onerous.

Assumptions

IE201 At the beginning of Year 1, an entity enters into a reinsurance contract that in return for a fixed premium covers 30 per cent of each claim from the groups of underlying insurance contracts. The underlying insurance contracts are issued at the beginning of Year 1.

IE202 In this example for simplicity it is assumed:

(a) no contracts will lapse before the end of the coverage period;

(b) there are no changes in estimates other than that described in paragraph IE209; and

(c) all other amounts, including the effect of discounting, the risk adjustments for non-financial risk, and the risk of non-performance of the reinsurer are ignored.

IE203 Some of the underlying insurance contracts are onerous at initial recognition. Thus, applying paragraph 16, the entity establishes a group comprising the onerous contracts. The remainder of the underlying insurance contracts are expected to be profitable and applying paragraph 16, in this example, the entity establishes a single group comprising the profitable contracts.

IE204 The coverage period of the underlying insurance contracts and the reinsurance contract held is three years starting from the beginning of Year 1. Service is provided evenly across the coverage periods.

IE205 The entity expects to receive premiums of CU1,110 on the underlying insurance contracts immediately after initial recognition. Claims on the underlying insurance contracts are expected to be incurred evenly across the coverage period and are paid immediately after the claims are incurred.

IE206 The entity measures the groups of underlying insurance contracts on initial recognition as follows:

	Profitable group of insurance contracts	**Onerous group of insurance contracts**	**Total**
	CU	**CU**	**CU**
Estimates of present value of future cash inflows	(900)	(210)	(1,110)
Estimates of present value of future cash outflows	600	300	900
Fulfilment cash flows	(300)	90	(210)
Contractual service margin	300	-	300
Insurance contract liability on initial recognition	**-**	**90**	**90**
Loss on initial recognition	**-**	**(90)**	**(90)**

IE207 Applying paragraph 61, the entity establishes a group comprising a single reinsurance contract held that provides proportionate coverage. The entity pays a premium of CU315 to the reinsurer immediately after initial

recognition. The entity expects to receive recoveries of claims from the reinsurer on the same day that the entity pays claims on the underlying insurance contracts.

IE208 Applying paragraph 63, the entity measures the estimates of the present value of the future cash flows for the group of reinsurance contracts held using assumptions consistent with those used to measure the estimates of the present value of the future cash flows for the groups of underlying insurance contracts. Consequently, the estimate of the present value of the future cash inflows is CU270 (recovery of 30 per cent of the estimates of the present value of the future cash outflows for the groups of underlying insurance contracts of CU900).

IE209 At the end of Year 2, the entity revises its estimates of the remaining fulfilment cash outflows of the groups of underlying insurance contracts. The entity estimates that the fulfilment cash flows of the groups of underlying insurance contracts increase by 10 per cent, from future cash outflows of CU300 to future cash outflows of CU330. Consequently, the entity estimates the fulfilment cash flows of the reinsurance contract held also increase, from future cash inflows of CU90 to future cash inflows of CU99.

Analysis

IE210 The entity measures the group of reinsurance contracts held on initial recognition as follows:

	Initial recognition	
	CU	
Estimates of present value of future cash inflows (recoveries)	(270)	
Estimates of present value of future cash outflows (premiums)	315	
Fulfilment cash flows	45	
Contractual service margin of the reinsurance contract held (before the loss-recovery adjustment)	(45)	
Loss-recovery component	(27)	(a)
Contractual service margin of the reinsurance contract held (after the loss-recovery adjustment)	(72)	(b)
Reinsurance contract asset on initial recognition	**(27)**	(c)
Income on initial recognition	**27**	(a)

(a) Applying paragraph 66A [of this Exposure Draft], the entity adjusts the contractual service margin of the reinsurance contract held and recognises income to reflect the loss recovery. Applying paragraph B119D [of this Exposure Draft] the entity determines the adjustment to the contractual service margin and the income recognised as CU27 (the loss of CU90 recognised for the onerous group of underlying insurance contracts multiplied by 30 per cent, the fixed percentage of claims the entity has the right to recover).

(b) The contractual service margin of CU45 is adjusted by CU27, resulting in a contractual service margin of CU72, reflecting a net cost on the reinsurance contract held.

(c) The reinsurance contract asset of CU27 comprises the fulfilment cash flows of CU45 (net outflows) and a contractual service margin reflecting a net cost of CU72. Applying paragraph 66B [of this Exposure Draft], the entity establishes a loss-recovery component of the asset for remaining coverage of CU27 depicting the recovery of losses recognised applying paragraph 66A [of this Exposure Draft].

IE211 At the end of Year 1, the entity measures the insurance contract liability and the reinsurance contract asset as follows:

	Insurance contract liability		**Reinsurance contract asset**
	Profitable group of insurance contracts	**Onerous group of insurance contracts**	
	CU	**CU**	**CU**
Estimates of present value of future cash inflows (recoveries)	-	-	(180)
Estimates of present value of future cash outflows (claims)	400	200	-
Fulfilment cash flows	400	200	(180)
Contractual service margin	200	-	(48)
Insurance contract liability	**600**	**200**	
Reinsurance contract asset			**(228)**

IE212 At the end of Year 2, the entity measures the insurance contract liability and the reinsurance contract asset as follows:

	Insurance contract liability				Reinsurance contract asset	
	Profitable group of insurance contracts		**Onerous group of insurance contracts**			
	CU		**CU**		**CU**	
Estimates of present value of future cash inflows (recoveries)	-		-		(99)	(a)
Estimates of present value of future cash outflows (claims)	220	(a)	110	(a)	(21)	(e)
Fulfilment cash flows	220		110		(99)	
Contractual service margin	90	(b)	-		(48)	
Insurance contract liability	**310**		**110**			
Reinsurance contract asset					**(120)**	
Recognition of loss and recovery of loss			**(10)**	(c)	**3**	(d)

(a) The entity increases the expected remaining cash outflows of the groups of underlying insurance contracts by 10 per cent for each group (CU30 in total) and increases the expected remaining cash inflows of the reinsurance contract held by 10 per cent of the expected recoveries of CU90 (CU9).

(b) Applying paragraph 44(c), the entity adjusts the carrying amount of the contractual service margin of CU200 by CU20 for the changes in fulfilment cash flows relating to future service. Applying paragraph 44(e), the entity also adjusts the carrying amount of the contractual service margin by CU90 for the amount recognised as insurance revenue ((CU200 - CU20 = CU180) ÷ 2). The resulting contractual service margin at the end of year 2 is CU90 (CU200 - CU20 - CU90).

(c) Applying paragraph 48, the entity recognises in profit or loss an amount of CU10 for the changes in the fulfilment cash flows relating to future services of the onerous group of underlying insurance contracts.

(d) Applying paragraph 66(c)(ii), the entity adjusts the contractual service margin of the reinsurance contract held for the change in fulfilment cash flows that relate to future service unless the change results from a change in fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for that group. Consequently, the entity recognises the change in the fulfilment cash flows of the reinsurance contract held of CU9 by:

(i) recognising immediately in profit or loss CU3 of the change in the fulfilment cash flows of the reinsurance contract held (30 per cent of the CU10 change in the fulfilment cash flows of the onerous group of underlying insurance contracts that does not adjust the contractual service margin of those contracts); and

(ii) adjusting the contractual service margin of the reinsurance contract held by CU6 of the change in the fulfilment cash flows (CU9 - CU3).

(e) Consequently, the contractual service margin of the reinsurance contract held of CU(21) equals the contractual service margin at the end of Year 1 of CU(48) adjusted for CU6 and for CU21 of the contractual service margin recognised for the service received in Year 2 (CU(21) = (CU(48) + CU6) ÷ 2).

NZ ACCOUNTING STANDARDS BOARD

NZASB EXPOSURE DRAFT 2019-3

AMENDMENTS TO PBE IFRS 17

Issued [date]

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 E.

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 incorporate amendments made to IFRS 17 *Insurance Contracts* by the International Accounting Standards Board into PBE IFRS 17 to maintain alignment between the two standards.

This Standard applies only to Tier 1 and Tier 2 not-for-profit public benefit entities.

[1] References to "this Standard" throughout this Exposure Draft should be read as referring to "this draft Standard".

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CONTENTS

Part A: Introduction

This [draft] Standard amends PBE IFRS 17 *Insurance Contracts* to incorporate the targeted amendments to IFRS 17 (other than the deferral of the mandatory effective date) issued by the International Accounting Standards Board (IASB) in [date].

The targeted amendments relate to the following topics.

(a) Scope exclusions—credit card contracts and loan contracts that meet the definition of an insurance contract;

(b) Allocation of acquisition costs to expected contract renewals;

(c) Attribution of surplus to service relating to investment activities;

(d) Reduced accounting mismatches for reinsurance;

(e) Simplified presentation in the statement of financial position;

(f) Extension of the risk mitigation option;

(g) Additional transition reliefs;

(h) Minor amendments; and

(i) Amendments to other PBE Standards.

Part B: Scope

This Standard applies to Tier 1 and Tier 2 not-for-profit public benefit entities.

Part C: Amendments to PBE IFRS 17 *Insurance Contracts*

Paragraphs 4 and 7 are amended, and paragraph 8A is added. Deleted text is struck through and new text is underlined.

Scope

…

4. All references in PBE IFRS 17 to insurance contracts also apply to:

   (a) Reinsurance contracts held, except:

      (i) …

      (ii) As described in paragraphs 60–70A.

   (b) …

   …

7. An entity shall not apply PBE IFRS 17 to:

   (a) …

   (h) credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer (see PBE IPSAS 41 *Financial Instruments*).

   …

8A. Some contracts meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). If such contracts are not excluded from the scope of PBE IFRS 17 by paragraphs 7(a)–(h), an entity shall choose to apply PBE IFRS 17 or PBE IPSAS 41 to such contracts that it issues. The entity shall make that choice for each portfolio of insurance contracts, and the choice for each portfolio is irrevocable.

Paragraphs 10–12 are amended. New text is underlined and deleted text is struck through.

Separating Components from an Insurance Contract (paragraphs AG31–AG35)

10. An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an investment component or a non-insurance service component (or both). An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.

11. An entity shall:

   (a) …

   (b) Separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs AG31–AG32). The entity shall apply PBE IPSAS 41 to account for the separated investment component unless it is an investment contract with discretionary participation features (see paragraph 3(c)).

12. After applying paragraph 11 to separate any cash flows related to embedded derivatives and distinct investment components, an entity shall separate from the host insurance contract any promise to transfer to a policyholder distinct goods or ~~non-insurance~~ services other than insurance contract services.~~to a policyholder.~~ To separate the promise, the entity shall apply paragraphs AG33–AG35 of PBE IFRS 17 and, on initial recognition, shall:

    (a) Attribute the cash inflows between the insurance component and any promises to provide distinct goods or ~~non-insurance~~ services other than insurance contract services; and

    (b) Attribute the cash outflows between the insurance component and any promised goods or ~~non-insurance~~ services other than insurance contract services accounted for so that:

        (i) …

…

In paragraph 13, the definitions of 'contractual service margin', 'coverage period', 'group of insurance contracts', 'insurance acquisition cash flows', 'investment component', 'liability for incurred claims' and 'liability for remaining coverage' are amended. Definitions are added for 'insurance contract services' and 'reinsurance contract held that provides proportionate coverage'. New text is underlined and deleted text is struck through.

Defined terms in the definition sections of PBE Standards are shown as underlined text. To avoid confusion with proposed added/inserted text from *Amendments to PBE IFRS 17* (shown using underlined text) exiting defined terms are shown below in bold italic font.

Definitions

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

The *contractual service margin* is a component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned surplus the entity will recognise as it provides insurance contract services under the insurance contracts in the group.

~~For insurance contracts without direct participation features, t~~The *coverage period* is the period during which the entity provides insurance contract services~~coverage for insured events~~. This period includes the services ~~coverage~~ that relate~~s~~ to all premiums within the boundary of the insurance contract. ~~For insurance contracts with direct participation features, the period during which the entity provides coverage for insured events or investment-related services. This period includes the coverage for insured events or investment-related services that relates to all premiums within the boundary of the insurance contract.~~

…

A *group of insurance contracts* is a set of insurance contracts resulting from the division of a portfolio of insurance contracts into, at a minimum, contracts issued or expected to be issued ~~written~~ within a period of no longer than one year and that, at initial recognition:

(a) Are onerous, if any;

(b) Have no significant possibility of becoming onerous subsequently, if any; or

(c) Do not fall into either (a) or (b), if any.

***Insurance acquisition cash flows* are cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or groups of insurance contracts within the portfolio.**

An *insurance contract* is…

Insurance contract services: The following services that an entity provides to a policyholder of an insurance contract:

(a) Coverage for an insured event (insurance coverage);

(b) For insurance contracts without direct participation features, the generation of an investment return for the policyholder, if applicable (investment-return services); and

(c) For insurance contracts with direct participation features, the management of underlying items on behalf of the policyholder (investment-related service).

…

***Investment component*: The amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs.~~even if an insured event does not occur.~~**

…

***Liability for incurred claims*: An entity's obligation to:**

(a) ~~i~~Investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; and~~.~~

(b) Pay amounts under existing insurance contracts that are not included in (a) for which an entity no longer provides an investment-return service or an investment-related service.

***Liability for remaining coverage*: An entity's obligation to:**

(a) ~~i~~Investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (i.e., the obligation that relates to the unexpired portion of the insurance coverage~~ period~~); and~~.~~

(b) Pay amounts under existing contracts that are not included in (a) for which an entity will provide an investment-return service or an investment-related service.

…

A *reinsurance contract* is…

A reinsurance contract held that provides proportionate coverage is a reinsurance contract held that provides an entity with the right to recover from the issuer a percentage of all claims incurred on groups of underlying insurance contracts. The percentage the entity has a right to recover is fixed for all contracts in a single group of underlying contracts, but can vary between groups of underlying insurance contracts.

…

Paragraphs 19 and 24 are amended. New text is underlined and deleted text is struck through.

Level of Aggregation of Insurance Contracts

…

19. For contracts issued to which an entity does not apply the premium allocation approach (see paragraphs 53–54~~59~~), an entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:

(a) …

…

24. An entity shall apply the recognition and measurement requirements of PBE IFRS 17 to the groups of contracts determined by applying paragraphs 14–23. An entity shall establish the groups at initial recognition and add contracts to the group applying paragraph 28. ~~, and~~ The entity shall not reassess the

composition of the groups subsequently. ~~except as set out in paragraph 28.~~ To measure a group of contracts, an entity may estimate the fulfilment cash flows at a higher level of aggregation than the group or portfolio, provided the entity is able to include the appropriate fulfilment cash flows in the measurement of the group, applying paragraphs 32(a), 40(a)(i) and 40(b), by allocating such estimates to groups of contracts.

Paragraph 27 is deleted, paragraph 28 is amended and paragraphs 28A–28D are added. Paragraph 25 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

Recognition

25. **An entity shall recognise a group of insurance contracts it issues from the earliest of the following:**

    (a) **The beginning of the coverage period of the group of contracts;**

    (b) **The date when the first payment from a policyholder in the group becomes due; and**

    (c) **For a group of onerous contracts, when the group becomes onerous.**

    …

27. [Deleted by IASB]~~An entity shall recognise an asset or liability for any insurance acquisition cash flows relating to a group of insurance contracts issued or expected to be issued that the entity pays or receives before the group is recognised, unless it chooses to recognise them as expenses or revenue applying paragraph 59(a). An entity shall derecognise the asset or liability resulting from such insurance acquisition cash flows when the group of insurance contracts to which the cash flows are allocated is recognised (see paragraph 38(b)).~~

28. In recognising a group of insurance contracts in a reporting period, an entity shall include only contracts that individually meet one of the criteria set out in paragraph 25~~(a)–(c) applied to each contract~~ and shall make estimates for the discount rates at the date of initial recognition (see paragraph AG73) and the coverage units provided in the reporting period (see paragraph AG119). An entity may include more contracts in the group after the end of a reporting period, subject to paragraphs 14–22. An entity shall add the contracts to the group in the reporting period in which the contracts meet one of the criteria set out in paragraph 25~~(a)–(c) applied to each contract~~. This may result in a change to the determination of the discount rates at the date of initial recognition applying paragraph AG73. An entity shall apply the revised rates from the start of the reporting period in which the new contracts are added to the group.

28A An entity applying the premium allocation approach may recognise insurance acquisition cash flows as expenses applying paragraph 59(a). Otherwise, the entity shall allocate insurance acquisition cash flows to a group of insurance contracts on a systematic and rational basis applying paragraph AG35A.

28B An entity shall recognise:

    (a) Insurance acquisition cash flows it expects to pay after the related group of insurance contracts is recognised as part of the fulfilment cash flows of the group of insurance contracts applying paragraph 32(a).

    (b) Insurance acquisition cash flows paid before the related group of insurance contracts is recognised as an asset. An entity shall recognise such an asset for each existing or future group of insurance contracts to which insurance acquisition cash flows are allocated.

28C An entity shall derecognise an asset recognised applying paragraph 28B(b) when the insurance acquisition cash flows allocated to the group of insurance contracts are included in the measurement of the group applying paragraph 38(b). If, applying paragraph 28, the entity recognises in a reporting period only some of the insurance contracts expected to be included in the group, the entity shall determine the related portion of an asset for insurance acquisition cash flows for the group on a systematic and rational basis considering the expected timing of recognition of contracts in the group. The entity shall derecognise that portion of the asset and include it in the measurement of a group of insurance contracts applying paragraph 38(b).

28D At the end of each reporting period, an entity shall assess the recoverability of an asset recognised applying paragraph 28B(b) if facts and circumstances indicate the asset may be impaired. If facts and circumstances indicate the asset may be impaired, the entity shall adjust the carrying amount of the asset and recognise any impairment loss identified applying paragraph AG35B. An entity shall adjust the carrying amount of the asset and recognise the reversal of any such loss applying paragraph AG35C.

Paragraph 29 is amended and its heading is amended. New text is underlined and deleted text is struck through.

Measurement (paragraphs AG36–AG119F)

29. An entity shall apply paragraphs 30–52 to all groups of insurance contracts within the scope of PBE IFRS 17, with the following exceptions:

(a) …

(b) For groups of reinsurance contracts held, an entity shall apply paragraphs 32–46 as required by paragraphs 63–70A. Paragraphs 45 (on insurance contracts with direct participation features) and paragraphs 47–52 (on onerous contracts) do not apply to groups of reinsurance contracts held.

(c) …

…

The heading for paragraph 32 is amended. Paragraph 32 is not amended, but is included for ease of reference. Paragraphs 34 and 38 are amended. New text is underlined and deleted text is struck through.

Measurement on Initial Recognition (paragraphs AG36–AG95C)

32. **On initial recognition, an entity shall measure a group of insurance contracts at the total of:**

(a) …

Estimates of Future Cash Flows (paragraphs AG36–AG71)

…

34. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance contract services (see paragraphs AG61–AG71). A substantive obligation to provide insurance contract services ends when:

(a) …

(b) Both of the following criteria are satisfied:

(i) The entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and

(ii) The pricing of the premiums ~~for coverage~~ up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

…

Contractual Service Margin

38. **The contractual service margin is a component of the asset or liability for the group of insurance contracts that represents the unearned surplus the entity will recognise as it provides insurance contract services in the future. An entity shall measure the contractual service margin on initial**

recognition of a group of insurance contracts at an amount that, unless paragraph 47 (on onerous contracts) applies, results in no revenue or expenses arising from:

(a) …

(b) **The derecognition at the date of initial recognition of any asset or liability recognised for insurance acquisition cash flows applying paragraph 28C~~27~~; and**

(c) …

…

Paragraphs 41, 44 and 45 are amended and the heading for paragraphs 44 and 45 is amended. New text is underlined and deleted text is struck through.

Subsequent Measurement

…

41. **An entity shall recognise revenue and expenses for the following changes in the carrying amount of the liability for remaining coverage:**

(a) **Insurance revenue—for the reduction in the liability for remaining coverage because of insurance contract services provided in the period, measured applying paragraphs AG120–AG124;**

(b) …

…

Contractual Service Margin (paragraphs AG96—AG119B)

…

44. For insurance contracts without direct participation features, the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for:

(a) …

(e) The amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period applying paragraph AG119.

45. For insurance contracts with direct participation features (see paragraphs AG101–AG118), the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for the amounts specified in subparagraphs (a)–(e) below. An entity is not required to identify these adjustments separately. Instead, a combined amount may be determined for some, or all, of the adjustments. The adjustments are:

(a) …

(b) The change in the amount of the entity's share of ~~the change in~~ the fair value of the underlying items (see paragraph AG104(b)(i)), except to the extent that:

(i) Paragraph AG115 (on risk mitigation) applies;

(ii) The decrease in the amount of the entity's share of ~~a decrease in~~ the fair value of the underlying items exceeds the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or

(iii) The increase in the amount of the entity's share of ~~an increase in~~ the fair value of the underlying items reverses the amount in (ii).

(c) …

(e) The amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period, applying paragraph AG119.

Paragraphs 47–48 and 50 are amended. New text is underlined and deleted text is struck through.

Onerous Contracts

47. An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contract, any previously recognised insurance acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow. Applying paragraph 16(a), an entity shall group such contracts separately from contracts that are not onerous. To the extent that paragraph 17 applies, an entity may identify the group of onerous contracts by measuring a set of contracts rather than individual contracts. An entity shall recognise a loss in surplus or deficit for the net outflow for the group of onerous contracts, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows and the contractual service margin of the group being zero.

48. A group of insurance contracts becomes onerous (or more onerous) on subsequent measurement if the following amounts exceed the carrying amount of the contractual service margin:

(a) Unfavourable changes relating to future service in the fulfilment cash flows allocated to the group, arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk~~relating to future service~~; and

(b) For a group of insurance contracts with direct participation features, the decrease in the amount of the entity's share of ~~a decrease in~~ the fair value of the underlying items.

Applying paragraphs 44(c)(i), 45(b)(ii) and 45(c)(ii), an entity shall recognise a loss in surplus or deficit to the extent of that excess.

…

50. After an entity has recognised a loss on an onerous group of insurance contracts, it shall allocate:

(a) …

(b) Solely to the loss component until that component s reduced to zero:

(i) Any subsequent decrease relating to future service in fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk;~~relating to future service~~ and

(ii) ~~a~~Any subsequent increases in the amount of the entity's share of~~in~~ the fair value of the underlying items~~ solely to the loss component until that component is reduced to zero~~.

Applying paragraphs 44(c)(ii), 45(b)(iii) and 45(c)(iii), an entity shall adjust the contractual service margin only for the excess of the decrease over the amount allocated to the loss component.

…

Paragraphs 53 and 55–56 are amended. New text is underlined and deleted text is struck through.

Premium Allocation Approach

53. An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach set out in paragraphs 55–59 if, and only if, at the inception of the group:

(a) The entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the requirements in paragraphs 32–52; or

(b) The coverage period of each contract in the group (including insurance contract services ~~coverage~~ arising from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

…

55. Using the premium allocation approach, an entity shall measure the liability for remaining coverage as follows:

(a) On initial recognition, the carrying amount of the liability is:

(i) …

(iii) Plus or minus any amount arising from the derecognition at that date of the asset ~~or liability~~ recognised for insurance acquisition cash flows applying paragraph 28C~~27~~.

(b) At the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period:

(i) …

(v) Minus the amount recognised as insurance revenue for insurance contract services ~~coverage~~ provided in that period (see paragraph AG126); and

(vi) Minus any investment component paid or transferred to the liability for incurred claims.

56. If insurance contracts in the group have a significant financing component, an entity shall adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk using the discount rates specified in paragraph 36, as determined on initial recognition. The entity is not required to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk if, at initial recognition, the entity expects that the time between providing each part of the insurance contract services ~~coverage~~ and the related premium due date is no more than a year.

…

Paragraphs 60, 62, 65–66 and 69 are amended, paragraph 65 is bifurcated creating new paragraph 65A, paragraphs 66A–66B and 70A are added. New text is underlined and deleted text is struck through.

Reinsurance Contracts Held

60. The requirements in PBE IFRS 17 are modified for reinsurance contracts held, as set out in paragraphs 61–70A.

…

Recognition

62. Instead of applying paragraph 25, an entity shall recognise ~~a group of reinsurance contracts held~~:

(a) A group of reinsurance contracts held that provide proportionate coverage:~~If the reinsurance contracts held provide proportionate coverage~~

(i) Unless paragraph 62(a)(ii) applies—at the beginning of the coverage period of the group of reinsurance contracts held or at the initial recognition of any underlying contract, whichever is the later; or~~and~~

(ii) if the entity recognises an onerous group of underlying contracts before the beginning of the coverage period of the group of reinsurance contracts held—at the same time as the onerous group of underlying contracts.

(b) ~~In a~~All other groups of reinsurance contracts held~~cases~~—from the beginning of the coverage period of the group of reinsurance contracts held.

Measurement

…

65. The requirements of paragraph 38 that relate to determining the contractual service margin on initial recognition are modified to reflect the fact that for a group of reinsurance contracts held there is no unearned surplus but instead a net cost or net gain on purchasing the reinsurance. Hence, unless paragraph 65A applies, on initial recognition~~: (a) T~~the entity shall recognise any net cost or net gain on purchasing the group of reinsurance contracts held as a contractual service margin measured at an amount equal to the sum of:

(a) ~~t~~The fulfilment cash flows;~~,~~

(b) ~~t~~The amount derecognised at that date of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held;~~, and~~

(c) ~~a~~Any cash flows arising at that date; and

(d) Any revenue recognised in surplus or deficit applying paragraph 66A.~~unless~~

65A If ~~(b) T~~the net cost of purchasing reinsurance coverage relates to events that occurred before the purchase of the group of reinsurance contracts, ~~in which case,~~ notwithstanding the requirements of paragraph AG5, the entity shall recognise such a cost immediately in surplus or deficit as an expense.

66. Instead of applying paragraph 44, an entity shall measure the contractual service margin at the end of the reporting period for a group of reinsurance contracts held as the carrying amount determined at the start of the reporting period, adjusted for:

(a) …

(ba) Revenue recognised in surplus or deficit in the reporting period applying paragraph 66A;

(c) …

66A An entity shall adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage and as a result recognise revenue when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group. The amount of the adjustment and resulting revenue is determined applying paragraph AG119D.

66B An entity shall establish (or adjust) a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses recognised applying paragraph 66A (see paragraphs AG119E–AG119F).

…

Premium Allocation Approach for Reinsurance Contracts Held

69. An entity may use the premium allocation approach set out in paragraphs 55–56 and 59 (adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue) to simplify the measurement of a group of reinsurance contracts held, if at the inception of the group:

(a) The entity reasonably expects the resulting measurement would not differ materially from the result of applying the requirements in paragraphs 63–68; or

(b) The coverage period of each contract in the group of reinsurance contracts held (including insurance coverage from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

…

70A. An entity shall apply paragraph 66A when a group of reinsurance contracts held is accounted for applying the premium allocation approach, by adjusting the carrying amount of the asset for remaining coverage instead of adjusting the contractual service margin.

Paragraph 71 is amended. New text is underlined and deleted text is struck through.

Investment Contracts with Discretionary Participation Features

71. An investment contract with discretionary participation features does not include a transfer of significant insurance risk. Consequently, the requirements in PBE IFRS 17 for insurance contracts are modified for investment contracts with discretionary participation features as follows:

    (a) The date of initial recognition (see paragraphs 25 and 28) is the date the entity becomes party to the contract.

    (b) …

    …

Paragraph 76 is amended. New text is underlined and deleted text is struck through.

Modification and Derecognition

…

Derecognition

…

76. An entity derecognises an insurance contract from within a group of contracts by applying the following requirements in PBE IFRS 17:

    (a) …

    (c) The number of coverage units for expected remaining insurance contract services ~~coverage~~ is adjusted to reflect the coverage units derecognised from the group, and the amount of the contractual service margin recognised in surplus or deficit in the period is based on that adjusted number, applying paragraph AG119.

    …

Paragraphs 78–79 are amended. New text is underlined and deleted text is struck through.

Presentation in the Statement of Financial Position

78. **An entity shall present separately in the statement of financial position the carrying amount of portfolios ~~groups~~ of:**

    (a) **Insurance contracts issued that are assets;**

    (b) **Insurance contracts issued that are liabilities;**

    (c) **Reinsurance contracts held that are assets; and**

    (d) **Reinsurance contracts held that are liabilities.**

79. An entity shall include any assets ~~or liabilities~~ for insurance acquisition cash flows recognised applying paragraph 28B(b)~~27~~ in the carrying amount of the related portfolios ~~groups~~ of insurance contracts issued, and any assets or liabilities for cash flows related to portfolios ~~groups~~ of reinsurance contracts held (see paragraph 65(a)) in the carrying amount of the portfolios ~~groups~~ of reinsurance contracts held.

Paragraphs 83 and 86 are amended. New text is underlined and deleted text is struck through.

Recognition and Presentation in the Statement of Comprehensive Revenue and Expense (paragraphs AG120–AG136)

…

Insurance Service Result

83. **An entity shall present in surplus or deficit insurance revenue arising from the groups of insurance contracts issued. Insurance revenue shall depict the provision of insurance contract services ~~coverage and other services~~ arising from the group of insurance contracts at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Paragraphs AG120–AG127 specify how an entity measures insurance revenue.**

…

86. An entity may present the revenue or expenses from a group of reinsurance contracts held (see paragraphs 60–70A), other than insurance finance revenue or expenses, as a single amount; or the entity may present separately the amounts recovered from the reinsurer and an allocation of the premiums paid that together give a net amount equal to that single amount. If an entity presents separately the amounts recovered from the reinsurer and an allocation of the premiums paid, it shall:

(a) Treat reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held;

(b) Treat amounts from the reinsurer that it expects to receive that are not contingent on claims of the underlying contracts (for example, some types of ceding commissions) as a reduction in the premiums to be paid to the reinsurer; ~~and~~

(c) Not present the allocation of premiums paid as a reduction in revenue; and~~.~~

(d) Treat amounts recognised relating to recovery of losses applying paragraphs 66A–66B as amounts recovered from the reinsurer (see paragraphs AG119E–AG119F).

…

Paragraphs 97, 99–101, 103–105, 106 and 109 are amended, paragraphs 105A–105C are added. Paragraph 98 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

Disclosure

…

Explanation of Recognised Amounts

97. Of the disclosures required by paragraphs 98–109, only those in paragraphs 98–100, ~~and~~ 102–103 and 105–105C apply to contracts to which the premium allocation approach has been applied. If an entity uses the premium allocation approach, it shall also disclose:

(a) …

98. An entity shall disclose reconciliations that show how the net carrying amounts of contracts within the scope of PBE IFRS 17 changed during the period because of cash flows and revenue and expenses recognised in the statement of comprehensive revenue and expense. Separate reconciliations shall be disclosed for insurance contracts issued and reinsurance contracts held. An entity shall adapt the requirements of paragraphs 100–109 to reflect the features of reinsurance contracts held that differ from insurance contracts issued; for example, the generation of expenses or reduction in expenses rather than revenue.

99. An entity shall provide enough information in the reconciliations to enable users of financial statements to identify changes from cash flows and amounts that are recognised in the statement of comprehensive revenue and expense. To comply with this requirement, an entity shall:

    (a) Disclose, in a table, the reconciliations set out in paragraphs 100–105C; and

    (b) For each reconciliation, present the net carrying amounts at the beginning and at the end of the period, disaggregated into a total for portfolios ~~groups~~ of contracts that are assets and a total for portfolios ~~groups~~ of contracts that are liabilities, that equal the amounts presented in the statement of financial position applying paragraph 78.

100. An entity shall disclose reconciliations from the opening to the closing balances separately for each of:

    (a) …

    (c) The liabilities for incurred claims. For insurance contracts to which the premium allocation approach described in paragraphs 53–59 or 69–70A has been applied, an entity shall disclose separate reconciliations for:

        (i) …

101. For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70A has been applied, an entity shall also disclose reconciliations from the opening to the closing balances separately for each of:

    (a) …

…

103. An entity shall separately disclose in the reconciliations required in paragraph 100 each of the following amounts related to insurance contract services, if applicable:

    (a) …

    (c) Investment components (combined with refunds of premiums unless refunds of premiums are presented as part of the cash flows in the period described in paragraph 105(a)(i)) excluded from insurance revenue and insurance service expenses.

104. An entity shall separately disclose in the reconciliations required in paragraph 101 each of the following amounts related to insurance contract services, if applicable:

    (a) …

    (b) Changes that relate to current service, i.e:

        (i) …

        (ii) The change in the risk adjustment for non-financial risk that does not relate to future service or past service; and

        (iii) Experience adjustments (see paragraphs AG97(c) and AG113(a)), excluding amounts relating to the risk adjustment for non-financial risk included in (ii).

    (c) …

105. To complete the reconciliations in paragraphs 100–101, an entity shall also disclose separately each of the following amounts not related to insurance contract services provided in the period, if applicable:

    (a) …

105A An entity shall disclose a reconciliation from the opening to the closing balance of assets for insurance acquisition cash flows recognised applying paragraphs 28B(b). An entity shall aggregate information for the reconciliation at a level that is consistent with that for the reconciliation of insurance contracts, applying paragraph 98.

105B An entity shall disclose quantitatively, in appropriate time bands, when it expects to derecognise an asset for insurance acquisition cash flows applying paragraph 28C and include those cash flows in the measurement of the group of insurance contracts to which they are allocated.

105C An entity shall separately disclose in the reconciliation required by paragraph 105A any recognition of impairment losses and reversals of impairment losses applying paragraph 28D.

106. For insurance contracts issued other than those to which the premium allocation approach described in paragraphs 53–59 has been applied, an entity shall disclose an analysis of the insurance revenue recognised in the period comprising:

(a) The amounts relating to the changes in the liability for remaining coverage as specified in paragraph AG124, separately disclosing:

(i) The insurance service expenses incurred during the period as specified in paragraph AG124(a);

(ii) The change in the risk adjustment for non-financial risk, as specified in paragraph AG124(b); ~~and~~

(iii) The amount of the contractual service margin recognised in surplus or deficit because of the transfer of insurance contract services in the period, as specified in paragraph AG124(c); and~~.~~

(iv) Experience adjustments for premium receipts, if any, as specified in paragraph AG124(d).

(b) The allocation of the portion of the premiums that relate to the recovery of insurance acquisition cash flows (see paragraph AG125).

…

109. For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70A has been applied, an entity shall disclose ~~an explanation of~~ when it expects to recognise the contractual service margin remaining at the end of the reporting period in surplus or deficit~~, either~~ quantitatively, in appropriate time bands~~, or by providing qualitative information~~. Such information shall be provided separately for insurance contracts issued and reinsurance contracts held.

Paragraph 117 is amended. New text is underlined and deleted text is struck through.

Significant Judgements in Applying PBE IFRS 17

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

(a) …

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

(i) …

(iii) To determine discount rates; ~~and~~

(iv) To determine investment components; and~~.~~

(v) To determine the relative weighting of the benefits provided by insurance coverage and investment-return service (for insurance contracts without direct participation features) or insurance coverage and investment-related service (for insurance contracts with direct participation features) (see paragraphs AG119–AG119B).

…

Paragraph 132 is amended. New text is underlined and deleted text is struck through.

Nature and Extent of Risks that arise from Contracts within the Scope of PBE IFRS 17

…

Liquidity Risk—Other Information

132. For liquidity risk arising from contracts within the scope of PBE IFRS 17, an entity shall disclose:

(a) A description of how it manages the liquidity risk.

(b) Separate maturity analyses for portfolios ~~groups~~ of insurance contracts issued that are liabilities and portfolios ~~groups~~ of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the portfolios ~~groups~~ for each of the first five years after the reporting date and in aggregate beyond the first five years. An entity is not required to include in these analyses liabilities for remaining coverage measured applying paragraphs 55–59 and paragraphs 69–70A. The analyses may take the form of:

(i) An analysis, by estimated timing, of the remaining contractual undiscounted net cash flows; or

(ii) An analysis, by estimated timing, of the estimates of the present value of the future cash flows.

(c) The amounts that are payable on demand, explaining the relationship between such amounts and the carrying amount of the related portfolios ~~groups~~ of contracts, if not disclosed applying (b) of this paragraph.

Paragraph 132.3 is amended and paragraph 132.5A is added. Paragraph 132.5 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

Effective Date and Transition

…

Transition

132.3 Unless it is impracticable to do so, or paragraph 132.5A applies, an ~~An~~ entity shall apply PBE IFRS 17 retrospectively ~~unless impracticable~~, except that:

(a) An entity is not required to present the quantitative information required by paragraph 33(f) of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*; and

(b) An entity shall not apply the option in paragraph AG115 for periods before the transition date ~~date of initial application~~ of PBE IFRS 17. An entity may apply the option in paragraph AG115 prospectively on or after the transition date if, and only if, the entity designates risk mitigation relationships at or before the date it applies the option.

…

132.5 If, and only if, it is impracticable for an entity to apply paragraph 132.3 for a group of insurance contracts, an entity shall apply the following approaches instead of applying paragraph 132.4(a):

(a) The modified retrospective approach in paragraphs 132.6–132.19, subject to paragraph 132.6(a); or

(b) The fair value approach in paragraphs 132.20–132.24.

132.5A Notwithstanding paragraph 132.5, an entity may choose to apply the fair value approach in paragraphs 132.20–132.24 for a group of insurance contracts with direct participation features to which it could apply PBE IFRS 17 retrospectively if, and only if:

(a) The entity chooses to apply the risk mitigation option in paragraph AG115 to the group of insurance contracts prospectively from the transition date; and

(b) The entity has used derivatives or reinsurance contracts held to mitigate financial risk arising from the group of insurance contracts before the transition date.

…

Paragraphs 132.9A and 132.15A are added. Paragraph 132.8 is not amended, but is included for ease of reference. New text is underlined.

Modified Retrospective Approach

…

132.8 To achieve the objective of the modified retrospective approach, an entity is permitted to use each modification in paragraphs 132.9–132.19 only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

Assessments at Inception or Initial Recognition

…

132.9A To the extent permitted by paragraph 132.8, an entity shall classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired.

…

Determining the Contractual Service Margin or Loss Component for Groups of Insurance Contracts without Direct Participation Features

…

132.15A For a group of reinsurance contracts held that provides proportionate coverage for an onerous group of insurance contracts and was acquired before or at the same time that the insurance contracts were issued, an entity shall establish a loss-recovery component of the asset for remaining coverage at the transition date (see paragraphs 66A–66B). To the extent permitted by paragraph 132.8, an entity shall determine the loss-recovery component by multiplying:

(a) The loss component of the liability for remaining coverage for the group of underlying insurance contracts at the transition date (see paragraphs 132.16 and 132.20); and

(b) The fixed percentage of claims for the group of underlying insurance contracts the entity has a right to recover from the group of reinsurance contracts held.

…

Paragraphs 132.20A and132.22A are added. New text is underlined.

Fair Value Approach

…

132.20A For a group of reinsurance contracts held to which paragraphs 66A–66B apply at the transition date, an entity shall determine the loss-recovery component of the asset for remaining coverage by multiplying:

(a) The loss component of the liability for remaining coverage for the underlying insurance contracts at the transition date (see paragraphs 132.16 and 132.20); and

(b) The fixed percentage of claims for the group of underlying insurance contracts the entity has a right to recover from the group of reinsurance contracts held.

…

132.22A In applying the fair value approach, an entity may choose to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired.

Amendments to Appendix B—Application Guidance

Paragraph AG1 is amended. New text is underlined.

AG1. This appendix provides guidance on the following:

(a) …

(ba) asset for insurance acquisition cash flows (see paragraphs AG35A–AG35C);

(c) Measurement (see paragraphs AG36–AG119F);

(d) …

…

Paragraphs AG5 and AG12 are amended. New text is underlined.

…

Uncertain Future Event

…

AG5. Some insurance contracts cover events that have already occurred but the financial effect of which is still uncertain. An example is an insurance contract that provides insurance coverage against an adverse development of an event that has already occurred. In such contracts, the insured event is the determination of the ultimate cost of those claims.

…

The Distinction between Insurance Risk and Other Risks

…

AG12. The definition of an insurance contract refers to an adverse effect on the policyholder. This definition does not limit the payment by the entity to an amount equal to the financial effect of the adverse event. For example, the definition includes 'new for old' insurance coverage that pays the policyholder an amount that permits the replacement of a used and damaged asset with a new one. Similarly, the definition does not limit the payment under a life insurance contract to the financial loss suffered by the deceased's dependants, nor does it exclude contracts that specify the payment of predetermined amounts to quantify the loss caused by death or an accident.

…

After paragraph AG35, a new heading and paragraphs AG35A–AG35C are added. New text is underlined.

Asset for Insurance Acquisition Cash flows (paragraphs 28A–28D)

AG35A To apply paragraph 28A, an entity allocates insurance acquisition cash flows that are directly attributable to a group of insurance contracts:

(a) To that group; and

(b) To groups that include insurance contracts that are expected to arise from renewal of the insurance contracts in that group.

AG35B To apply paragraph 28D:

(a) An entity shall recognise an impairment loss in surplus or deficit and reduce the carrying amount of any asset for insurance acquisition cash flows recognised applying paragraph 28B(b), so that the carrying amount of each asset does not exceed the expected net cash inflow for the related group, determined applying paragraph 32(a).

(b) In addition, when an entity allocates insurance acquisition cash flows to groups of insurance contracts applying paragraph AG35A(b), the entity shall recognise an impairment loss in surplus or deficit and reduce the carrying amount of the related assets for insurance acquisition cash flows to the extent that:

(i) The entity expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals, determined applying paragraph 32(a); and

(ii) The excess determined applying paragraph AG35B(b)(i) has not already been recognised as an impairment loss applying paragraph AG35B(a).

AG35C An entity shall recognise in surplus or deficit a reversal of some or all of an impairment loss previously recognised applying paragraph 28D and increase the carrying amount of the asset, to the extent that the impairment conditions no longer exist or have improved.

…

Paragraphs AG64–AG65 and AG71 are amended. New text is underlined and deleted text is struck through.

Measurement (paragraphs 29–71)

Estimates of Future Cash Flows (paragraphs 33–35)

…

Cash Flows within the Contract Boundary (paragraph 34)

…

AG64. Paragraph 34 refers to an entity's practical ability to set a price at a future date (a renewal date) that fully reflects the risks in the contract from that date. An entity has that practical ability in the absence of constraints that prevent the entity from setting the same price it would for a new contract with the same characteristics as the existing contract issued on that date, or if it can amend the benefits to be consistent with the price it will charge. Similarly, an entity has that practical ability to set a price when it can reprice an existing contract so that the price reflects overall changes in the risks in a portfolio of insurance contracts, even if the price set for each individual policyholder does not reflect the change in risk for that specific policyholder. When assessing whether the entity has the practical ability to set a price that fully reflects the risks in the contract or portfolio, it shall consider all the risks that it would consider when underwriting equivalent contracts on the renewal date for the remaining service ~~coverage~~. In determining the estimates of future cash flows at the end of a reporting period, an entity shall reassess the boundary of an insurance contract to include the effect of changes in circumstances on the entity's substantive rights and obligations.

AG65. Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing. The cash flows within the boundary include:

(a) …

…

(l) …

(la) Costs the entity will incur in providing an investment-return service (for insurance contracts without direct participation features) or an investment-related service (for insurance contracts with direct participation features).

(m) …

…

Contracts with Cash Flows that Affect or are Affected by Cash Flows to Policyholders of Other Contracts

…

AG71. After all the service ~~coverage~~ has been provided to the contracts in a group, the fulfilment cash flows may still include payments expected to be made to current policyholders in other groups or future policyholders. An entity is not required to continue to allocate such fulfilment cash flows to specific groups but can instead recognise and measure a liability for such fulfilment cash flows arising from all groups.

…

The heading above paragraphs AG93 is amended, paragraph AG95 is bifurcated creating new paragraph AG95A and paragraphs AG95B–AG95C are added. New text is underlined.

Initial Recognition of Transfers of Insurance Contracts and Business Combinations ~~within the Scope of PBE IPSAS 40~~ (paragraph 39)

…

AG95. Unless the premium allocation approach for the liability for remaining coverage in paragraphs 55–59 applies, on initial recognition the contractual service margin is calculated applying paragraph 38 for acquired insurance contracts issued and paragraph 65 for acquired reinsurance contracts held using the consideration received or paid for the contracts as a proxy for the premiums received or paid at the date of initial recognition.

AG95A. If acquired insurance contracts issued are onerous, applying paragraph 47, the entity shall recognise the excess of the fulfilment cash flows over the consideration paid or received as part of goodwill or gain on a bargain purchase for contracts acquired in a business combination within the scope of PBE IPSAS 40 or as a loss in surplus or deficit for contracts acquired in a transfer. The entity shall establish a loss component of the liability for remaining coverage for that excess, and apply paragraphs 49–52 to allocate subsequent changes in fulfilment cash flows to that loss component.

AG95B For a group of reinsurance contracts held to which paragraphs 66A–66B apply at the date of the transaction, an entity shall determine the loss-recovery component of the asset for remaining coverage by multiplying:

(a) The loss component of the liability for remaining coverage of the group of underlying insurance contracts at the date of the transaction; and

(b) The fixed percentage of claims the entity has a right to recover from the group of reinsurance contracts held.

AG95C The entity shall recognise the amount of the loss-recovery component determined applying paragraph AG95B as part of goodwill or gain on a bargain purchase for reinsurance contracts held acquired in a business combination within the scope of PBE IPSAS 40, or as revenue in surplus or deficit for contracts acquired in a transfer.

Paragraphs AG96–AG97 are amended. New text is underlined.

Changes in the Carrying Amount of the Contractual Service Margin for Insurance Contracts without Direct Participation Features (paragraph 44)

AG96. For insurance contracts without direct participation features, paragraph 44(c) requires an adjustment to the contractual service margin of a group of insurance contracts for changes in fulfilment cash flows that relate to future service. These changes comprise:

(a) Experience adjustments arising from premiums received in the period that relate to future service, and related cash flows such as insurance acquisition cash flows and premium-based taxes, measured at the discount rates specified in paragraph AG72(c).~~;~~

(b) Changes in estimates of the present value of the future cash flows in the liability for remaining coverage, except those described in paragraph AG97(a), measured at the discount rates specified in paragraph AG72(c).~~;~~

(c) Differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period, except those described in paragraph AG97(a), measured at the discount rates specified in paragraph AG72(c).~~; and~~

(d) Changes in the risk adjustment for non-financial risk that relate to future service. An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between (i) a change related to nonfinancial risk and (ii) the effect of the time value of money and changes in the time value of money. If an entity makes such a disaggregation, it shall adjust the contractual service margin for the change related to non-financial risk, measured at the discount rates specified in paragraph AG72(c).

AG97. An entity shall not adjust the contractual service margin for a group of insurance contracts without direct participation features for the following changes in fulfilment cash flows because they do not relate to future service:

(a) The effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk (being (i) the effect, if any, on estimated future cash flows; (ii) if the effect is disaggregated, on the risk adjustment for non-financial risk; and (iii) the effect of a change in discount rate);

(b) …

…

Paragraphs AG104, AG107, AG112, AG115, AG116 and AG118 are amended. Paragraph AG101 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

Changes in the Carrying Amount of the Contractual Service Margin for Insurance Contracts with Direct Participation Features (paragraph 45)

AG101. Insurance contracts with direct participation features are insurance contracts that are substantially investment-related service contracts under which an entity promises an investment return based on underlying items. Hence, they are defined as insurance contracts for which:

(a) The contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items (see paragraphs AG105–AG106);

(b) The entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items (see paragraph AG107); and

(c) The entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items (see paragraph AG107).

…

AG104. The conditions in paragraph AG101 ensure that insurance contracts with direct participation features are contracts under which the entity's obligation to the policyholder is the net of:

(a) …

(b) A variable fee (see paragraphs AG110–AG118) that the entity will deduct from (a) in exchange for the future service provided by the insurance contract, comprising:

(i) The amount of the entity's share of the fair value of the underlying items; less

(ii) Fulfilment cash flows that do not vary based on the returns on underlying items.

…

AG107. Paragraph AG101(b) requires that the entity expects a substantial share of the fair value returns on the underlying items will be paid to the policyholder and paragraph AG101(c) requires that the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. An entity shall:

(a) …

(b) Assess the variability in the amounts in paragraphs AG101(b) and AG101(c):

(i) Over the duration of the ~~group of~~ insurance contract ~~contracts~~; and

(ii) …

…

AG112. Changes in the amount of the entity's share of the fair value of the underlying items (paragraph AG104(b)(i)) relate to future service and adjust the contractual service margin, applying paragraph 45(b).

…

Risk Mitigation

AG115. To the extent that an entity meets the conditions in paragraph AG116, it may choose not to recognise a change in the contractual service margin to reflect some or all of the changes in the effect of financial risk on the amount of the entity's share of the underlying items (see paragraph AG112) or the fulfilment cash flows set out in paragraph AG113(b).

AG116. To apply paragraph AG115, an entity must have a previously documented risk-management objective and strategy for mitigating financial risk arising from the insurance contracts using derivatives or reinsurance contracts held, and ~~to mitigate financial risk arising from the insurance contracts and,~~ in applying that objective and strategy:

(a) The entity mitigates the financial risk arising from the insurance contracts using ~~uses~~ a derivative or a reinsurance contracts held. ~~to mitigate the financial risk arising from the insurance contracts.~~

(b) An economic offset exists between the insurance contracts and the derivative or reinsurance contract held, i.e., the values of the insurance contracts and the derivative or reinsurance contract held generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated. An entity shall not consider accounting measurement differences in assessing the economic offset.

(c) Credit risk does not dominate the economic offset.

…

AG118. If, and only if, any of the conditions in paragraph AG116 ceases to be met, an entity shall~~:~~

~~(a) Cease~~ cease to apply paragraph AG115 from that date.~~; and~~

~~(b) N~~ An entity shall not make any adjustment for changes previously recognised in surplus or deficit.

Paragraph AG119 is amended and paragraphs AG119A–AG119B are added. New text is underlined and deleted text is struck through.

Recognition of the Contractual Service Margin in Surplus or Deficit

AG119. An amount of the contractual service margin for a group of insurance contracts is recognised in surplus or deficit in each period to reflect the insurance contract services provided under the group of insurance contracts in that period (see paragraphs 44(e), 45(e) and 66(e)). The amount is determined by:

(a) Identifying the coverage units in the group. The number of coverage units in a group is the quantity of service ~~coverage~~ provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period.

(b) Allocating the contractual service margin at the end of the period (before recognising any amounts in surplus or deficit to reflect the insurance contract services provided in the period) equally to each coverage unit provided in the current period and expected to be provided in the future.

(c) Recognising in surplus or deficit the amount allocated to coverage units provided in the period.

AG119A For the purpose of applying paragraph AG119, the period of investment-return service or investment-related service ends at or before the date that all amounts due to current policyholders relating to those services have been paid, without considering payments to future policyholders included in the fulfilment cash flows applying paragraph AG68.

AG119B Insurance contracts without direct participation features may provide an investment-return service if, and only if:

(a) An investment component exists, or the policyholder has a right to withdraw an amount;

(b) The entity expects the investment component or amount the policyholder has a right to withdraw to include a positive investment return (a positive investment return could be below zero, for example, in a negative interest rate environment); and

(c) The entity expects to perform investment activity to generate that positive investment return.

A new heading and paragraphs AG119C–AG119F are added. New text is underlined and deleted text is struck through.

Reinsurance Contracts Held—Recognition of Recovery of Losses on Underlying Insurance Contracts (paragraphs 66A−66B)

AG119C Paragraph 66A applies to reinsurance contracts held that provide proportionate coverage. Such reinsurance contracts provide the entity with the right to recover from the issuer a fixed percentage of all claims incurred on a group of underlying insurance contracts. Such reinsurance contracts can also include cash flows, other than claims, that are not proportionate to cash flows of the underlying groups of insurance contracts issued. For example, in such reinsurance contracts, the premiums due to the reinsurer might not be proportionate to premiums due from the policyholders of the groups of underlying insurance contracts.

AG119D An entity shall determine the adjustment to the contractual service margin and the resulting revenue recognised applying paragraph 66A by multiplying:

(a) The loss recognised on the group of underlying insurance contracts; and

(b) The fixed percentage of claims on the group of underlying insurance contracts the entity has a right to recover from the group of reinsurance contracts held.

AG119E Applying paragraph 66B, an entity shall establish (or adjust) a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held. The loss-recovery component determines the amounts that are presented in surplus or deficit as reversals of recoveries of losses from reinsurance contracts held and are consequently excluded from the allocation of premiums paid to the reinsurer

AG119F After an entity has established a loss-recovery component applying paragraph 66B it shall

(a) Adjust the loss-recovery component to reflect changes in the loss component for the group of underlying insurance contracts recognised applying paragraphs 50(a) and 51–52; and

(b) Allocate subsequent changes in fulfilment cash flows described in paragraph 66(c)(ii), which arise from onerous groups of underlying insurance contracts, to that loss-recovery component until it is reduced to zero.

Paragraphs AG121, AG123–AG124 and AG126 are amended. New text is underlined and deleted text is struck through.

Insurance Revenue (paragraphs 83 and 85)

…

AG121. Paragraph 83 requires the amount of insurance revenue recognised in a period to depict the transfer of promised services at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. The total consideration for a group of contracts covers the following amounts:

(a) Amounts related to the provision of services, comprising:

(i) Insurance service expenses, excluding any amounts relating to the risk adjustment for non-financial risk included in (ii) and any amounts allocated to the loss component of the liability for remaining coverage;

(ii) The risk adjustment for non-financial risk, excluding any amounts allocated to the loss component of the liability for remaining coverage; and

(iii) …

…

AG123. When an entity provides services in a period, it reduces the liability for remaining coverage for the services provided and recognises insurance revenue. The reduction in the liability for remaining coverage that gives rise to insurance revenue excludes changes in the liability that do not relate to services expected to be covered by the consideration received by the entity. Those changes are:

(a) Changes that do not relate to services provided in the period, for example:

(i) Changes resulting from cash inflows from premiums received;

(iia) Changes resulting from cash flows from loans to policyholders;

(iii) …

AG124. Consequently, insurance revenue for the period can also be analysed as the total of the changes in the liability for remaining coverage in the period that relates to services for which the entity expects to receive consideration. Those changes are:

(a) Insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period), excluding:

(i) …

(v) The amount related to the risk adjustment for non-financial risk (see (b)).

(b) …

(c) …

(d) Experience adjustments for premium receipts, if any.

…

AG126. When an entity applies the premium allocation approach in paragraphs 55–58, insurance revenue for the period is the amount of expected premium receipts (excluding any investment component and adjusted to reflect the time value of money and the effect of financial risk, if applicable, applying paragraph 56) allocated to the period. The entity shall allocate the expected premium receipts to each period of service ~~coverage~~:

(a) …

…

Paragraph AG128 is amended. New text is underlined and deleted text is struck through.

Insurance Finance Revenue or Expenses (paragraphs 87–92)

AG128. Paragraph 87 requires an entity to include in insurance finance revenue or expenses the effect of the time value of money and financial risk and changes therein ~~assumptions that relate to financial risk.~~ For the purposes of PBE IFRS 17:

(a) Assumptions about inflation based on an index of prices or rates or on prices of assets with inflation-linked returns are assumptions that relate to financial risk; ~~and~~

(b) Assumptions about inflation based on an entity's expectation of specific price changes are not assumptions that relate to financial risk; and~~.~~

(c) Changes in the measurement of a group of insurance contracts caused by changes in the fair value of underlying items (excluding additions and withdrawals) are changes arising from the effect of the time value of money and financial risk and changes therein.

…

Part D: Amendments to other PBE Standards

These amendments are made to the consequential amendments to other PBE Standards as a consequence of the issuance of PBE IFRS 17 (see Appendix D of PBE IFRS 17).

The underlines and strikethroughs show the amendments made to other PBE Standards by *Amendments to PBE IFRS 17*. The underlines and strikethroughs in Appendix D of PBE IFRS 17 showing the consequential amendments to other PBE Standards are not shown.

PBE IPSAS 1 *Presentation of Financial Reports*

Paragraphs 88(da), 88(ma) and 154.12 are amended. New text is underlined and deleted text is struck through.

Information to be Presented on the Face of the Statement of Financial Position

88. **The face of the statement of financial position shall include line items that present the following amounts:**

(a) **...**

(da) **Portfolios ~~Groups~~ of contracts within the scope of PBE IFRS 17 that are assets, disaggregated as required by paragraph 78 of PBE IFRS 17;**

…

(ma) **Portfolios ~~Groups~~ of contracts within the scope of PBE IFRS 17 that are liabilities, disaggregated as required by paragraph 78 of PBE IFRS 17;**

...

Effective Date

…

154.12 **PBE IFRS 17, issued in July 2019 and amended in [date], amended paragraphs 7, 88 and 99.1. An entity shall apply those amendments when it applies PBE IFRS 17.**

PBE IPSAS 28 *Financial Instruments: Presentation*

Paragraphs 3(c) and 62.7 are amended. New text is underlined and deleted text is struck through.

Scope (see also paragraphs AG3–AG9)

3. **An entity that prepares and presents financial statements shall apply this Standard to all types of financial instruments except:**

…

(c) **Insurance contracts as defined in PBE IFRS 17 *Insurance Contracts* ~~and~~ or investment contracts with discretionary participation features within the scope of PBE IFRS 17. However, this Standard applies to:**

(i) **Derivatives that are embedded in contracts within the scope of PBE IFRS 17 if PBE IPSAS 41 requires the entity to account for them separately.~~; and~~**

(ii) **Investment components that are separated from contracts within the scope of PBE IFRS 17, if PBE IFRS 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features.**

(iii) **~~Moreover, an issuer shall apply this Standard to f~~ Financial guarantee contracts, if the issuer applies PBE IPSAS 41 in recognising and measuring the contracts. However, the issuer~~, but~~ shall apply PBE IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of PBE IFRS 17, to apply PBE IFRS 17 in recognising and measuring the contracts ~~them~~.**

(iv) **Credit card contracts an entity issues that meet the definition of an insurance contract but which paragraph 7(h) of PBE IFRS 17 excludes from the scope of PBE IFRS 17 because the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.**

(v) **Insurance contracts that an entity issues that limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract if the entity elects, in accordance with paragraph 8A of PBE IFRS 17, to apply PBE IPSAS 41 instead of PBE IFRS 17 to such contracts.**

…

Effective Date

…

62.7 **PBE IFRS 17, issued in July 2019 and amended in [date], amended paragraphs 3, 9, AG9, AG15 and AG61, and added paragraph 38.1. An entity shall apply those amendments when it applies PBE IFRS 17.**

PBE IPSAS 30 *Financial Instruments: Disclosures*

Paragraphs 3(c) and 53.8 are amended. New text is underlined and deleted text is struck through.

Scope

3. **This Standard shall be applied by all entities to all types of financial instruments, except:**

(a) …

(c) **Insurance contracts. as defined in PBE IFRS 17 *Insurance Contracts* or ~~and~~ investment contracts with discretionary participation features within the scope of PBE IFRS 17. However, this Standard applies to:**

(i) **Derivatives that are embedded in contracts within the scope of PBE IFRS 17, if PBE IPSAS 41 requires the entity to account for them separately.~~; and~~**

(ii) **Investment components that are separated from contracts within the scope of PBE IFRS 17 if PBE IFRS 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features.**

(iii) **~~Moreover, an issuer shall apply this Standard to f~~ Financial guarantee contracts if the issuer applies PBE IPSAS 41 in recognising and measuring the contracts. However, the issuer~~, but~~ shall apply PBE IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of PBE IFRS 17, to apply PBE IFRS 17 in recognising and measuring ~~them~~ the contracts.**

(iv) **Credit card contracts an entity issues that meet the definition of an insurance contract but which paragraph 7(h) of PBE IFRS 17 excludes from the scope of PBE IFRS 17**

because the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

(v) **Insurance contracts that an entity issues that limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract, if the entity elects, in accordance with paragraph 8A of PBE IFRS 17, to apply PBE IPSAS 41 instead of PBE IFRS 17 to such contracts.**

…

Effective Date and Transition

…

53.8 **PBE IFRS 17, issued in July 2019 and amended in [date], amended paragraphs 3, 11 and 35 and deleted paragraph 36. An entity shall apply those amendments when it applies PBE IFRS 17.**

PBE IPSAS 41 *Financial Instruments*

Paragraphs 2(e) and 156.2 are amended. A new heading and paragraphs 184.A–184.G are added. New text is underlined and deleted text is struck through.

Scope

2. **This Standard shall be applied by all entities to all types of financial instruments except:**

(a) **...**

(e) **Rights and obligations arising under ~~(i)~~ an insurance contract as defined in PBE IFRS 17 *Insurance Contracts*~~, other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract,~~ or ~~(ii)~~ an investment contract with discretionary participation features within the scope of PBE IFRS 17. However, this Standard applies to:**

(i) **~~a derivative~~ Derivatives that are ~~is~~ embedded in ~~a~~ contracts within the scope of PBE IFRS 17, if the derivatives are not themselves ~~is not itself a~~ contracts within the scope of PBE IFRS 17.~~; and~~**

(ii) **~~an i~~Investment components that are~~is~~ separated from ~~a~~ contracts within the scope of PBE IFRS 17, if PBE IFRS 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features.**

(iii) **Insurance contracts that meet the definition of a financial guarantee contract. However, ~~Moreover,~~ if an issuer of financial guarantee contracts has previously applied accounting that is applicable to insurance contracts and adopted an accounting policy that treated financial guarantee contracts as insurance contracts, the issuer may elect to apply either this Standard or PBE IFRS 17 to such financial guarantee contracts (see paragraphs AG5–AG6). The issuer may make that election contract by contract, but the election for each contract is irrevocable.**

(iv) **Credit card contracts that an entity issues that meet the definition of an insurance contract but which paragraph 7(h) of PBE IFRS 17 excludes from the scope of PBE IFRS 17 because the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.**

(v) **Insurance contracts that an entity issues that limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract,**

if the entity elects, in accordance with paragraph 8A of PBE IFRS 17, to apply PBE IPSAS 41 instead of PBE IFRS 17 to such contracts.

…

Effective Date and Transition

Effective Date

156 …

156.2 **PBE IFRS 17, issued in July 2019 and amended in [date], amended paragraphs 2, AG1, AG4, AG5 and AG92 and added paragraphs 38.1 and 184.A–184.G and the heading above paragraph 184.A. An entity shall apply those amendments when it applies PBE IFRS 17.**

…

Transition

…

Transition for PBE IFRS 17 as amended in [date]

184.A An entity shall apply the amendments to PBE IPSAS 41 made by PBE IFRS 17 as amended in [date] retrospectively in accordance with PBE IPSAS 3, except as specified in paragraphs 184.B–184.G.

184.B An entity that first applies PBE IFRS 17 as amended in [date] at the same time it first applies this Standard shall apply paragraphs 158–184 instead of paragraphs 184.C–184.G.

184.C An entity that first applies PBE IFRS 17 as amended in [date] after it first applies this Standard shall apply paragraphs 184.D–184.G. The entity shall also apply the other transition requirements in this Standard necessary for applying these amendments. For that purpose, references to the date of initial application shall be read as referring to the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments).

184.D With regard to designating a financial liability as measured at fair value through surplus or deficit, an entity:

(a) Shall revoke its previous designation of a financial liability as measured at fair value through surplus or deficit if that designation was previously made in accordance with the condition in paragraph 4.2.2(a) but that condition is no longer satisfied as a result of the application of these amendments; and

(b) May designate a financial liability as measured at fair value through surplus or deficit if that designation would not have previously satisfied the condition in paragraph 4.2.2(a) but that condition is now satisfied as a result of the application of these amendments.

Such a designation and revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application of these amendments. That classification shall be applied retrospectively.

184.E An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods only if it is possible to do so without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements in this Standard for the affected financial instruments. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening accumulated comprehensive revenue and expense (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

184.F In the reporting period that includes the date of initial application of these amendments, an entity is not required to present the quantitative information required by paragraph 33(f) of PBE IPSAS 3.

184.G In the reporting period that includes the date of initial application of these amendments, the entity shall disclose the following information as at that date of initial application for each class of financial assets and financial liabilities that were affected by these amendments:

(a) The previous classification, including the previous measurement category when applicable, and carrying amount determined immediately before applying these amendments;

(b) The new measurement category and carrying amount determined after applying these amendments;

(c) The carrying amount of any financial liabilities in the statement of financial position that were previously designated as measured at fair value through surplus or deficit but are no longer so designated; and

(d) The reasons for any designation or de-designation of financial liabilities as measured at fair value through surplus or deficit.

Part E: Effective Date

The amendments in this Standard are effective for annual financial statements covering periods beginning on or after 1 January 2022.

NZ ACCOUNTING STANDARDS BOARD

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

Date:	26 July 2019
To:	NZASB Members
From:	Joanne Scott
Subject:	**PBE First-time Adoption**

Recommendations[1]

1. The Board is asked to PROVIDE FEEDBACK on a proposal to withdraw PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*.

Structure of this memo

2. This memo has the following sections.
   - (a) Background
   - (b) Withdrawal of PBE FRS 46 – which entities would be affected?
   - (c) PBE FRS 47 – any changes needed?
   - (d) Next steps
   - (e) Appendix A: Information about IPSAS 33[2]

Background

3. The first wave of entities adopting PBE Standards could be grouped into two categories. The NZASB therefore issued two PBE Standards dealing with first time adoption:
   - (i) PBE FRS 46 for those entities that had been applying one of the NZ IFRS suites[3]; and
   - (ii) PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* for the remainder.

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[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).

[2] IPSAS 33, *First-time Adoption of Accrual Basis International of Public Sector Standards*

[3] The NZ IFRS suites of standards at the time PBE FRS 46 was issued included NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep and NZ IFRS RDR. Following the subsequent withdrawal of NZ IFRS PBE and NZ IFRS Diff Rep, *2018 Omnibus Amendments to PBE Standards* amended PBE FRS 46 by removing references to these two suites. As a result, only entities that had been applying NZ IFRS or NZ IFRS RDR are currently eligible to apply PBE FRS 46.

4. The first category of entities was comprised mainly of public sector entities. They were already accounting for most transactions and balances in the same way as they would under PBE Standards. PBE FRS 46 streamlined the adoption process for these entities by requiring that they continue to apply the same accounting policies, unless a change was specifically required by a PBE Standard (discussed further in paragraphs 20-23).

5. The second category of entities was comprised mainly of registered charities which used a range of accounting policies. The NZASB decided that PBE FRS 47 should be based on IFRS 1 *First-time Adoption of International Financial Reporting Standards.* IFRS 1 was developed to address concerns about the costs and difficulty of full retrospective application of IFRS Standards. It establishes a number of exceptions and exemptions that reduce the cost of adoption. PBE FRS 47 includes most of the exemptions and concessions in IFRS 1.

6. Since PBE FRS 46 and PBE FRS 47 were first issued there have been a number of changes in the reporting environment. There are two main changes.

   (a) The types of entities applying PBE FRS 46 have changed since the first wave of adoption. Now that the public sector has moved onto PBE Standards, PBE FRS 46 is used mainly by entities changing designation from for-profit to PBE. It could also be used by entities that have been voluntarily applying NZ IFRS or NZ IFRS RDR electing, or being required, to adopt PBE Standards. As discussed below, some incorporated societies might fall into this category.

   (b) The differences between NZ IFRS and PBE Standards have increased. For example, NZ IFRS 15 *Revenue from Contracts with Customers* and NZ IFRS 16 *Leases* are now effective for for-profit entities, with no aligned PBE Standards. PBE FRS 46 does not address these more recent differences.

7. There are therefore fewer entities applying PBE FRS 46 and aspects of PBE FRS 46 are outdated. We could update PBE FRS 46 but, over time, such updates would make PBE FRS 46 more complicated and would end up bringing PBE FRS 46 closer to PBE FRS 47. It also takes more staff resource to maintain two standards.

8. Last year, in the process of making some minor amendments to PBE FRS 46, the Board was alerted to these issues and asked us to seek feedback from the TRG about the use of PBE FRS 46 in practice. We sought feedback from TRG members on the following two questions.

   Q1 When, and how often, is PBE FRS 46 still being used?

   Q2 What are the pros and cons of keeping PBE FRS 46 as a separate standard?

5. TRG members noted that they still refer to PBE FRS 46, including for entities changing designation from for-profit to PBE.

6. TRG members felt that at the time PBE FRS 46 was developed the restrictions on changing accounting policies on adoption of PBE Standards were appropriate. Some TRG members no longer felt it was appropriate to have this restriction – instead an entity should have some flexibility to change accounting policies when adopting PBE Standards. Overall the feedback was that the restrictions on changing policies in PBE FRS 46 should be reconsidered (discussed further in paragraphs 20-23) .

7. TRG members expressed general support for combining PBE FRS 46 and PBE FRS 47, with one member noting that this would avoid any confusion about which standard to apply.

8. A TRG member also requested that the NZASB consider whether the transitional requirements in the Tier 3 PBE Accounting Requirements are sufficient for entities moving from Tier 2 to Tier 3. Staff noted these concerns for consideration as part of the Post Implementation Review (PiR) of the Tier 3 and Tier 4 PBE Accounting Requirements.

9. The Board subsequently agreed to include a first-time adoption project on its work plan. We suggest that the Board activate this project and propose to withdraw PBE FRS 46. This would be consistent with the view expressed in a memo to the NZASB in May 2012. That memo referred to PBE FRS 46 being a one-off standard and PBE FRS 47 as being the on-going standard. The memo said "It is envisaged that PBE FRS 46 be withdrawn at the appropriate time and PBE FRS 47 will be updated as necessary." We suggest that now is an appropriate time to withdraw PBE FRS 46.

10. When PBE FRS 46 and PBE FRS 47 were developed there was no IPSAS dealing with first-time adoption. In January 2015 the IPSASB issued IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*. The NZASB applied the PBE Policy Approach to IPSAS 33 in March 2015 and decided not to adopt IPSAS 33 (see Appendix A of this memo for more information). Although we have not adopted IPSAS 33 as a PBE Standard, we still monitor changes to IPSAS 33 as some are relevant for PBE Standards.

Withdrawal of PBE FRS 46 – which entities would be affected?

11. In Table 1 we identify, using various scenarios, the entities that would be affected by the withdrawal of PBE FRS 46.

Table 1 Scenarios

Scenario	Current requirements	Impact of withdrawing PBE FRS 46?
An entity (other than an incorporated society) reporting in accordance with NZ IFRS[4] changing designation from for-profit to PBE[5] This might happen if an entity (i) changes activities; or (ii) reassesses its designation for some other reason	The first time an entity changes designation it applies PBE FRS 46. The second time it applies PBE FRS 47 or PBE Standards retrospectively, as if it had never stopped applying PBE Standards (PBE FRS 47 paragraph 6).	The entity would have to apply PBE FRS 47 or PBE Standards retrospectively. Number of entities: not many.
Incorporated societies reporting in accordance with NZ IFRS changing designation from for-profit to PBE	See above – this would also require a change in designation.	See above. Number of entities: not many now, nor many estimated in the future (see Table 2).
Incorporated societies reporting in accordance with PBE Standards (e.g. the New Zealand Rugby Union)	NA – already applying PBE Standards	No impact.
Incorporated societies not currently reporting in accordance with NZ IFRS or PBE Standards	If an entity elects, or is required, to change to PBE Standards it would apply PBE FRS 47.	No impact.
New entity established	No need to apply a first-time adoption standard.	No impact.

12. As shown in Table 1, incorporated societies are not currently required to report in accordance with NZ IFRS, NZ IFRS RDR or PBE Standards unless they are also registered charities. Some have elected to do so. We do not have data on how many incorporated societies currently reporting in accordance with NZ IFRS or NZ IFRS RDR might need to apply PBE Standards in the future. Table 2 gives some perspective on this issue, albeit using old data.[6] The last row in the table are the incorporated societies that could be affected by the withdrawal of PBE FRS 46.

[4] From this point on, references to NZ IFRS include NZ IFRS RDR (but does not include NZ IFRS Diff Rep and NZ IFRS PBE which were withdrawn in 2018).

[5] FRS-44 para 7(c) requires an entity to disclose "that, for the purposes of complying with GAAP, it is a for-profit entity". Any entity reporting in accordance with NZ IFRS should have designated itself as a for-profit entity and be making this disclosure.

[6] Cordery, C., Incorporated Societies Financial Analysis, January 2017

Table 2 Breakdown of incorporated societies

Register of Incorporated Societies as at 27/8/15	23,695
Less estimated number of registered charities (28.8%)	(6,847)
Less estimated number of remaining societies that had not filed accounts or had nil expenditure (16.5%)	(3,910)
Number of incorporated societies not registered as charities (with expenditure > $0)	12,928
Number that might be required to comply with PBE Standards if legislation is amended to require that incorporated societies prepare general purpose financial reports (bearing in mind that no Tier criteria for incorporated societies have yet been established) Note: For the purpose of this memo we have postulated that around 8% of the 12,928 societies would be required to apply PBE Standards. It could be fewer, as only 1,948 are estimated to have expenditure over $100,000.	Unknown. For argument's sake, say 1,000
• Subset of the 1,000 currently reporting in accordance with a special purpose reporting framework, self-determined accounting policies or a suite of standards that is no longer in existence. Withdrawing PBE FRS 46 would have no impact on these entities.	Vast majority of the 1,000
• Subset of the 1,000 currently applying PBE Standards. Withdrawing PBE FRS 46 would not have an impact on these entities.	Some[7]
• Subset of the 1,000 currently applying NZ IFRS. Withdrawing PBE FRS 46 would have an impact on these entities if they were required to adopt PBE Standards.	Very few

13. Overall, we do not think that many entities would be affected if we were to withdraw PBE FRS 46. The biggest unknown is how many incorporated societies might be able to apply PBE FRS 46 if they come within the Accounting Standards Framework.

14. What would the withdrawal of PBE FRS 46 mean for the affected entities?

    (a) Essentially it would involve more work, although the impact would depend upon how close their existing accounting policies were to the requirements in PBE Standards. For example, PBE FRS 47 specifically requires entities to disclose a reconciliation of its prior period net assets/equity balance, from the amount that was previously reported to the amount determined in accordance with PBE Standards. PBE FRS 46 does not specifically require such a reconciliation.

    (b) Some balances could change (for example, PBE FRS 47 contains a deemed cost exemption in relation to property, plant and equipment).

    (c) Entities could also use first-time adoption as an opportunity to change some accounting policy options. This is discussed further in the next section.

    (d) While PBE FRS 46 requires comparative information to be presented in accordance with PBE Standards, PBE FRS 47 provides an exemption from this requirement for Tier 2 not-for-profit PBEs. This is discussed further in the next section.

[7] There are definitely some incorporated societies applying Tier 1 and 2 PBE Standards, but without doing more sampling of the register we couldn't say how many.

15. What would the withdrawal of PBE FRS 46 mean for practitioners? It would remove any confusion about which standard to apply (see paragraph 7 above).

Question for Board

Q1. In addition to the scenarios outlined in Table 1 are there any further scenarios that we should consider?

PBE FRS 47 – any changes needed?

16. If PBE FRS 46 were withdrawn, PBE FRS 47 would need to be amended.

17. We have worked through PBE FRS 47 identifying amendments required and noting areas where PBE FRS 47 differs from NZ IFRS 1 (see agenda item 7.2). Assuming that the Board agrees to propose the withdrawal of PBE FRS 46, we would like feedback on whether these proposals look sensible and whether there are any other issues that should be considered. We note that the proposals represent staff's preliminary views, and the Board's feedback at this meeting will assist staff in drafting an invitation for comment and exposure draft (ED) for the Board's consideration at a future meeting (see "next steps" below).

18. At this point it looks like there would be relatively few changes required to PBE FRS 47.

    (a) Amend scope

    (b) Remove NZ IFRS definitions

    (c) Check some of the short-term transitional provisions (check if all still needed and whether any new exemptions required).

19. We have considered whether amendments to PBE FRS 47 are needed for the following two matters. Our preliminary view is not to propose any amendments to PBE FRS 47 in respect of these matters.

Restriction to changes in accounting policies on first-time adoption

20. PBE FRS 46 restricts an entity that previously applied NZ IFRS from changing its accounting policies on first-time adoption of PBE Standards, unless the change is required by PBE Standards. Voluntary changes in accounting policies are permitted only if they meet the requirements of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.[8] PBE FRS 47 does not contain such a restriction, which is consistent with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* (and IFRS 1).

[8] As explained in paragraph BC5 of PBE FRS 46, the relevant requirements of PBE IPSAS 3 apply where, in applying PBE Standards for the first time, an entity (a) identifies a prior period error, or (b) voluntarily changes an accounting policy (including changing to a different option within PBE Standards). In these cases, PBE IPSAS 3 applies because the Board considered (when developing PBE FRS 46) that these are not matters arising from the first-time adoption of PBE Standards. This means that for an entity that applies PBE FRS 46, voluntary changes in accounting policies are permitted only if it results in the financial statements providing faithfully representative and more relevant information (see PBE IPSAS 3, paragraph 17(b)).

21. The rationale for the abovementioned restriction in PBE FRS 46 is explained in paragraphs BC4–BC5 of PBE FRS 46. As noted in these paragraphs, when developing PBE FRS 46, the Board did not anticipate that the adoption of PBE Standards by entities previously applying one of the NZ IFRS suites of standards would result in many changes to accounting policies. This is because, at the time, most IPSASs were based on IFRS Standards. The Board decided to restrict an entity that previously applied an NZ IFRS suite of standards from changing its accounting policies at the point of transition to PBE Standards, except where otherwise required by a PBE Standard. The Board decided that the first-time adoption requirements for such entities should be as simple as possible.

22. Permitting an entity that previously applied NZ IFRS to change its accounting policies on first-time adoption of PBE Standards would mean that such an entity could change its accounting policies in cases where it may have previously been unable to, due to the restrictions of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.[9] For example, on transition to PBE Standards, an entity that applied the fair value model under NZ IAS 40 *Investment Property* could change its accounting policy to apply the cost model under PBE IPSAS 16 *Investment Property*.

23. Our preliminary view is not to carry forward the abovementioned restriction in PBE FRS 46 into PBE FRS 47 for the following reasons.

    (a) The key rationale for including this restriction in PBE FRS 46 was to streamline and simplify the first-time adoption process for (mainly) public sector entities transitioning from NZ IFRS. We believe that substantially all public sector entities transitioning to PBE Standards from NZ IFRS have now done so.

    (b) We note that first-time adopters of NZ IFRS – including entities that previously applied PBE Standards – are not subject to such a restriction.

    (c) Some TRG members felt that it was no longer appropriate to have this restriction.

    (d) We believe that going forward only a very limited number of entities are expected to transition to PBE Standards from NZ IFRS for the first-time – i.e. a limited number of incorporated societies (that are currently applying NZ IFRS) and entities changing their designation from for-profit to PBE.

Exemption from presenting comparative information for Tier 2 not-for-profit PBEs

24. PBE FRS 47 exempts Tier 2 not-for-profit PBEs from presenting comparative information in accordance with PBE Standards in their first year of adopting PBE Standards.[10] There is no such exemption under PBE FRS 46.

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[9] NZ IAS 8 allows entities to change their accounting policies only if this change is (a) required by an NZ IFRS; or (b) results in the financial statements providing more reliable and more relevant information (see NZ IAS 8, paragraph 14).

[10] A Tier 2 not-for-profit PBE that applies this exemption still needs to (i) present an opening statement of financial position in accordance with PBE Standards and (ii) attach a copy of the previous financial statements together with an explanation of differences (see PBE FRS 47 paragraphs RDR 27.2–RDR 27.3).

25. This exemption is included in PBE FRS 47 because the Board considered that presenting full comparative information on transition to PBE Standards may be onerous for smaller not-for-profit entities that had not previously applied NZ IFRS. [11] We believe that this rationale continues to be relevant.

26. We do not propose amending PBE FRS 47 to restrict Tier 2 not-for-profit entities transitioning from NZ IFRS from being eligible to apply this exemption. We consider that there is only a limited number of entities that will transition from NZ IFRS to PBE Standards for the first time in the future. Therefore, for the sake of simplicity, we propose to leave the exemption in PBE FRS 47 unmodified. This would mean that on withdrawal of PBE FRS 46, all Tier 2 not-for-profit PBEs would be exempt from presenting comparative information in accordance with PBE Standards in their first year of adopting PBE Standards, including the small number of Tier 2 not-for-profit PBEs transitioning from NZ IFRS.

27. We suggest that the Board looks at agenda item 7.2, noting the differences we have identified between IFRS 1 and PBE FRS 47 and the reasons for those differences. We would like to know if the Board thinks any other parts of PBE FRS 47 might need to be amended.

Questions for the Board

Q2. Have we identified all the parts of PBE FRS 47 that would need to be amended?

Q3. Does the Board have any preliminary views on the staff proposal not to carry forward into PBE FRS 47 restrictions on changing accounting policies for entities transitioning from NZ IFRS or NZ IFRS RDR to PBE Standards?

Q4. Does the Board have any preliminary views on the staff proposal that all Tier 2 not-for-profit entities be permitted to use the concession in relation to comparatives in paragraphs 27.2–27.3 of PBE FRS 47?

Next steps

28. If the Board agrees to activate this project and agrees to propose the withdrawal of PBE FRS 46, we will develop an invitation to comment and an ED for consideration at a future meeting.

29. If timing works, we would propose to seek TRG feedback on a draft exposure draft.

Question for the Board

Q5. Does the Board agree to develop an ED to amend PBE FRS 47 withdraw PBE FRS 46?

Attachments

Agenda item 7.2: Indicative changes to PBE FRS 47

[11] See PBE FRS 47, paragraph BC8.

Appendix A Information about IPSAS 33

IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSAS for the first time. It offers a first-time adopter certain exemptions during the period of transition and allows first-time adopters three years to recognise specified assets and liabilities. This three year transition was seen as a way of encouraging governments and other public sector entities to adopt IPSAS.

IPSAS 33 contains two types of transitional exemptions: those which do not affect fair presentation and those that do. Those that affect fair presentation include the non-recognition of assets and liabilities for up to three years and some measurement options. If a first-time adopter elects to apply one or more of the exemptions or provisions that affect fair presentation it cannot assert compliance with IPSASs.

The matters considered when the PBE Policy approach was applied in March 2015 are set out below.

Trigger 1: The IPSASB issues a new IPSAS or makes changes to an existing IPSAS

New Standard or Standard being amended:

Policy

There is a rebuttable presumption that the NZASB will adopt a new or amended IPSAS. It is expected that such changes will lead to higher quality financial reporting by PBEs in New Zealand and the factors in the development principle are presumed to be met. (paragraph 22)

This rebuttable presumption is based on the expectation that the IPSASB has considered the needs of the wide range of users of public sector financial statements in developing and enhancing the suite of IPSAS. (paragraph 23)

Depending on the circumstances, it may be appropriate to amend a recently issued or newly amended IPSAS in the process of adoption in New Zealand. (paragraph 24)

Factors to consider in rebutting the presumption and/or deciding whether to make NZ amendments	**Comments/Conclusion**
Does the scope of the new or amended IPSAS conflict with a legislative requirement? (paragraph 24(d))	No.
Is the topic/issue addressed by a legislative requirement for public sector entities? (paragraph 24(d))	No.
Are all the options relevant in New Zealand? (paragraph 24(c)) Determine (via consultation or empirical evidence) whether all options are relevant.	The majority of PBEs in New Zealand are already using an accrual basis of accounting with most on an IFRS base. PS PBEs are already in the process of transitioning to PBE Standards and registered charities will be transitioning from 1 April 2015. A voluntary exemption not to recognise specified assets and liabilities for three years would be seen as a backward step in New Zealand.

Factors to consider in rebutting the presumption and/or deciding whether to make NZ amendments	**Comments/Conclusion**
Is additional guidance needed for consistent application of the requirements by: • All PBEs? • NFP entities? (paragraph 24(a)) (May need to consult with constituents/obtain empirical evidence regarding additional guidance)	New Zealand already has two standards on first-time adoption of PBE Standards. PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs;* and PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs.* These standards are applicable to both PS PBEs and NFP PBEs.
Is the coherence of the suite of PBE Standards maintained? (paragraph 24(b))	New Zealand already has two standards on first-time adoption of PBE Standards.

March 2015 Recommendation

Staff recommended that IPSAS 33 was not adopted into the PBE Standards for the following reasons.

(a) Both public sector and not-for-profit entities were already in the process of transitioning to PBE Standards.

(b) It would be seen as a backwards step to allow a three year transitional period when the majority of entities are coming from an accrual basis of accounting already.

(c) We already had PBE FRS 46 and PBE FRS 47 in place – which has been specifically developed to be appropriate for entities in New Zealand.

(d) There were already provisions in place for an entity moving from a cash basis. In such cases XRB A1 allows an extra year to move to accrual accounting.

PUBLIC BENEFIT ENTITY FINANCIAL REPORTING STANDARD 47 FIRST-TIME ADOPTION OF PBE STANDARDS ~~BY ENTITIES OTHER THAN THOSE PREVIOUSLY APPLYING NZ IFRS~~ (PBE FRS 47)

This working file shows that changes that would need to be made to PBE FRS 47 if PBE FRS 47 and PBE FRS 46 were combined. It was developed as follows.

- We began with PBE FRS 47 Jan 2019. That file incorporated amendments to 31 January 2019 other than consequential amendments resulting from early adoption of PBE IFRS 9 *Financial Instruments* and PBE FRS 48 *Service Performance Reporting*.
- We checked, and where appropriate, compiled the amendments to PBE FRS 47 set out in:
  - PBE FRS 48 *Service Performance Reporting* (effective from Jan 2021)
  - PBE IPSAS 40 *PBE Combinations* (effective from Jan 2021)
  - PBE IPSAS 41 *Financial Instruments* (effective from Jan 2022)
  - PBE IFRS 17 *Insurance Contracts* (effective from Jan 2022). No change required – this Standard did not amend PBE FRS 46 or PBE FRS 47
  - PBE IFRS 9 *Financial Instruments*. No change required – this standard was superseded by PBE IPSAS 41.
- We identified the likely amendments to other standards by searching each PBE Standard for references to PBE FRS 46, PBE FRS 47 or "first-time adoption".
- We identified the differences between PBE FRS 47 and IFRS 1/NZ IFRS 1 and have expressed a view about whether those differences remain appropriate.

We have checked heading styles against IFRS 1/NZ IFRS 1 and would also propose to align a few headings.

PBE FRS 47 FIRST-TIME ADOPTION OF PBE STANDARDS ~~BY ENTITIES OTHER THAN THOSE PREVIOUSLY APPLYING NZ IFRS~~ (PBE FRS 47)

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PBE FRS 47 FIRST-TIME ADOPTION OF PBE STANDARDS ~~BY ENTITIES OTHER THAN THOSE PREVIOUSLY APPLYING NZ IFRS~~

CONTENTS

Public Benefit Entity Financial Reporting Standard 47 *First-time Adoption of PBE Standards* ~~*by Entities Other Than Those Previously Applying NZ IFRS*~~ is set out in paragraphs 1–43 and Appendices A–D. All the paragraphs have equal authority. PBE FRS 47 should be read in the context of its objective, the NZASB's Basis for Conclusions on PBE FRS 47, the *Public Benefit Entities' Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective [Level 1]

1. The objective of this Standard is to ensure that an entity's first set of financial statements prepared under PBE Standards, any interim financial reports for part of the period covered by those financial statements and any prospective financial statements presented prior to an entity's first set of financial statements under PBE Standards, contain high quality information that:

   (a) Is transparent for users and comparable over all periods presented;

   (b) Provides a suitable starting point for accounting in accordance with PBE Standards; and

   (c) Can be generated at a cost that does not exceed the benefits.

   [Based on IFRS 1 paragraph 1]

Scope [Level 1]

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

3. **A Tier 2 entity:**

   (a) **Complies with paragraphs RDR 8.1–RDR 8.6 rather than paragraphs 4-7~~8~~; and**

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

[Domestic scope paragraphs, equivalent to NZ IFRS 1 paragraphs NZ 1.1 and NZ 1.2. Change reference from paragraphs 4–8 to "4–7" because paragraph 8 has been deleted.]

Tier 1 Entities [Level 2]

4. **Subject to paragraph 5.1, a Tier 1 entity ~~that has not previously applied NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep or NZ IFRS RDR in the immediately preceding period~~ shall apply this PBE Standard in:**

   (a) **Its first set of financial statements under PBE Standards;**

   (b) **Each interim financial report, if any, that it presents in accordance with PBE IAS 34 *Interim Financial Reporting* for part of the period covered by its first set of financial statements under PBE Standards; and**

   (c) **Its first set of prospective financial statements presented in accordance with PBE FRS 42 *Prospective Financial Statements* where an entity presents such statements prior to presenting its first set of financial statements under PBE Standards.**

   [Paragraphs 4(a) and (b) are based on IFRS 1 paragraph 2. NZ IFRS 1 does not mention prospective financial statements. Many public sector PBEs are required to prepare prospective financial statements. Most NFP PBEs do not.]

5. A Tier 1 entity's first set of financial statements under PBE Standards is the first annual financial statements in which the entity adopts PBE Standards by a statement that the financial statements have been prepared in accordance with PBE Standards. Financial statements prepared in accordance with PBE Standards are an entity's first set of financial statements under PBE Standards if, for example, the entity:

   (a) Presented its most recent previous financial statements in accordance with requirements that are not consistent with PBE Standards in all respects;

   (b) Prepared financial statements in accordance with PBE Standards for internal use only, without making them available to the entity's owners or any other external users; or

   (c) Did not present financial statements for previous periods.

   [Based on IFRS 1 paragraph 3. There are a few differences between IFRS 1 and PBE FRS 47 but we do not propose any changes to PBE FRS 47. (i) IFRS 1 refers to "explicit and unreserved statements of compliance with IFRSs" whereas PBE FRS 47 refers to "a statement that the financial statements have been prepared in accordance with PBE Standards". (ii) PBE FRS 47 paragraph 5(a) is simpler – it does not talk about national requirements whereas both IFRS 1 paragraph 3(a)(i) and (iv) refer to national requirements.

(iii) PBE FRS 47 does not explicitly mention two of the examples in IFRS 1. IFRS 1 paragraph 3(a)(ii) refers to when the entity's previous financial statements were presented "in conformity with IFRS in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IFRS" and IFRS 1 paragraph 3(c) refers to when an entity "prepared a reporting package in accordance with IFRS for consolidation purposes without preparing a complete set of financial statements." The omission of IFRS 1 paragraph 3(a)(ii) is not a concern as that scenario would fall within PBE FRS 47 paragraph 5(a). However, we could seek feedback from constituents as to whether it would be helpful to explicitly mention the reporting package example in IFRS 1 paragraph 3(c).]

[PBE FRS 47 omitted IFRS 1 paragraph 4 (shown below) which discusses situations when IFRS 1 *does not apply*. IFRS 1 paragraphs 4(a) and 4(b) discuss national requirements and were mostly likely omitted because they could have been confusing for PBEs. However, we think it would be appropriate to seek feedback on whether a statement equivalent to IFRS 1 paragraph 4(c) about a qualified audit opinion on previous statements would be useful.]

Extract from NZ IFRS 1 paragraph 4

4 Subject to paragraph NZ 4.1, this Standard applies when a Tier 1 entity first adopts NZ IFRS. It does not apply when, for example, an entity:

(a) stops presenting financial statements in accordance with national requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with NZ IFRS;

(b) presented financial statements in the previous year in accordance with national requirements and those financial statements contained an explicit and unreserved statement of compliance with NZ IFRS; or

(c) presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with NZ IFRS, even if the auditors qualified their audit report on those financial statements.

5.1 This Standard does not apply when a Tier 1 entity presented financial statements in its most recent previous reporting period that contained a statement of compliance with PBE Standards RDR.

[Domestic paragraph. Based on NZ IFRS 1 paragraph NZ 4.1, except that NZ IFRS 1 refers to an "explicit and unreserved statement of compliance". We propose no change to PBE FRS 47.]

6. Notwithstanding the requirements in paragraphs 4 and 5, a Tier 1 entity that has applied PBE Standards in a previous period, but not in its most recent financial statements, shall either apply this Standard or else apply PBE Standards retrospectively in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* as if the entity had never stopped applying PBE Standards.

[Based on IFRS 1 paragraph 4A, except that IFRS refers to paragraphs 2 and 3 (which are equivalent to paragraphs 4 and 5 in PBE FRS 46. We propose to amend PBE FRS 47 to refer to both paragraphs.]

6.1 When a Tier 1 entity does not elect to apply this Standard in accordance with paragraph 6, the entity shall nevertheless apply the disclosure requirements in paragraphs 29.1 and 29.3 of this Standard in addition to the disclosure requirements in PBE IPSAS 3.

[Based on IFRS 1 paragraph 4B]

7. This PBE Standard does not apply to changes in accounting policies made by a Tier 1 entity that already applies PBE Standards. Such changes are the subject of:

(a) Requirements on changes in accounting policies in PBE IPSAS 3; and

(b) Specific transitional requirements in other PBE Standards.

[Based on IFRS 1 paragraph 5]

8. [Deleted]

Tier 2 Entities [Level 2]

RDR 8.1 **Subject to paragraph RDR 8.3, a Tier 2 entity ~~that has not previously applied NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep or NZ IFRS RDR in the immediately preceding period~~ shall apply this PBE Standard in:**

(a) **Its first set of financial statements under PBE Standards RDR;**

(b) **Each interim financial report, if any, that it presents in accordance with PBE IAS 34 ~~*Interim Financial Reporting*~~ for part of the period covered by its first set of financial statements under PBE Standards RDR; and**

(c) **Its first set of prospective financial statements presented in accordance with PBE FRS 42 where an entity presents such statements prior to presenting its first set of financial statements under PBE Standards RDR.**

[Domestic RDR paragraph. Equivalent to NZ IFRS 1 RDR 5.1. References to NZ IFRS PBE and NZ IFRS Diff Rep should have been deleted from PBE FRS 47 when PBE FRS 46 was amended in 2018. The title of PBE IAS 34 is used in full in paragraph 4(b).]

RDR 8.2 A Tier 2 entity's first set of financial statements under PBE Standards RDR is the first annual financial statements in which the entity adopts PBE Standards RDR by a statement that the financial statements have been prepared in accordance with PBE Standards RDR. Financial statements prepared in accordance with PBE Standards RDR are an entity's first set of financial statements under PBE Standards RDR if, for example, the entity:

(a) Presented its most recent previous financial statements in accordance with requirements that are not consistent with PBE Standards RDR in all respects;

(b) Prepared financial statements in accordance with PBE Standards RDR for internal use only, without making them available to the entity's owners or any other external users; or

(c) Did not present financial statements for previous periods.

RDR 8.3 This Standard does not apply when a Tier 2 entity presented financial statements in its most recent previous reporting period that contained a statement of compliance with PBE Standards.

[Domestic RDR paragraph. Equivalent to NZ IFRS 1 RDR 5.4 except that NZ IFRS 1 refers to an "explicit and unreserved statement of compliance" with NZ IFRS RDR].

RDR 8.4 Notwithstanding the requirements in paragraph RDR 8.1 and RDR 8.2, a Tier 2 entity that has applied PBE Standards RDR in a previous period, but not in its most recent previous financial statements, shall either apply this Standard or else apply PBE Standards RDR retrospectively in accordance with PBE IPSAS 3 ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ as if the entity had never stopped applying PBE Standards RDR.

[Domestic RDR paragraph. Equivalent to NZ IFRS 1 RDR 5.5.]

RDR 8.5 When a Tier 2 entity does not elect to apply this Standard in accordance with paragraph RDR 8.4, the entity shall nevertheless apply the disclosure requirements in paragraphs RDR 29.2 and RDR 29.4 of this Standard in addition to the disclosure requirements in PBE IPSAS 3.

[Domestic RDR paragraph. Equivalent to NZ IFRS 1 RDR 5.6.]

RDR 8.6. This PBE Standard does not apply to changes in accounting policies made by a Tier 2 entity that already applies PBE Standards RDR. Such changes are the subject of:

(a) Requirements on changes in accounting policies in PBE IPSAS 3; and

(b) Specific transitional requirements in other PBE Standards.

[Domestic RDR paragraph. Equivalent to NZ IFRS 1 RDR 5.7.]

Definitions [Level 1]

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

~~For the purposes of this Standard, d~~Date of transition to PBE Standards:

(a) **Is the beginning of the earliest period for which an entity presents full comparative information in its first set of financial statements under PBE Standards; or**

(b) **Is the beginning of the current period for a Tier 2 not-for-profit entity that does not provide full comparative information in its first set of financial statements under PBE Standards.**

Deemed cost is an amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

First reporting period under PBE Standards is the latest reporting period covered by an entity's first set of financial statements under PBE Standards.

First set of financial statements under PBE Standards is the first annual financial statements in which an entity adopts Public Benefit Entity Standards (PBE Standards). [Note: The equivalent definition in PBE FRS 46 says "applies". If PBE FRS 46 is not withdrawn the definition in PBE FRS 46 should be amended to align with this Standard.]

First set of financial statements under PBE Standards RDR is the first annual financial statements in which an entity adopts Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR).

First-time adopter is an entity that presents its financial statements under PBE Standards for the first time.

~~**NZ IFRS are Standards and Interpretations issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB comprising:**~~

~~(a) **New Zealand equivalents to:**~~

~~(i) **International Financial Reporting Standards;**~~

~~(ii) **International Accounting Standards;**~~

~~(iii) **IFRIC Interpretations; and**~~

~~(iv) **SIC Interpretations; and**~~

~~(b) **Domestic Financial Reporting Standards.**~~

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

~~**NZ IFRS PBE comprises NZ IFRS with PBE modifications.**~~

~~**NZ IFRS RDR comprises NZ IFRS with disclosure concessions for Tier 2 for-profit entities.**~~

Opening statement of financial position is an entity's statement of financial position at the date of transition to PBE Standards.

~~**PBE Standards RDR comprises PBE Standards with disclosure concessions for Tier 2 public benefit entities.**~~

Previous GAAP is the basis of accounting that a first-time adopter used immediately before adopting PBE Standards.

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

Public Benefit Entity Standards (PBE Standards) are standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB for public benefit entities comprising:

(a) **Public Benefit Entity International Public Sector Accounting Standards;**

(b) **Public Benefit Entity International Financial Reporting Standards, including Public Benefit Entity International Accounting Standards; and**

(c) **Public Benefit Entity Financial Reporting Standards.**

PBE Standards Reduced Disclosure Regime (PBE Standards RDR) comprises PBE Standards with disclosure concessions for Tier 2 public benefit entities.

Recognition and Measurement [Level 1]

Opening Statement of Financial Position [Level 2]

10. **An entity shall prepare and present an opening statement of financial position at the date of transition to PBE Standards. This is the starting point for its accounting in accordance with PBE Standards.**

    [Based on IFRS 1 paragraph 6]

Accounting Policies [Level 2]

11. **Subject to the provisions in this Standard, an entity shall use the same accounting policies in its opening statement of financial position under PBE Standards and throughout all periods presented in its first set of financial statements under PBE Standards. Those accounting policies shall comply with each PBE Standard effective at the end of its first reporting period under PBE Standards, except as specified in paragraphs 18–23 and Appendices A–C.**

    [Based on IFRS 1 paragraph 7]

12. **An entity shall not apply different versions of PBE Standards that were effective at earlier dates. An entity may apply a new PBE Standard that is not yet mandatory if that PBE Standard permits early application.**

Example: Consistent application of latest version of PBE Standards
Background The end of entity A's first reporting period under PBE Standards is 31 December 20X5. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 25). Therefore, its date of transition to PBE Standards is the beginning of operations on 1 January 20X4 (or, equivalently, close of operations on 31 December 20X3). Entity A presented financial statements in accordance with its previous GAAP annually to 31 December each year up to, and including, 31 December 20X4. **Application of requirements** Entity A is required to apply the PBE Standards effective for periods ending on 31 December 20X5 in: (a) Preparing and presenting its opening statement of financial position under PBE Standards at 1 January 20X4; and (b) Preparing and presenting its statement of financial position for 31 December 20X5 (including comparative amounts for 20X4), statement of comprehensive revenue and expense, statement of changes in net assets/equity and cash flow statement for the year to 31 December 20X5 (including comparative amounts for 20X4) and disclosures (including comparative information for 20X4). If a new PBE Standard is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that PBE Standard in its first set of financial statements under PBE Standards.

    [Based on IFRS 1 paragraph 8]

13. The transitional provisions in other PBE Standards apply to changes in accounting policies made by an entity that already uses PBE Standards; they do not apply to a first-time adopter's transition to PBE Standards, except as specified in Appendices A–C.

    [Based on IFRS 1 paragraph 9]

14. **Except as described in paragraphs 18–23 and Appendices A–C, an entity shall, in its opening statement of financial position under PBE Standards:**

    (a) **Recognise all assets and liabilities whose recognition is required by PBE Standards;**

    (b) **Not recognise items as assets or liabilities if PBE Standards do not permit such recognition;**

(c) **Reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of net assets/equity, but are a different type of asset, liability or component of net assets/equity in accordance with PBE Standards; and**

(d) **Apply PBE Standards in measuring all recognised assets and liabilities.**

[Based on IFRS 1 paragraph 10]

15. **The accounting policies that an entity uses in its opening statement of financial position under PBE Standards may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to PBE Standards. Therefore, an entity shall recognise those adjustments directly in accumulated comprehensive revenue and expense (or, if appropriate, another category of net assets/equity) at the date of transition to PBE Standards.**

[Based on IFRS 1 paragraph 11]

16. **This Standard establishes two categories of exceptions to the principle that an entity's opening statement of financial position under PBE Standards shall comply with each PBE Standard:**

(a) **Paragraphs 18–21 and Appendix A prohibit retrospective application of some aspects of other PBE Standards.**

(b) **Appendices B–C grant exemptions from some requirements of other PBE Standards.**

[Based on IFRS 1 paragraph 12]

Exceptions to the Retrospective Application of Other PBE Standards [Level 2]

17. This Standard prohibits retrospective application of some aspects of other PBE Standards. These exceptions are set out in paragraphs 18–21 and Appendix A.

[Based on IFRS 1 paragraph 13]

Estimates [Currently level 2, change to Level 3]

18. **Subject to the requirements of this Standard, an entity's estimates in accordance with PBE Standards at the date of transition to PBE Standards shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.**

[Based on IFRS 1 paragraph 14. Additional words shown as shaded text. Propose to change heading to level 3 – the equivalent heading in NZ IFRS 1 is level 3.]

19. **An entity may receive information after the date of transition to PBE Standards about estimates that it had made under previous GAAP. In accordance with paragraph 18, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting date in accordance with PBE IPSAS 14 *Events After the Reporting Date*.**

[Based on IFRS 1 paragraph 15. IFRS 1 includes the example as part of the paragraph.]

Example: Consistent use of estimates
For example, assume that an entity's date of transition to PBE Standards is 1 January 20X4 and new information on 15 July 20X4 requires the revision of an estimate made in accordance with previous GAAP at 31 December 20X3. The entity shall not reflect that new information in its opening statement of financial position under PBE Standards (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in surplus or deficit (or, if appropriate, in other comprehensive revenue and expense) for the year ended 31 December 20X4.

20. **An entity may need to make estimates in accordance with PBE Standards at the date of transition to PBE Standards that were not required at that date under previous GAAP. To achieve consistency with PBE IPSAS 14, those estimates in accordance with PBE Standards shall reflect conditions that existed at the date of transition to PBE Standards. In particular, estimates at the date of transition**

to PBE Standards of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.

[Based on IFRS 1 paragraph 16. IFRS 1 paragraph 16 is in normal font]

21. Paragraphs 18–20 apply to the opening statement of financial position under PBE Standards. They also apply to a comparative period presented in an entity's first set of financial statements under PBE Standards, in which case the references to the date of transition to PBE Standards are replaced by references to the end of that comparative period.

[Based on IFRS 1 paragraph 17]

Exemptions from other PBE Standards [Level 2]

22. **An entity may elect to use one or more of the exemptions contained in Appendices B–C. An entity shall not apply these exemptions by analogy to other items.**

[Based on IFRS 1 paragraph 18]

23. **Some exemptions in Appendices B–C refer to fair value. In determining fair values in accordance with this PBE Standard, an entity shall apply the definition of fair value in this Standard and any more specific guidance in other PBE Standards on the determination of fair values for the asset or liability in question. Those fair values shall reflect conditions that existed at the date for which they were determined.**

[Based on IFRS 1 paragraph 19 which was deleted by IFRS 13 *Fair Value Measurement*]

Presentation and Disclosure [Level 1]

24. This Standard does not provide exemptions from the presentation and disclosure requirements in other PBE Standards.

[Based on IFRS 1 paragraph 20]

Comparative Information [Level 2]

25. **An entity's first set of financial statements under PBE Standards shall include at least three statements of financial position, two statements of comprehensive revenue and expense, two separate statements of financial performance (if presented), two cash flow statements and two statements of changes in net assets/equity, and related notes, including comparative information for all statements presented.**

[Based on IFRS 1 paragraph 21]

26. An entity's opening statement of financial position may be presented in the notes.

[Paragraph 26 is a domestic paragraph. There is no equivalent in IFRS 1.]

27. An entity is required to present all comparative information in accordance with PBE Standards, including the presentation of a comparative cash flow statement in accordance with PBE IPSAS 2 *Cash Flow Statements*.

[Paragraph 27 is a domestic paragraph. There is no equivalent in IFRS 1.]

RDR 27.1 A Tier 2 entity is not required to provide a statement of financial position as at the beginning of the earliest comparative period in accordance with paragraphs 25 and 26.

RDR 27.2 A Tier 2 not-for-profit entity is not required to present comparative information in its first set of financial statements under PBE Standards, but is required to present the opening statement of financial position.

RDR 27.3 A Tier 2 not-for-profit entity which applies RDR 27.2 to its first set of financial statements under PBE Standards shall attach a copy of the previous year's financial statements, and explain in the notes the significant differences in accounting policies applied between the two sets of financial statements.

[Paragraphs RDR 27.1–RDR 27.3 are domestic RDR paragraphs. There are no equivalent paragraphs in NZ IFRS 1.]

Non-PBE Standards Comparative Information and Historical Summaries
[Currently Level 2 – change to Level 3]

28. **Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with PBE Standards. This Standard does not require such summaries to comply with the recognition and measurement requirements of PBE Standards. Furthermore, some entities present comparative information in accordance with previous GAAP as well as the comparative information required by PBE IPSAS 1 *Presentation of Financial Reports*. In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:**

    (a) **Label the previous GAAP information prominently as not being prepared in accordance with PBE Standards; and**

    (b) **Disclose the nature of the main adjustments that would make it comply with PBE Standards. An entity need not quantify those adjustments.**

    [Based on IFRS 1 paragraph 22, amended by PBE FRS 48]

Explanation of Transition to PBE Standards [Level 2]

*29. **An entity shall explain how the transition from previous GAAP to PBE Standards affected its reported financial position, statement of comprehensive revenue and expense, and cash flows.**

    [Based on IFRS 1 paragraph 23]

*29.1 An entity that has applied PBE Standards in a previous period, as described in paragraph 6, shall disclose:

    (a) The reason it stopped applying PBE Standards; and

    (b) The reason it is resuming the application of PBE Standards.

    [Based on IFRS 1 paragraph 23A]

RDR 29.2 A Tier 2 entity that has applied PBE Standards RDR in a previous period, as described in paragraph RDR 8.4, shall disclose:

    (a) The reason it stopped applying PBE Standards RDR; and

    (b) The reason it is resuming the application of PBE Standards RDR.

    [Domestic RDR paragraph. Equivalent to NZ IFRS 1 paragraph RDR 23A.1]

*29.3 When an entity, in accordance with paragraph 6, does not elect to apply PBE FRS 47, the entity shall explain the reasons for electing to apply PBE Standards as if it had never stopped applying PBE Standards.

    [Based on IFRS 1 paragraph 23B]

RDR 29.4 When a Tier 2 entity, in accordance with paragraph RDR 8.4 does not elect to apply PBE FRS 47, the entity shall explain the reasons for electing to apply PBE Standards RDR as if it had never stopped applying PBE Standards RDR.

    [Domestic RDR paragraph. Equivalent to NZ IFRS 1 paragraph RDR 23B.1]

Reconciliations [Currently Level 2 – change to Level 3]

*30. **To comply with paragraph 29, an entity's first set of financial statements under PBE Standards shall include:**

    (a) **Reconciliations of its net assets/equity reported in accordance with previous GAAP to its net assets/equity in accordance with PBE Standards for both of the following dates:**

        (i) **The date of transition to PBE Standards; and**

        (ii) **The end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.**

    (b) **A reconciliation to its total comprehensive revenue and expense in accordance with PBE Standards for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive revenue and expense in**

accordance with previous GAAP for the same period or, if an entity did not report such a total, surplus or deficit under previous GAAP.

(c) **If the entity recognised or reversed any impairment losses for the first time in preparing its opening statement of financial position under PBE Standards, the disclosures that PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to PBE Standards.**

[Based on IFRS 1 paragraph 24]

RDR 30.1 A Tier 2 entity's first PBE Standards RDR financial statements shall include reconciliations of its net assets/equity reported in accordance with previous GAAP to its net assets/equity in accordance with PBE Standards RDR for both (i) the date of transition to PBE Standards RDR, and (ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.

[Domestic RDR paragraph. Equivalent to NZ IFRS 1 paragraph RDR 24.1]

*31. **The reconciliations required by paragraph 30(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive revenue and expense. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.**

[Based on IFRS 1 paragraph 25, but IFRS 1 uses normal font]

*32. **If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraphs 30(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.**

[Based on IFRS 1 paragraph 26 but IFRS 1 uses normal font]

33. Except as otherwise specified in this Standard, PBE IPSAS 3 does not apply to the changes in accounting policies an entity makes when it adopts PBE Standards or to changes in those policies until after it presents its first set of financial statements under PBE Standards. Therefore, PBE IPSAS 3's requirements for disclosures about changes in accounting policies do not apply in an entity's first set of financial statements under PBE Standards.

[Based on IFRS 1 paragraph 27, additional words shown as shaded text. The extra situations specified in this Standard are in relation to service concession arrangements (see paragraph C23). NZ IFRS 1 paragraph 27 has an RDR concession. PBE FRS 47 paragraph 33 does not. We assume this difference was deliberate and do not propose to change paragraph 33.]

*34. **If during the period covered by its first set of financial statements under PBE Standards an entity changes its accounting policies or its use of the exemptions contained in this PBE Standard, it shall explain the changes between its first interim financial report under PBE Standards and its first set of financial statements under PBE Standards, in accordance with paragraph 29, and it shall update the reconciliations required by paragraph 30(a) and (b).**

[Based on IFRS 1 paragraph 27A but IFRS 1 uses normal font.]

35. **If an entity did not present financial statements for previous periods, its first set of financial statements under PBE Standards shall disclose that fact.**

[Based on IFRS 1 paragraph 28 but IFRS 1 uses normal font. NZ IFRS 1 paragraph 28 has an RDR concession. PBE FRS 47 paragraph 35 does not. We assume this difference was deliberate and do not propose to change paragraph 35.]

Designation of Financial Assets or Financial Liabilities [Currently Level 2 – change to Level 3]

*36. **An entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through surplus or deficit in accordance with paragraph C16A. The entity shall disclose the fair value of financial assets so designated at the date of designation and their classification and carrying amount in the previous financial statements.**

[Based on IFRS 1 paragraph 29 but IFRS 1 uses normal font. As amended by PBE IPSAS 41]

36A **An entity is permitted to designate a previously recognised financial liability as a financial liability at fair value measured through surplus or deficit in accordance with paragraph C16. The entity shall disclose the fair value of financial liabilities so designated at the date of designation and their classification and carrying amount in the previous financial statements.**

[Based on IFRS 1 paragraph 29A but IFRS 1 uses normal font. Added to PBE FRS 47 by PBE IPSAS 41]

RDR36.1 **A Tier 2 entity is not required to make the disclosure required by paragraphs 36 and 36A.**

[Domestic RDR paragraph. Added by PBE IPSAS 41]

Use of Fair Value as Deemed Cost [Currently Level 2 – change to Level 3]

*37. **If an entity uses fair value in its opening statement of financial position under PBE Standards as deemed cost for an item of property, plant and equipment, an investment property or an intangible asset (see paragraphs C2 and C4), the entity's first set of financial statements shall disclose, for each line item in the opening statement of financial position under PBE Standards:**

(a) **The aggregate of those fair values; and**

(b) **The aggregate adjustment to the carrying amounts reported under previous GAAP.**

[Based on IFRS 1 paragraph 30. IFRS 1 uses normal font. IFRS 1 also refers to right-of-use assets]

Use of Deemed Cost for Investments in Controlled Entities, Joint Ventures and Associates [Currently Level 2 – change to Level 3]

*38. **Similarly, if an entity uses a deemed cost in its opening statement of financial position under PBE Standards for an investment in a controlled entity, joint venture or associate in its separate financial statements (see paragraph C12), the entity's first separate financial statements under PBE Standards shall disclose:**

(a) **The aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount;**

(b) **The aggregate deemed cost of those investments for which deemed cost is fair value; and**

(c) **The aggregate adjustment to the carrying amounts reported under previous GAAP.**

[Based on IFRS 1 paragraph 30. IFRS 1 uses normal font.]

Note: PBE FRS 47 does not include the following three paragraphs in IFRS 1. We do not propose to add these paragraphs to PBE FRS 47.

- Paragraph 31A deals with deemed cost for oil and gas assets. Paragraph D8A in IFRS 1 refers to IFRS 6.
- Paragraph 31B deals with deemed cost for operations subject to rate regulation. Paragraph D8B in IFRS 1 refers to IFRS 14.
- Paragraph 31C deals with deemed cost after severe hyperinflation.

Interim Financial Reports [Currently Level 2 – change to Level 3]

*39. **To comply with paragraph 29, if an entity presents an interim financial report in accordance with PBE IAS 34 for part of the period covered by its first set of financial statements under PBE Standards, the entity shall satisfy the following requirements in addition to the requirements of PBE IAS 34:**

(a) **Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:**

(i) **A reconciliation of its net assets/equity in accordance with previous GAAP at the end of that comparable interim period to its net assets/equity under PBE Standards at that date; and**

(ii) **A reconciliation to its total comprehensive revenue and expense in accordance with PBE Standards for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive revenue and expense**

in accordance with previous GAAP for that period or, if an entity did not report such a total, surplus or deficit in accordance with previous GAAP.

(b) **In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with PBE IAS 34 for part of the period covered by its first set of financial statements under PBE Standards shall include the reconciliations described in paragraph 30(a) and (b) (supplemented by the details required by paragraphs 31 and 32) or a cross reference to another published document that includes these reconciliations.**

(c) **If an entity changes its accounting policies or its use of the exemptions contained in this PBE Standard, it shall explain the changes in each such interim financial report in accordance with paragraph 29 and update the reconciliations required by paragraph 30(a) and (b).**

[Based on IFRS 1 paragraph 32. IFRS 1 uses normal font]

*40. **PBE IAS 34 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, PBE IAS 34 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.**

[Based on IFRS 1 paragraph 33. IFRS 1 uses normal font]

Prospective Financial Statements [Currently Level 2 – change to Level 3]

41. **An entity's first set of prospective financial statements presented under PBE Standards (where such financial statements are presented prior to the entity's first set of interim or annual financial statements presented under PBE Standards) shall include a statement that the financial statements presented are its first set of prospective financial statements presented under PBE Standards.**

[Domestic paragraph.]

Effective Date [Level 1]

[All effective date paragraphs are domestic paragraphs.]

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

42.1 ***2015 Omnibus Amendments to PBE Standards*, issued in July 2015, amended paragraph 25 as a consequential amendment derived from the amendment to PBE IPSAS 1 *Presentation of Financial Statements*. An entity shall apply those amendments retrospectively in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual financial statements covering periods beginning on or after 1 January 2016. Earlier application is permitted, subject to paragraph 42. If an entity applies those amendments for an earlier period it shall disclose that fact.**

42.2 ***Amendments to PBE Standards and Authoritative Notice as a Consequence of XRB A1 and Other Amendments*, issued in December 2015, amended terminology for consistency with terminology used in XRB A1 and renumbered paragraph 6 as paragraph 5, amended and renumbered paragraph 5 as paragraph 6, amended paragraphs 3, 4, 7, 9 and 30, deleted paragraph 8, added a heading before paragraph 4, added a heading and paragraphs RDR 8.1–RDR 8.6 and added paragraphs 5.1, 6.1, 29.1, RDR 29.2, 29.3, RDR 29.4 and RDR 30.1. An entity shall apply those amendments for annual financial statements, and any interim financial statements within that annual period, covering periods beginning on or after 1 January 2016. Earlier application is permitted.**

42.3 ***2016 Omnibus Amendments to PBE Standards*, issued in January 2017, added a footnote to paragraph C4. An entity shall apply that amendment for annual financial statements covering periods beginning on or after 1 January 2017.**

42.4 **PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures* and PBE IPSAS 37 *Joint Arrangements*,**

issued in January 2017, amended paragraphs 38, B1, B4, C1, C11 and the preceding heading, C12 and C13 and added paragraphs C31, D1–D2 and the preceding heading. An entity shall apply those amendments when it applies PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 and PBE IPSAS 37.

42.5 **PBE IFRS 9 *Financial Instruments*, issued in January 2017, amended paragraphs 36, A1–A6, C1, C11, C12, C16 and C17, and added paragraphs 36A, A8–A8G, A9, C16A–C16C, C32, E1 and E2. An entity shall apply those amendments when it applies PBE IFRS 9.**[1] [Note: Para 42.5 added by PBE IFRS 9 *Financial Instruments*]

42.6 **PBE IPSAS 39 *Employee Benefits*, issued in May 2017, amended paragraph C1, added paragraph D3 and its relating heading and deleted paragraph C8 and its related heading. An entity shall apply those amendments when it applies PBE IPSAS 39.**

42.7 ***2018 Omnibus Amendments to PBE Standards*, issued in November 2018, amended paragraph C1 and added paragraph C33~~2~~. An entity shall apply those amendments when it applies Appendix A of PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*.**

42.8 **PBE IPSAS 40 *PBE Combinations*, issued in July 2019, amended paragraphs A1, the title of Appendix B and the sentence following the title, B1, B2–B5, C13, C14, and added paragraph A7 and its related heading, the heading before paragraph B2, and paragraphs B6–B9 and their related heading. An entity shall apply those amendments when it applies PBE IPSAS 40.**

[Para 42.8 added by PBE IPSAS 40]

42.9 **PBE IPSAS 41 *Financial Instruments*, issued in March 2019, amended paragraphs 36, 42.5, A1–A6, C1, C11, C12, C16 and C17, and added paragraphs 36A, RDR36.1, A8–A8G, A9, C16A–C16C, C32, and E1 and E2. An entity shall apply those amendments when it applies PBE IPSAS 41**.

42.10 **PBE IFRS 17 *Insurance Contracts*** [Placeholder pending approval of PBE IFRS 17 which is applicable to NFP PBEs only]

Withdrawal and Replacement of PBE FRS 47 (May 2013)

43. This Standard, when applied, supersedes PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* issued in May 2013.

[1] PBE IFRS 9 was subsequently withdrawn by PBE IPSAS 41. The amendments in Appendix D of PBE IFRS 9 were not compiled. PBE IPSAS 41 *Financial Instruments*.

Appendix A

Exceptions to the Retrospective Application of other PBE Standards [Level 1]

This Appendix is an integral part of PBE FRS 47.

A1. An entity shall apply the following exceptions:

(a) Derecognition of financial assets and financial liabilities (paragraphs A2 and A3);

(b) Hedge accounting (paragraphs A4–A6);

(c) Non-controlling interests (paragraph A7);

(d) Classification and measurement of financial assets (paragraphs A8–A8C);

(e) Impairment of financial assets (paragraphs A8D–A8G); and

(f) Embedded derivatives (paragraph A9); and

(g) Insurance contracts (paragraph A10).

[Based on IFRS 1 paragraph B1. As amended by PBE IPSAS 40, PBE IPSAS 41 and PBE IFRS 17 (applicable to NFP PBEs only). IFRS 1 also refers to government loans – which are not relevant for PBE FRS 47 because of the existence of PBE IPSAS 23]

Derecognition of Financial Assets and Financial Liabilities [Level 2]

A2. Except as permitted by paragraph A3, a first-time adopter shall apply the derecognition requirements in PBE IPSAS 41 *Financial Instruments* prospectively for transactions occurring on or after the date of transition to PBE Standards. For example, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to PBE Standards, it shall not recognise those assets and liabilities in accordance with PBE Standards (unless they qualify for recognition as a result of a later transaction or event).

[Based on IFRS 1 paragraph B2. As amended by PBE IPSAS 41]

A3. Despite paragraph A2, an entity may apply the derecognition requirements in PBE IPSAS 41 retrospectively from a date of the entity's choosing, provided that the information needed to apply PBE IPSAS 41 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

[Based on IFRS 1 paragraph B3. As amended by PBE IPSAS 41]

Hedge Accounting [Level 2]

A4. As required by PBE IPSAS 41, at the date of transition to PBE Standards, an entity shall:

(a) Measure all derivatives at fair value; and

(b) Eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.

[Based on IFRS 1 paragraph B4. As amended by PBE IPSAS 41]

A5. An entity shall not reflect in its opening statement of financial position under PBE Standards a hedging relationship of a type that does not qualify for hedge accounting in accordance with PBE IPSAS 41 (for example, many hedging relationships where the hedging instrument is a stand-alone written option or a net written option; or where the hedged item is a net position in a cash flow hedge for another risk than foreign currency risk). However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate as a hedged item in accordance with PBE Standards an individual item within that net position, or a net position if that meets the requirements in paragraph 146 of PBE IPSAS 41, provided that it does so no later than the date of transition to PBE Standards.

[Based on IFRS 1 paragraph B5. As amended by PBE IPSAS 41]

A6. If, before the date of transition to PBE Standards, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in PBE IPSAS 41, the entity shall apply paragraphs 135 and 136 of PBE IPSAS 41 to discontinue hedge accounting. Transactions entered into before the date of transition to PBE Standards shall not be retrospectively designated as hedges.

[Based on IFRS 1 paragraph B6. As amended by PBE IPSAS 41]

Non-Controlling Interests [Level 2]

A7. A first-time adopter shall apply the following requirements of PBE IPSAS 35 prospectively from the date of transition to PBE Standards:

(a) The requirement in paragraph 49 that total comprehensive revenue and expense is attributed to the owners of the controlling entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;

(b) The requirements in paragraphs 48 and 51 for accounting for changes in the controlling entity's ownership interest in a controlled entity that do not result in a loss of control; and

(c) The requirements in paragraphs 53–55 for accounting for a loss of control over a controlled entity, and the related requirements of paragraph 8A of PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

However, if a first-time adopter elects to apply PBE IPSAS 40 *PBE Combinations* retrospectively to past PBE combinations, it also shall apply PBE IPSAS 35 in accordance with paragraph B1 of this Standard.

[Based on IFRS 1 paragraph B6. Amended by PBE IPSAS 40]

Classification and Measurement of Financial Instruments [Level 2]

A8. An entity shall assess whether a financial asset meets the conditions in paragraph 40 of PBE IPSAS 41 or the conditions in paragraph 41 of PBE IPSAS 41 on the basis of the facts and circumstances that exist at the date of transition to PBE Standards.

[Based on IFRS 1 paragraph B8. Added by PBE IPSAS 41]

A8A. If it is impracticable to assess a modified time value of money element in accordance with paragraphs AG68–AG70 of PBE IPSAS 41 on the basis of the facts and circumstances that exist at the date of transition to PBE Standards, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of transition to PBE Standards without taking into account the requirements related to the modification of the time value of money element in paragraphs AG68–AG70 of PBE IPSAS 41. (In this case, the entity shall also apply paragraph 49R of PBE IPSAS 30 but references to 'paragraph 160 of PBE IPSAS 41' shall be read to mean this paragraph and references to 'initial recognition of the financial asset' shall be read to mean 'at the date of transition to PBE Standards'.)

[Based on IFRS 1 paragraph B8A. Added by PBE IPSAS 41]

A8B. If it is impracticable to assess whether the fair value of a prepayment feature is insignificant in accordance with paragraph AG74 of PBE IPSAS 41 on the basis of the facts and circumstances that exist at the date of transition to PBE Standards, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of transition to PBE Standards without taking into account the exception for prepayment features in paragraph AG74 of PBE IPSAS 41. (In this case, the entity shall also apply paragraph 49S of PBE IPSAS 30 but references to 'paragraph 161 of PBE IPSAS 41' shall be read to mean this paragraph and references to 'initial recognition of the financial asset' shall be read to mean 'at the date of transition to PBE Standards'.)

[Based on IFRS 1 paragraph B8B. Added by PBE IPSAS 41]

A8C. If it is impracticable (as defined in PBE IPSAS 3) for an entity to apply retrospectively the effective interest method in PBE IPSAS 41, the fair value of the financial asset or the financial liability at the date of transition to PBE Standards shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to PBE Standards.

[Based on IFRS 1 paragraph B8C. Added by PBE IPSAS 41]

Impairment of Financial Assets [Level 2]

A8D. An entity shall apply the impairment requirements in paragraphs 57–112 of PBE IPSAS 41 retrospectively subject to paragraphs A8E–A8G and E1–E2.

[Based on IFRS 1 paragraph B8D. Added by PBE IPSAS 41]

A8E. At the date of transition to PBE Standards, an entity shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments were initially recognised (or for loan commitments and financial guarantee contracts the date that the entity became a party to the irrevocable commitment in accordance with paragraph 78 of PBE IPSAS 41) and compare that to the credit risk at the date of transition to PBE Standards (also see paragraphs AG350–AG351 of PBE IPSAS 41).

[Based on IFRS 1 paragraph B8E. Added by PBE IPSAS 41]

A8F. When determining whether there has been a significant increase in credit risk since initial recognition, an entity may apply:

(a) The requirements in paragraph 82 and AG186–AG188 of PBE IPSAS 41; and

(b) The rebuttable presumption in paragraph 83 of PBE IPSAS 41 for contractual payments that are more than 30 days past due if an entity will apply the impairment requirements by identifying significant increases in credit risk since initial recognition for those financial instruments on the basis of past due information.

[Based on IFRS 1 paragraph B8F. Added by PBE IPSAS 41]

A8G. If, at the date of transition to PBE Standards, determining whether there has been a significant increase in credit risk since the initial recognition of a financial instrument would require undue cost or effort, an entity shall recognise a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognised (unless that financial instrument is low credit risk at a reporting date, in which case paragraph A8F(a) applies).

[Based on IFRS 1 paragraph B8G. Added by PBE IPSAS 41]

Embedded Derivatives [Level 2]

A9. A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required by paragraph AG109 of PBE IPSAS 41.

[Based on IFRS 1 paragraph B8. Added by PBE IPSAS 41]

Note: PBE FRS 47 does not include IFRS 1 Government Loans: paragraphs B10–B12

Insurance Contracts [Level 2]

A10. [PBE IFRS 17 is applicable to NFP PBEs only] An entity shall apply the transition provisions in paragraphs 132.1–132.24 and 132.28 of PBE IFRS 17 to contracts within the scope of PBE IFRS 17. The references in those paragraphs in PBE FRS17 to the transition date shall be read as the date of transition to PBE Standards.

[Based on IFRS 1 paragraph B13. Added by PBE IFRS 17]

Appendix B

Exemptions for PBE Combinations

[Note: Appendix B as amended by PBE IPSAS 40]

This Appendix is an integral part of PBE FRS 47. An entity shall apply the following requirements to PBE combinations that the entity recognised before the date of transition to PBE Standards.

B1. A first-time adopter may elect not to apply PBE IPSAS 40 *PBE Combinations* retrospectively to past PBE combinations (PBE combinations that occurred before the date of transition to PBE Standards). However, if a first-time adopter restates any PBE combination to comply with PBE IPSAS 40, it shall restate all later PBE combinations and shall also apply PBE IPSAS 35 *Consolidated Financial Statements* from that same date. For example, if a first-time adopter elects to restate a PBE combination that occurred on 30 June 20X6, it shall restate all PBE combinations that occurred between 30 June 20X6 and the date of transition to PBE Standards, and it shall also apply PBE IPSAS 35 from 30 June 20X6.

[Equivalent to IFRS 1 paragraph C1]

B2. An entity need not apply PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* retrospectively to fair value adjustments and goodwill arising in PBE combinations that occurred before the date of transition to PBE Standards. If the entity does not apply PBE IPSAS 4 retrospectively to those fair value adjustments and goodwill, it shall treat them as assets and liabilities of the entity rather than as assets and liabilities of the acquired operation. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied in accordance with previous GAAP.

[Equivalent to IFRS 1 paragraph C2]

B3. An entity may apply PBE IPSAS 4 retrospectively to fair value adjustments and goodwill arising in either:

(a) All PBE combinations that occurred before the date of transition to PBE Standards; or

(b) All PBE combinations that the entity elects to restate to comply with PBE IPSAS 40, as permitted by paragraph B1 above.

[Equivalent to IFRS 1 paragraph C3]

B4. If a first-time adopter does not apply PBE IPSAS 40 retrospectively to a past acquisition, this has the following consequences for that PBE combination:

(a) The first-time adopter shall retain the classification (as an acquisition by the legal acquirer, or reverse acquisition by the legal acquired operation) as in its previous GAAP financial statements.

(b) At the date of transition to PBE Standards the first-time adopter shall recognise all its assets and liabilities that it acquired or assumed in a past PBE combination, other than:

(i) Some financial assets and financial liabilities derecognised in accordance with previous GAAP (see paragraph A2); and

(ii) Assets, including goodwill, and liabilities that were not recognised in the acquirer's consolidated statement of financial position in accordance with previous GAAP and which would not qualify for recognition in accordance with PBE Standards in the separate statement of financial position of the acquired operation (see (f)–(i) below).

The first-time adopter shall recognise any resulting change by adjusting accumulated comprehensive revenue and expense (or, if appropriate, another category of net assets/equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see (g)(i) below).

(c) The first-time adopter shall exclude from its opening statement of financial position under PBE Standards any item recognised in accordance with previous GAAP that does not qualify for

recognition as an asset or liability under PBE Standards. The first-time adopter shall account for the resulting change as follows:

(i) The first-time adopter may have classified a past PBE combination as an acquisition and recognised as an intangible asset an item that does not qualify for recognition as an asset in accordance with PBE IPSAS 31 *Intangible Assets*. It shall reclassify that item (and, if any, the related deferred tax and non-controlling interests) as part of goodwill (unless it deducted goodwill directly from net assets/equity in accordance with previous GAAP, see (g)(i) and (ii) below).

(ii) The first-time adopter shall recognise all other resulting changes in accumulated comprehensive revenue and expense.[2]

(d) PBE Standards require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The first-time adopter shall measure such assets and liabilities in its opening statement of financial position on the basis required by PBE Standards, even if they were acquired or assumed in a past PBE combination. It shall recognise any resulting change in the carrying amount by adjusting accumulated comprehensive revenue and expense (or, if appropriate, another category of net assets/equity), rather than goodwill.

(e) Immediately after the PBE combination, the carrying amount in accordance with previous GAAP of assets acquired and liabilities assumed in that PBE combination shall be their deemed cost in accordance with PBE Standards at that date. If PBE Standards require a cost-based measurement of those assets and liabilities at a later date, that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the PBE combination.

(f) If an asset acquired, or liability assumed, in a past PBE combination was not recognised in accordance with previous GAAP, it does not have a deemed cost of zero in the opening statement of financial position under PBE Standards. Instead, the acquirer shall recognise and measure it in its consolidated statement of financial position on the basis that PBE Standards would require in the statement of financial position of the acquired operation. To illustrate: if the acquirer had not, in accordance with its previous GAAP, capitalised finance leases acquired in a past PBE combination, it shall capitalise those leases in its consolidated financial statements, as PBE IPSAS 13 *Leases* would require the acquiree to do in its statement of financial position under PBE Standards. Similarly, if the acquirer had not, in accordance with its previous GAAP, recognised a contingent liability that still exists at the date of transition to PBE Standards, the acquirer shall recognise that contingent liability at that date unless PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* would prohibit its recognition in the financial statements of the acquired operation. Conversely, if an asset or liability was subsumed in goodwill in accordance with previous GAAP but would have been recognised separately under PBE IPSAS 40, that asset or liability remains in goodwill unless PBE Standards would require its recognition in the financial statements of the acquired operation.

(g) The carrying amount of goodwill in the opening statement of financial position under PBE Standards shall be its carrying amount in accordance with previous GAAP at the date of transition to PBE Standards, after the following two adjustments:

(i) If required by (c)(i) above, the first-time adopter shall increase the carrying amount of goodwill when it reclassifies an item that it recognised as an intangible asset in accordance with previous GAAP. Similarly, if (f) above requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill accordingly (and, if applicable, adjust deferred tax and non-controlling interests).

(ii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply PBE IPSAS 26 *Impairment of Cash-Generating Assets* in testing the goodwill for impairment at the date of transition to PBE Standards and in recognising any resulting impairment loss in accumulated comprehensive revenue and expense. The impairment test shall be based on conditions at the date of transition to PBE Standards.

[2] Such changes include reclassifications from or to intangible assets if goodwill was not recognised in accordance with previous GAAP as an asset. This arises if, in accordance with previous GAAP, the entity (a) deducted goodwill directly from net assets/equity or (b) did not treat the PBE combination as an acquisition.

(h) No other adjustments shall be made to the carrying amount of goodwill at the date of transition to PBE Standards. For example, the first-time adopter shall not restate the carrying amount of goodwill:

(i) To exclude in-process research and development acquired in that PBE combination (unless the related intangible asset would qualify for recognition in accordance with PBE IPSAS 31 in the statement of financial position of the acquired operation);

(ii) To adjust previous amortisation of goodwill; or

(iii) To reverse adjustments to goodwill that PBE IPSAS 40 would not permit, but were made in accordance with previous GAAP because of adjustments to assets and liabilities between the date of the PBE combination and the date of transition to PBE Standards.

(i) If the first-time adopter recognised goodwill in accordance with previous GAAP as a deduction from net assets/equity:

(i) It shall not recognise that goodwill in its opening statement of financial position under PBE Standards. Furthermore, it shall not reclassify that goodwill to surplus or deficit if it disposes of the controlled entity or if the investment in the controlled entity becomes impaired.

(ii) Adjustments resulting from the subsequent resolution of a contingency affecting the purchase consideration shall be recognised in accumulated comprehensive revenue and expense.

(j) In accordance with its previous GAAP, the first-time adopter may not have consolidated a controlled entity acquired in a past PBE combination (for example, because the controlling entity did not regard it as a controlled entity in accordance with previous GAAP or did not prepare consolidated financial statements). The first-time adopter shall adjust the carrying amounts of the controlled entity's assets and liabilities to the amounts that PBE Standards would require in the controlled entity's statement of financial position. The deemed cost of goodwill equals the difference at the date of transition to PBE Standards between:

(i) The controlling entity's interest in those adjusted carrying amounts; and

(ii) The cost in the controlling entity's separate financial statements of its investment in the controlled entity.

(k) The measurement of non-controlling interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect non-controlling interests and deferred tax.

[Equivalent to IFRS 1 paragraph C4]

B5. The exemption for past PBE combinations also applies to past acquisitions of investments in associates and of interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes an operation as defined in PBE IPSAS 40. Furthermore, the date selected for paragraph B1 applies equally for all such acquisitions.

[Equivalent to IFRS 1 paragraph C5]

Amalgamations

[There is no IFRS 1 equivalent to paragraphs B6–B9 as IFRS 3 requires that an acquirer be identified.]]

B6. An entity need not apply PBE IPSAS 4 retrospectively to fair value adjustments and goodwill arising in PBE combinations that occurred before the date of transition to PBE Standards. If the entity does not apply PBE IPSAS 4 retrospectively to those fair value adjustments and goodwill, it shall treat them as assets and liabilities of the entity rather than as assets and liabilities of the combining operations. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied in accordance with previous GAAP.

B7. An entity may apply PBE IPSAS 4 retrospectively to fair value adjustments and goodwill arising in either:

(a) All PBE combinations that occurred before the date of transition to PBE Standards; or

(b) All PBE combinations that the entity elects to restate to comply with PBE IPSAS 40, as permitted by paragraph B1 above.

B8. If a first-time adopter does not apply PBE IPSAS 40 retrospectively to a past amalgamation, this has the following consequences for that PBE combination:

(a) The first-time adopter shall retain the classification of the combination (that is, as an amalgamation or an acquisition) in its previous GAAP financial statements.

(b) At the date of transition to PBE Standards the first-time adopter shall recognise all the assets and liabilities that it received and assumed in a past amalgamation, other than:

(i) Some financial assets and financial liabilities derecognised in accordance with previous GAAP (see paragraph A2); and

(ii) Assets, including goodwill, and liabilities that were not recognised in the resulting entity's statement of financial position in accordance with previous GAAP and which would not qualify for recognition in accordance with PBE Standards in the separate statement of financial position of the combining operations (see (f)–(i) below).

The first-time adopter shall recognise any resulting change by adjusting accumulated comprehensive revenue and expense (or, if appropriate, another category of net assets/equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see (g)(i) below).

(c) The first-time adopter shall exclude from its opening statement of financial position under PBE Standards any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under PBE Standards. The first-time adopter shall account for the resulting change as follows:

(i) The first-time adopter may have classified a past PBE combination as an acquisition and recognised as an intangible asset an item that does not qualify for recognition as an asset in accordance with PBE IPSAS 31. It shall reclassify that item (and, if any, the related deferred tax and non-controlling interests) as part of goodwill (unless it deducted goodwill directly from net assets/equity in accordance with previous GAAP, see (g)(i) and (g)(ii) below).

(ii) The first-time adopter shall recognise all other resulting changes in accumulated comprehensive revenue and expense.*

* Such changes include reclassifications from or to intangible assets if goodwill was not recognised in accordance with previous GAAP as an asset. This arises if, in accordance with previous GAAP, the entity deducted goodwill directly from net assets/equity.

(d) PBE Standards require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The first-time adopter shall measure such assets and liabilities in its opening statement of financial position on the basis required by PBE Standards, even if they were received or assumed in a past amalgamation. It shall recognise any resulting change in the carrying amount by adjusting accumulated comprehensive revenue and expense (or, if appropriate, another category of net assets/equity).

(e) Immediately after the amalgamation, the carrying amount in accordance with previous GAAP of assets received and liabilities assumed in that PBE combination shall be their deemed cost in accordance with PBE Standards at that date. If PBE Standards require a cost-based measurement of those assets and liabilities at a later date, that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the PBE combination.

(f) If an asset received, or liability assumed, in a past amalgamation was not recognised in accordance with previous GAAP, it does not have a deemed cost of zero in the opening statement of financial position under PBE Standards. Instead, the resulting entity shall recognise and measure it in its statement of financial position on the basis that PBE Standards would require in the statement of financial position of the combining operation. To illustrate: if the resulting entity had not, in accordance with its previous GAAP, capitalised finance leases assumed in a past amalgamation, it shall capitalise those leases in its first set of financial statements under PBE Standards, as PBE IPSAS 13 would require the combining operation to do in its statement of financial position under PBE Standards. Similarly, if the resulting entity had not, in accordance with its previous

GAAP, recognised a contingent liability that still exists at the date of transition to PBE Standards, the resulting entity shall recognise that contingent liability at that date unless PBE IPSAS 19 would prohibit its recognition in the financial statements of the combining operations. Conversely, if an asset or liability was subsumed in goodwill in accordance with previous GAAP but would have been recognised separately under PBE IPSAS 40, that asset or liability remains in goodwill unless PBE Standards would require its recognition in the financial statements of the resulting entity.

(g) The carrying amount of goodwill in the opening statement of financial position under PBE Standards shall be its carrying amount in accordance with previous GAAP at the date of transition to PBE Standards, after the following two adjustments:

(i) If required by (c)(i) above, the first-time adopter shall increase the carrying amount of goodwill when it reclassifies an item that it recognised as an intangible asset in accordance with previous GAAP. Similarly, if (f) above requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill accordingly (and, if applicable, adjust deferred tax and non-controlling interests).

(ii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply PBE IPSAS 26 in testing the goodwill for impairment at the date of transition to PBE Standards and in recognising any resulting impairment loss in accumulated comprehensive revenue and expense. The impairment test shall be based on conditions at the date of transition to PBE Standards.

(h) No other adjustments shall be made to the carrying amount of goodwill at the date of transition to PBE Standards. For example, the first-time adopter shall not restate the carrying amount of goodwill:

(i) To exclude in-process research and development assumed in that PBE combination (unless the related intangible asset would qualify for recognition in accordance with PBE IPSAS 31 in the statement of financial position of the resulting entity);

(ii) To adjust previous amortisation of goodwill; or

(iii) To reverse adjustments to goodwill that PBE IPSAS 40 would not permit, but were made in accordance with previous GAAP because of adjustments to assets and liabilities between the date of the amalgamation and the date of transition to PBE Standards.

(i) If the first-time adopter recognised goodwill in accordance with previous GAAP as a deduction from net assets/equity it shall not recognise that goodwill in its opening statement of financial position under PBE Standards.

(j) In accordance with its previous GAAP, the first-time adopter may not have recognised the assets received and liabilities assumed in a previous amalgamation. The first-time adopter shall adjust the carrying amounts of the resulting entity's assets and liabilities to the amounts that PBE Standards would require in the resulting entity's statement of financial position. The adjustments shall be recognised by adjusting the accumulated comprehensive revenue or expense (or, if appropriate, another category of net assets/equity).

(k) The measurement of non-controlling interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect non-controlling interests and deferred tax.

B9. The exemption for past PBE combinations also applies to past amalgamations of investments in associates and of interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes an operation as defined in PBE IPSAS 40. Furthermore, the date selected for paragraph B1 applies equally for all such amalgamations.

Appendix C

Exemptions from other PBE Standards

This Appendix is an integral part of PBE FRS 47.

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

(a) Deemed cost (paragraphs C2–C5);

(b) Leases (paragraphs C6 and C7);

(c) [deleted]

(d) Cumulative translation differences (paragraphs C9 and C10);

(e) Investments in controlled entities, joint ventures and associates (paragraphs C11 and C12);

(f) Assets and liabilities of controlled entities, associates and joint ventures (paragraphs C13 and C14);

(g) Compound financial instruments (paragraph C15);

(h) Designation of previously recognised financial instruments (paragraphs C16–C16C);

(i) Fair value measurement of financial assets or financial liabilities at initial recognition (paragraph C17);

(j) Decommissioning liabilities included in the cost of property, plant and equipment (paragraph C18);

(k) Financial assets or intangible assets accounted for in accordance with PBE FRS 45 *Service Concession Arrangements: Operator* (paragraph C19);

(l) Borrowing costs (paragraph C20);

(m) Revenue from non-exchange transactions (paragraph C21);

(n) Service concession arrangements: grantor (paragraphs C22–C28);

(o) The effects of changes in foreign exchange rates (paragraph C29);

(p) Intangible assets (paragraph C30);

(q) Joint arrangements (paragraph C31);

(r) Designation of contracts to buy or sell a non-financial item (paragraph C32); and

(s) Foreign currency transactions and advance consideration (paragraph C33).

An entity shall not apply these exemptions by analogy to other items.

[Based on IFRS 1 paragraph D1. IFRS 1 also refers to (a) share-based payment transactions, (p) extinguishing financial liabilities with equity instruments, (q) severe hyperinflation, (s) stripping costs in the production phase of a surface mine. As amended by PBE IPSAS 41]

Note: PBE FRS 47 does not include IFRS 2 *Share-based Payment Transactions*: paragraphs D2–D3. There is no PBE Standard equivalent to IFRS 2.

The IASB is proposing in ED 2019/2 to extend the provision in IFRS 1 D1(h) to assets, liabilities <u>and cumulative translation differences</u> of subsidiaries, associates and joint ventures. We would apply the PBE Policy Approach to any amendments to NZ IFRS 1 – the relevant paragraph in PBE FRS 47 is C1(h).

Deemed Cost [Level 2]

C2. An entity may elect to measure an item of property, plant and equipment at the date of transition to PBE Standards at its fair value and use that fair value as its deemed cost at that date.

[Based on IFRS 1 paragraph D5]

C3. A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to PBE Standards as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) Fair value; or

(b) Cost or depreciated cost in accordance with PBE Standards, adjusted to reflect, for example, changes in a general or specific price index.

[Based on IFRS 1 paragraph D6]

C4. The elections in paragraphs C2 and C3 are also available for:

(a) Investment property, if an entity elects to use the cost model in PBE IPSAS 16 *Investment Property*; and

(b) Intangible assets that meet:

(i) The recognition criteria in PBE IPSAS 31 *Intangible Assets* (including reliable[3] measurement of original cost); and

(ii) The criteria in PBE IPSAS 31 for revaluation (including the existence of an active market).

An entity shall not use these elections for other assets or for liabilities.

[Based on IFRS 1 paragraph D7. IFRS 1 D7(aa) also refers to right-of-use assets]

C5. A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a restructuring.

(a) If the measurement date is *at or before* the date of transition to PBE Standards, the entity may use such event-driven fair value measurements as deemed cost for PBE Standards at the date of that measurement.

(b) If the measurement date is *after* the date of transition to PBE Standards, but during the period covered by the first financial statements under PBE Standards, the event-driven fair value measurements may be used as deemed cost when the event occurs. An entity shall recognise the resulting adjustments directly in accumulated comprehensive revenue and expense (or if appropriate, another category of net assets/equity) at the measurement date. At the date of transition to PBE Standards, the entity shall either establish the deemed cost by applying the criteria in paragraphs C2–C4 or measure assets and liabilities in accordance with the other requirements in this PBE Standard.

[Based on IFRS 1 paragraph D8]

Note: PBE FRS 47 does not include requirements equivalent to:

- IFRS 1 paragraph D8A which deals with exploration and development costs for oil and gas properties and which we have not previously regarded as necessary in PBE Standards.
- paragraph D8B which deals with assets used in operations subject to rate regulation – rate regulation is not addressed in PBE Standards.

Leases [Level 2]

C6. In applying the provisions in Appendix C Application Guidance *Determining whether an Arrangement contains a Lease* in PBE IPSAS 13 *Leases*, a first-time adopter may determine whether an arrangement existing at the date of transition to PBE Standards contains a lease on the basis of facts and circumstances existing at that date.

[Based on IFRS 1 paragraph D6, before it was amended by IFRS 16]

C7. If a first-time adopter made the same determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by Appendix C of PBE IPSAS 13 but at a date other than the date of transition to PBE Standards, the first-time adopter need not reassess that determination when it adopts PBE Standards. For an entity to have made the same determination of whether the arrangement

[3] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC10 of PBE IPSAS 1 *Presentation of Financial Reports* discusses the transitional approach to the explanation of reliability. [Note: Footnote to C4 as amended by PBE FRS 48]

contained a lease in accordance with previous GAAP, that determination would have to have given the same outcome as that resulting from applying PBE IPSAS 13, including Appendix C.

[Based on IFRS 1 paragraph D9A, which was subsequently deleted by IFRS 16]

Note: PBE FRS 47 does not include paragraphs equivalent to IFRS 1 paragraphs D9B–D9E. These paragraphs were added by IFRS 16 *Leases*. If we were to issue a new PBE Standard on leases we would need to look at this.

C8. [Deleted]

Cumulative Translation Differences [Level 2]

C9. PBE IPSAS 4 requires an entity:

(a) To recognise some translation differences in other comprehensive revenue and expense and accumulate these in a separate component of net assets/equity; and

(b) On disposal of a foreign operation, to recognise the cumulative translation differences in surplus or deficit.

[Based on IFRS 1 paragraph D12. C9(b) reflects the requirements in PBE IPSAS 4. IFRS 1 D12(b) reflects the requirements in IAS 21.

Extract from IFRS 1 Appendix D

D12 IAS 21 requires an entity:

(a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and

(b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.

C10. However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to PBE Standards. If a first-time adopter uses this exemption:

(a) The cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to PBE Standards; and

(b) The gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to PBE Standards and shall include later translation differences.

[Based on IFRS 1 paragraph D13]

Investments in Controlled Entities, Joint Ventures and Associates [Level 2]

C11. When an entity prepares separate financial statements, PBE IPSAS 34 *Separate Financial Statements* requires it to account for its investments in controlled entities, joint ventures and associates either:

(a) Using the equity method as described in PBE IPSAS 36;

(b) At cost; or

(c) As a financial instrument in accordance with PBE IPSAS 41 *Financial Instruments*.

[Based on IFRS 1 paragraph D14. As amended by PBE IPSAS 41]

C12. If a first-time adopter measures such an investment at cost in accordance with PBE IPSAS 34, it shall measure that investment at one of the following amounts in its separate opening statement of financial position under PBE Standards:

(a) Cost determined in accordance with PBE IPSAS 34; or

(b) Deemed cost. The deemed cost of such an investment shall be its:

(i) Fair value (determined in accordance with PBE IPSAS 41) at the entity's date of transition to PBE Standards in its separate financial statements; or

(ii) Previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each controlled entity, joint venture or associate that it elects to measure using a deemed cost.

[Based on IFRS 1 paragraph D15. As amended by PBE IPSAS 41]

Note: PBE FRS 47 does not include IFRS 1 paragraph D15A (see below) which was added by *Equity Method in Separate Financial Statements* (Amendments to IAS 27) issued in August 2014. We think it is unlikely that paragraph 15A(a) would be applicable in New Zealand and do not plan to add it to PBE FRS 47. Some public sector PBEs are required to present separate financial statements but it is unlikely that a parent entity will adopt PBE Standards in its separate financial statements ahead of adopting PBE Standards for its consolidated financial statements.

Extract from IFRS 1

15A. If a first-time adopter accounts for such an investment using the equity method procedures as described in IAS 28:

(a) The first-time adopter applies the exemption for past business combinations (Appendix C) to the acquisition of the investment.

(b) If the entity becomes a first-time adopter for its separate financial statements earlier than for its consolidated financial statements, and

(i) later than its parent, the entity shall apply paragraph D16 in its separate financial statements.

(ii) later than its subsidiary, the entity shall apply paragraphs D17 in its separate financial statements.

Assets and Liabilities of Controlled Entities, Associates and Joint Ventures

C13. If a controlled entity becomes a first-time adopter later than its controlling entity, the controlled entity shall, in its financial statements, measure its assets and liabilities at either:

(a) The carrying amounts that would be included in the controlling entity's consolidated financial statements, based on the controlling entity's date of transition to PBE Standards, if no adjustments were made for consolidation procedures and for the effects of the PBE combination in which the controlling entity acquired the controlled entity (this election is not available to a controlled entity of an investment entity, as defined in PBE IPSAS 35, that is required to be measured at fair value through surplus or deficit); or

(b) The carrying amounts required by the rest of this PBE Standard, based on the controlled entity's date of transition to PBE Standards. These carrying amounts could differ from those described in (a):

(i) When the exemptions in this Standard result in measurements that depend on the date of transition to PBE Standards.

(ii) When the accounting policies used in the controlled entity's financial statements differ from those in the consolidated financial statements. For example, the controlled entity may use as its accounting policy the cost model in PBE IPSAS 17 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

[Based on IFRS 1 paragraph D16]

The IASB is proposing in ED 2019/2 to amend the first sentence in IFRS 1 D16 to refer to assets, liabilities <u>and cumulative translation differences</u>…

C14. However, if an entity becomes a first-time adopter later than its controlled entity (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the controlled entity (or associate or joint venture) at the same carrying amounts as in the financial statements of the controlled entity (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the PBE combination in which the entity acquired the controlled entity. Similarly, if a controlling entity becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

[Based on IFRS 1 paragraph D17]

Compound Financial Instruments [Level 2]

C15. PBE IPSAS 28 *Financial Instruments: Presentation* requires an entity to split a compound financial instrument at inception into separate liability and net assets/equity components. If the liability component is no longer outstanding, retrospective application of PBE IPSAS 28 involves separating two portions of net assets/equity. The first portion is in accumulated comprehensive revenue and expense and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with this PBE Standard, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to PBE Standards.

[Based on IFRS 1 paragraph D18]

Designation of Previously Recognised Financial Instruments Level 2]

C16. PBE IPSAS 41 permits a financial liability (provided it meets certain criteria) to be designated as a financial liability at fair value through surplus or deficit. Despite this requirements an entity is permitted to designate, at the date of transition to PBE Standards, any financial liability as at fair value through surplus or deficit provided the liability meets the criteria in paragraph 46 of PBE IPSAS 41 at that date.

[Based on IFRS 1 paragraph D19. As amended by PBE IPSAS 41]

C16A. An entity may designate a financial asset as measured at fair value through surplus or deficit in accordance with paragraph 44 of PBE IPSAS 41 on the basis of the facts and circumstances that exist at the date of transition to PBE Standards.

[Based on IFRS 1 paragraph D19A. C16A added by PBE IPSAS 41]

C16B. An entity may designate an investment in an equity instrument as at fair value through other comprehensive revenue and expense in accordance with paragraph 106 of PBE IPSAS 41 on the basis of the facts and circumstances that exist at the date of transition to PBE Standards.

[Based on IFRS 1 paragraph D19B. C16B added by PBE IPSAS 41]

C16C. For a financial liability that is designated as a financial liability at fair value through surplus or deficit, an entity shall determine whether the treatment in paragraph 108 of PBE IPSAS 41 would create an accounting mismatch in surplus or deficit on the basis of the facts and circumstances that exist at the date of transition to PBE Standards.

[Based on IFRS 1 paragraph D19C. C16C added by PBE IPSAS 41]

Fair Value Measurement of Financial Assets or Financial Liabilities at Initial Recognition [Level 2]

C17. Despite the requirements of paragraphs 11 and 13, an entity may apply the requirements in paragraph AG117(b) of PBE IPSAS 41 prospectively to transactions entered into on or after the date of transition to PBE Standards.

[Based on IFRS 1 paragraph D20. C17 amended by PBE IPSAS 41]

Decommissioning Liabilities Included in the Cost of Property, Plant and Equipment [Level 2]

C18. Appendix A *Changes in Existing Decommissioning, Restoration and Similar Liabilities* of PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to PBE Standards. If a first-time adopter uses this exemption, it shall:

(a) Measure the liability as at the date of transition to PBE Standards in accordance with PBE IPSAS 19;

(b) To the extent that the liability is within the scope of Appendix A of PBE IPSAS 19, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and

(c) Calculate the accumulated depreciation on that amount, as at the date of transition to PBE Standards, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with PBE Standards.

[Based on IFRS 1 paragraph D21]

Note: PBE FRS 47 does not include IFRS 1 paragraph D21A which refers to an exemption in IFRS 1 in relation to oil and gas assets. Such assets are not commonly held by PBEs.

Financial Assets or Intangible Assets Accounted for in Accordance with PBE FRS 45 [Level 2]

C19. A first-time adopter need not apply PBE FRS 45 *Service Concession Arrangements: Operator* retrospectively at the start of the earliest period presented if it is impracticable for the operator to apply the Standard retrospectively for any particular service arrangement. In those circumstances, the operator shall:

(a) Recognise financial assets and intangible assets that existed at the start of the earliest period presented;

(b) Use the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date; and

(c) Test financial and intangible assets recognised at that date for impairment, unless this is not practicable, in which case the amounts shall be tested for impairment as at the start of the current period.

[Equivalent to IFRS 1 paragraph D22 which reads "A first-time adopter may adopt the transitional provisions in IFRIC 12."]

Borrowing Costs [Level 2]

C20. Where application of PBE IPSAS 5 *Borrowing Costs* constitutes a change in accounting policy and a first-time adopter elects to capitalise borrowing costs relating to qualifying assets, the entity shall apply PBE IPSAS 5 to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the date of transition to PBE Standards. However, a first-time adopter may designate any date before the date of transition to PBE Standards and apply PBE IPSAS 5 to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date.

[Equivalent to IFRS 1 paragraph D23. Different wording, similar result]

Note: PBE FRS 47 does not include an exemption equivalent to that in IFRS 1 paragraph D25. IFRS 1 allows a first-time adopter to use the transitional provisions in IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*. When PBE Standards were first developed IFRIC 19 had not been considered by the IPSASB. IFRIC 19 was not incorporated in the first set of PBE Standards because of the low incidence of such transactions by PBEs. More recently, IPSAS 41 *Financial Instruments* and PBE IPSAS 41 *Financial Instruments* have incorporated the conclusions in IFRIC 19 (see Appendix C of those standards). The Board has a few options in relation to IFRS 1 D25. It could (i) do nothing because of the low incidence of such transactions; (ii) add a paragraph equivalent to IFRS 1 D25; or (iii) consider amending the transitional provisions in PBE IPSAS 41. PBE IPSAS 41 paragraph 157.11 gives entities moving from PBE IFRS 9 to PBE IPSAS 41 an exemption in relation to restatement of comparatives in relation to Appendix C but other entities would just look to the general transition provisions in PBE IPSAS 41. We suggest option (i), but could do more work on this if the Board wants.

Note: PBE FRS 47 does not include IFRS 1 paragraphs D26–D30, which relate to severe hyperinflation.

Revenue from Non-Exchange Transactions [Level 2]

C21. On first-time adoption of PBE Standards, assets and liabilities arising from revenue from non-exchange transactions that occurred before the date of transition to PBE Standards are recognised and measured in accordance with PBE Standards. The entity shall recognise any resulting change by adjusting net assets/equity.

[Domestic paragraph to acknowledge that application of PBE IPSAS 23 could result in changes.]

Service Concession Arrangements: Grantor [Level 2]

[Domestic paragraphs. There are no equivalent requirements to paragraphs C22–C28 in IFRS 1.]

C22. Where a grantor entity had previously accounted for service concession arrangements in accordance with IPSAS 32 *Service Concession Arrangements: Grantor*, the entity shall retain that accounting policy on transition to the PBE Standards.

C23. Where a grantor entity had not previously recognised service concession assets and related liabilities, revenues or expenses in accordance with IPSAS 32, the entity shall either:

(a) Apply the requirements in PBE IPSAS 32 *Service Concession Arrangements: Grantor* retrospectively in accordance with PBE IPSAS 3; or

(b) Recognise and measure service concession assets and related liabilities at deemed cost at the date of transition to PBE Standards in accordance with paragraphs C24–C28 of this Standard.

C24. A grantor entity may elect under paragraph C23(b) of this Standard to recognise and measure service concession assets and related liabilities in accordance with PBE IPSAS 32 using deemed cost. Deemed cost is determined at the date of transition to PBE Standards.

C25. Deemed cost for service concession assets shall be determined using the following measurement bases:

(a) For property, plant, and equipment − fair value including depreciated replacement cost as a means of estimating fair value in the circumstances permitted by PBE IPSAS 17 *Property, Plant and Equipment* (see PBE IPSAS 17, paragraphs 46–48); and

(b) For intangible assets − fair value.

C26. Depreciation or amortisation shall be based on the deemed cost determined under paragraph C25 and commence from the date of transition to PBE Standards.

Use of Deemed Cost under the Financial Liability Model [Level 3]

C27. Where the grantor uses deemed cost under the financial liability model, the grantor shall measure:

(a) The service concession asset in accordance with paragraph C25 of this Standard; and

(b) The financial liability using the remaining contractual cash flows specified in the binding arrangement and the rate described in PBE IPSAS 32 (paragraphs AG41–AG46) at the beginning of the date of transition to PBE Standards. Any difference between the value of the asset and the financial liability is recognised directly in net assets/equity. If the entity chooses as its accounting policy the revaluation model in PBE IPSAS 17 or PBE IPSAS 31, this difference is included in any revaluation surplus.

Use of Deemed Cost under the Grant of a Right to the Operator Model [Level 3]

C28. Where the grantor uses deemed cost under the grant of a right to the operator model, the grantor shall measure:

(a) The service concession asset in accordance with paragraph C25 of this Standard; and

(b) The liability representing the unearned portion of any revenue arising from the receipt of the service concession asset. This amount should be determined as the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement.

The Effects of Changes in Foreign Exchange Rates [Level 2]

C29. An entity that previously translated a transaction measured in a foreign currency using an exchange rate at settlement date rather than an exchange rate at transaction date need not restate the transaction recognised in the periods prior to the date of transition to PBE Standards to comply with PBE IPSAS 4. The entity may apply PBE IPSAS 4 prospectively from the date of transition to PBE Standards.

[Domestic paragraph. The NZASB considered that it could be onerous for an entity that has previously measured transactions at a foreign exchange rate prevailing at *settlement date* rather than at the *date of the transaction* to restate these transactions retrospectively.]

Intangible Assets [Level 2]

C30. An entity that previously expensed all development costs in the period in which they were incurred need not apply PBE IPSAS 31 to those expenses recognised in the periods prior to the date of transition to PBE Standards. The entity may apply PBE IPSAS 31 prospectively from the date of transition to PBE Standards.

[Domestic paragraph. The NZASB considered that it could be onerous for entities that had previously expensed development costs rather than recognising them as assets to restate these transactions retrospectively.]

Joint Arrangements [Level 2]

C31. A first-time adopter may apply the transition provisions in PBE IPSAS 37 with the following exceptions:

(a) When applying the transition provisions in PBE IPSAS 37, a first-time adopter shall apply these provisions at the date of transition to PBE Standards.

(b) When changing from proportionate consolidation to the equity method, a first-time adopter shall test for impairment the investment in accordance with PBE IPSAS 26 as at the date of transition to PBE Standards, regardless of whether there is any indication that the investment may be impaired. Any resulting impairment shall be recognised as an adjustment to accumulated comprehensive revenue and expense at the date of transition to PBE Standards.

[Based on IFRS 1 paragraph D31]

PBE FRS 47 does not include IFRS 1 paragraph D32 *Stripping costs in the production phase of a surface mine*.

Designation of Contracts to Buy or Sell a Non-financial Item [Level 2]

C32. PBE IPSAS 41 permits some contracts to buy or sell a non-financial item to be designated at inception as measured at fair value through surplus or deficit (see paragraph 6 of PBE IPSAS 41). Despite this requirement an entity is permitted to designate, at the date of transition to PBE Standards, contracts that already exist on that date as measured at fair value through surplus or deficit but only if they meet the requirements of paragraph 6 of PBE IPSAS 41 at that date and the entity designates all similar contracts.

[Based on IFRS 1 paragraph D33. C32 added by PBE IPSAS 41.]

PBE FRS 47 does not include IFRS 1 paragraphs D34–35 which were added by IFRS 15 *Revenue from Contracts with Customers*. The IPSASB is currently developing an IPSAS based on IFRS 15.

Foreign Currency Transactions and Advance Consideration [Level 2]

C~~32~~33. A first-time adopter need not apply Appendix A of PBE IPSAS 4 to assets, expenses and revenue in the scope of Appendix A initially recognised before the date of transition to PBE Standards.

[Based on IFRS 1 paragraph D36 which refers to IFRIC 22. C32 added by *2018 Omnibus Amendments to PBE Standards*. This should be C33 rather than C32.]

Appendix D

Short-Term Exemptions from PBE Standards

This appendix is an integral part of PBE FRS 47.

Note for the Board: the following table is for your information.

Table: Comparison IFRS 1 Appendix E and PBE FRS 47 Appendix D

IFRS 1	PBE FRS 47
Exemption from the requirement to restate comparative information for IFRS 9 E1 and E2 These paragraphs give first-time adopters concessions from certain disclosure requirements in IFRS 7 if the entity is early adopting IFRS 9 (2014). The IASB will most likely withdraw this relief once it is no longer being used.	There is currently no equivalent in PBE FRS 47. We think these paragraphs might be required. The alternative would be to change one of the transitional headings in PBE IPSAS 41 but we think it is better to deal with first-time adoption issues in a first-time adoption standard. This aligns better with IFRS 1. The relevant headings in PBE IPSAS 41 are "Entities Transitioning from PBE IFRS 9" and "Entities Transitioning from PBE IPSAS 29". If the Board preferred, it could change the second heading to "Entities that are not transitioning from PBE IFRS 9".
Disclosures about financial instruments E3, E4, E4A [Deleted by Annual Improvements to IFRSs 2014–2016 Cycle] These related to transition provisions in IFRS 7. These reliefs were no longer applicable as the reliefs related to reporting periods that had passed.	There is currently no equivalent in PBE FRS 47. We think paragraphs E4 and E4A which are to do with the disclosure on the transfer of financial assets might be required.
Employee benefits E5 [Deleted by Annual Improvements to IFRSs 2014–2016 Cycle] E5 allowed an entity to make use of the relief in IAS 19 *Employee Benefits* 173(b) which. For example, IAS 19 (reissued) was effective from 1 January 2013 but an entity preparing financial statements for periods beginning 1 January 2014 did not have to present comparative information for certain new disclosures. The IASB deleted this paragraph because the relief related to reporting periods that had passed.	**Employee benefits** D3 Keep for a while. The relief in PBE IPSAS 39 paragraph 175(b) relates to financial statements for periods beginning before 1 January 2019.
Investment entities E6, E7 [Deleted by Annual Improvements to IFRSs 2014–2016 Cycle] These reliefs were no longer applicable as the reliefs related to reporting periods that had passed.	**Investment entities** D1, D2 Keep for a while. D2 refers to financial statements are for an annual period ending on or before 31 December 2019.

Investment Entities

D1. A first-time adopter that is a controlling entity shall assess whether it is an investment entity, as defined in PBE IPSAS 35, on the basis of the facts and circumstances that exist at the date of transition to PBE Standards.

[Based on IFRS 1 paragraph E6]

D2. A first-time adopter that is an investment entity, as defined in PBE IPSAS 35, may apply the transition provisions in paragraphs 71–72 of PBE IPSAS 35 and paragraphs 24–28 of PBE IPSAS 34 if its first PBE Standards financial statements are for an annual period ending on or before 31 December 2019. The

references in those paragraphs to the annual period that immediately precedes the date of initial application shall be read as the earliest annual period presented. Consequently, the references in those paragraphs shall be read as the date of transition to PBE Standards.

[Based on IFRS 1 paragraph E7]

Employee Benefits

D3. A first-time adopter may apply the transition provisions in paragraph 175(b) of PBE IPSAS 39 *Employee Benefits*.

[Based on IFRS 1 paragraph E5]

Appendix E

Short-term exemptions from PBE Standards

[Note Appendix E added by PBE IPSAS 41]

E1. If an entity's first PBE Standards reporting period begins before 1 January 2023 and the entity applies PBE IPSAS 41 *Financial Instruments*, the comparative information in the entity's first set of financial statements under PBE Standards need not comply with PBE IPSAS 30 *Financial Instruments: Disclosures* or PBE IPSAS 41, to the extent that the disclosures required by PBE IPSAS 30 relate to items within the scope of PBE IPSAS 41. For such entities, references to the 'date of transition to PBE Standards' shall mean, in the case of PBE IPSAS 30 and PBE IPSAS 41 only, the beginning of the first reporting period under PBE Standards.

E2. An entity that chooses to present comparative information that does not comply with PBE IPSAS 30 and PBE IPSAS 41 in its first year of transition shall:

(a) Apply the requirements of its previous GAAP in place of the requirements of PBE IPSAS 41 to comparative information about items within the scope of PBE IPSAS 41.

(b) Disclose this fact together with the basis used to prepare this information.

(c) Treat any adjustment between the statement of financial position at the comparative period's reporting date (i.e., the statement of financial position that includes comparative information under previous GAAP) and the statement of financial position at the start of the first reporting period under PBE Standards (i.e., the first period that includes information that complies with PBE IPSAS 30 and PBE IPSAS 41 as arising from a change in accounting policy and give the disclosures required by paragraph 33(a)–(e) and (f) of PBE IPSAS 3. Paragraph 33(f) applies only to amounts presented in the statement of financial position at the comparative period's reporting date.

(d) Apply paragraph 29(c) of PBE IPSAS 1 to provide additional disclosures when compliance with the specific requirements in PBE Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE FRS 47.

BC1. In developing Tier 1 and Tier 2 PBE Standards, based on International Public Sector Accounting Standards (IPSASs), the New Zealand Accounting Standards Board (NZASB) noted that there is no single IPSAS that addresses issues arising from first-time application of IPSASs. Some IPSASs contain transitional provisions which provide temporary relief from certain requirements in individual IPSASs and some provide guidance on how to deal with changes in reported figures, such as accumulated balances and comparative amounts, resulting from the first-time application of a specific IPSAS.

BC2. The NZASB decided that it would be easier for entities to transition to PBE Standards if the transitional provisions for an entity applying PBE Standards for the first time were set out in a single standard. The development of a standard dealing with first-time adoption issues would also make it easier for the NZASB to tailor transitional provisions to the needs of different groups of entities (for example, the needs of entities might differ depending on the basis of accounting an entity used prior to applying PBE Standards).

BC3. The NZASB noted that public benefit entities (PBEs) transitioning to PBE Standards could be classified as those that had previously applied standards in the NZ IFRS suites of standards[4] in the immediately preceding period and those that had not previously applied standards in the NZ IFRS suites of standards in the immediately preceding period.

BC4. The NZASB therefore developed two standards:

(a) PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS;* and
(b) PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS.*[5]

BC5. Entities that have not previously applied standards in the NZ IFRS suites of standards may be public sector or not-for-profit entities. The NZASB noted that these entities may have applied Old GAAP[6] or may have applied other accounting policies in the preparation of their financial statements. In some cases, entities may not have prepared financial statements. In all cases, these entities would not have applied NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. The NZASB considered that a standard based on NZ IFRS 1 would provide entities transitioning to PBE Standards with concessions similar to those made available to other entities when they transitioned to NZ IFRS.

BC6. The NZASB has retained in PBE FRS 47 all relevant concessions contained in NZ IFRS 1. In addition, the NZASB has included transitional provisions for revenue from non-exchange transactions and service concessions arrangements from the grantor perspective: these transactions are not addressed in NZ IFRS. Transitional provisions similar to those contained in PBE FRS 46 are also included for entities that may have (i) previously measured transactions at a foreign exchange rate prevailing at settlement date rather than at the date of the transaction and (ii) previously expensed development costs rather than recognising them as assets. The NZASB considered that specific transitional provisions for these two cases are appropriate as it may be onerous for entities to restate these transactions retrospectively.

BC7. The NZASB has included an additional concession for Tier 2 not-for-profit entities on transition to PBE Standards. These entities are not required to present comparative information in their first set of financial statements under PBE Standards. The concession is available only on transition to PBE Standards and not when moving between different tiers of PBE Accounting Standards.

BC8. The NZASB acknowledged respondents' comments regarding the usefulness of comparative information. However, the NZASB noted that it may be onerous for not-for-profit entities that have not previously

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[4] When PBE Standards were first issued, ~~T~~the NZ IFRS suites of standards were ~~include the various sets of standards based on IFRS that will exist at the time of transition, including~~ NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep and NZ IFRS RDR. NZ IFRS PBE and NZ IFRS Diff Rep were subsequently withdrawn.

[5] This section of the Basis for Conclusions identifies matters considered when PBE FRS 46 and PBE FRS 47 were first developed. The NZASB subsequently withdrew PBE FRS 46 in [date]. Matters considered at that time are discussed later in this Basis for Conclusions.

[6] Old GAAP referred to ~~is~~ New Zealand accounting standards and pronouncements that had~~have~~ authoritative support and that were applicable in New Zealand prior to the adoption of NZ IFRS in New Zealand~~,~~. Old GAAP ~~and~~ comprise~~s~~d Financial Reporting Standards (FRSs) and Statements of Standard Accounting Practice (SSAPs).

applied NZ IFRS, in particular smaller entities, to present full comparative financial information on transition to PBE Standards. The NZASB decided that if a Tier 2 not-for-profit entity does not provide comparative information in its first set of financial statements prepared under PBE Standards, the entity should attach a copy of the previous year's financial statements and provide an explanation of the significant differences in accounting policies applied between the two sets of financial statements.

BC9. The NZASB would encourage Tier 2 not-for-profit entities to present full comparative information on transition to PBE Standards, where it would not be onerous.

2018 Omnibus Amendments to PBE Standards

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

Withdrawal of PBE FRS 46 in [date]

Explain why the NZASB decided to withdraw PBE FRS 46 and the key issues considered. Draft text follows.

BC11. As discussed in paragraphs BC3 and BC4, the NZASB initially developed two standards dealing with first-time adoption of PBE Standards to cater for the needs and circumstances of two distinct groups of entities. PBE FRS 46 was developed to streamline the adoption of PBE Standards by entities that had been applying NZ IFRS and restrict their ability to change accounting policies on adoption of PBE Standards. It was designed to meet the needs of entities transitioning between PBE Standards and NZ IFRS at that time and took account of the differences between PBE Standards and NZ IFRS at that time. In contrast PBE FRS 47 was developed for a wider range of entities and did not assume that any particular accounting policies had been applied. PBE FRS 47 was thus better suited than PBE FRS 46 to be a long-term standard.

BC.12 In 2019 the NZASB reassessed the need for PBE FRS 46 and decided to withdraw it. There were two main reasons. The first reason was the small number of entities that would be eligible to apply PBE FRS 46 in the future. The second reason was the increasing number of differences between NZ IFRS and PBE Standards.

BC13. The NZASB noted that following the withdrawal of NZ IFRS (PBE) and NZ IFRS (Diff Rep) only entities applying NZ IFRS or NZ IFRS RDR would be eligible to apply PBE FRS 46. The NZASB also noted that entities applying NZ IFRS and NZ IFRS RDR are required by FRS-44 *New Zealand Additional Disclosures* to disclose that, for the purposes of complying with GAAP, they are profit-oriented entities. In order for entities applying NZ IFRS or NZ IFRS RDR to adopt PBE Standards (and apply PBE FRS 46) they would be required to change designation from for-profit to PBE. The NZASB noted that changes in designation can occur but they are relatively infrequent and the number of entities that would be eligible to use PBE FRS 46 did not warrant maintaining that Standard.

BC14. The increasing number of differences between NZ IFRS and PBE Standards meant that ongoing standard setting activity would be required to keep PBE FRS 46 current. In addition such changes would gradually lead to PBE FRS 46 becoming more complex and more closely aligned with PBE FRS 47.

BC15. The NZASB noted that because of concerns that it could be onerous for not-for-profit entities that had not previously applied NZ IFRS, in particular smaller entities, to present full comparative financial information on transition to PBE Standards, PBE FRS 47 permitted a Tier 2 not-for-profit entity not to provide comparative information in its first set of financial statements prepared under PBE Standards. Instead that Tier 2 not-for-profit entity was required to attach a copy of the previous year's financial statements and provide an explanation of the significant differences in accounting policies applied between the two sets of financial statements. The NZASB considered whether, following the withdrawal of PBE FRS 46, this RDR concession should also be available to Tier 2 not-for-profit entities that have previously applied NZ IFRS. The NZASB decided, for the sake of simplicity, to retain this concession for all Tier 2 not-for-profit entities.

History of Amendments

PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE FRS 47. The table is based on amendments issued as at 31 January 2019 other than consequential amendments resulting from early adoption of PBE IFRS 9 *Financial Instruments* and PBE FRS 48 *Service Performance Reporting*.

Pronouncements	**Date issued**	**Early operative date**	**Effective date (annual financial statements … on or after …)**
PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*	Sept 2014	Early application is permitted for not-for-profit public benefit entities	1 April 2015
2015 Omnibus Amendments to PBE Standards	July 2015	Early application is permitted	1 Jan 2016
Amendments to PBE Standards and Authoritative Notice as a Consequence of XRB A1 and Other Amendments	Dec 2015	Early application is permitted	1 Jan 2016
2016 Omnibus Amendments to PBE Standards	Jan 2017	–	1 Jan 2017
PBE IPSAS 34 *Separate Financial Statements*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 35 *Consolidated Financial Statements*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 36 *Interests in Associates and Joint Ventures*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 37 *Joint Arrangements*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IFRS 9 *Financial Instruments*[7]	Jan 2017	Early application is permitted	1 Jan 2021
PBE IPSAS 39 *Employee Benefits*	May 2017	Early application is permitted	1 Jan 2019
PBE FRS 48 *Service Performance Reporting*[8]	Nov 2017	Early application is permitted	1 Jan 2021
2018 Omnibus Amendments to PBE Standards	Nov 2018	Early application is permitted	1 Jan 2019

Table of Amended Paragraphs in PBE FRS 47		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 3	Amended	*Amendments to PBE Standards* [Dec 2015]
Paragraph 4	Amended and heading added	*Amendments to PBE Standards* [Dec 2015]
Paragraph 5	Previously paragraph 6 and amended	*Amendments to PBE Standards* [Dec 2015]

[7] PBE IFRS 9 has not been compiled.

[8] PBE FRS 48 has not been compiled.

Table of Amended Paragraphs in PBE FRS 47		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 5.1	Added	*Amendments to PBE Standards* [Dec 2015]
Paragraph 6	Previously paragraph 5 and amended	*Amendments to PBE Standards* [Dec 2015]
Paragraph 6.1	Added	*Amendments to PBE Standards* [Dec 2015]
Paragraph 7	Amended	*Amendments to PBE Standards* [Dec 2015]
Paragraph 8	Deleted	*Amendments to PBE Standards* [Dec 2015]
Paragraphs RDR 8.1–RDR 8.6 and heading	Added	*Amendments to PBE Standards* [Dec 2015]
Paragraph 9	Amended	*Amendments to PBE Standards* [Dec 2015]
Paragraph 25	Amended	*2015 Omnibus Amendments to PBE Standards* [July 2015]
Paragraph 29.1	Added	*Amendments to PBE Standards* [Dec 2015]
Paragraph RDR 29.2	Added	*Amendments to PBE Standards* [Dec 2015]
Paragraph 29.3	Added	*Amendments to PBE Standards* [Dec 2015]
Paragraph RDR 29.4	Added	*Amendments to PBE Standards* [Dec 2015]
Paragraph 30	Amended	*Amendments to PBE Standards* [Dec 2015]
Paragraph RDR 30.1	Added	*Amendments to PBE Standards* [Dec 2015]
Paragraph 38	Amended	PBE IPSAS 34 [Jan 2017]
Paragraph 42.1	Added	*2015 Omnibus Amendments to PBE Standards* [July 2015]
Paragraph 42.2	Added	*Amendments to PBE Standards* [Dec 2015]
Paragraph 42.3	Added	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 42.4	Added	PBE IPSAS 34 [Jan 2017]
Paragraph 42.6	Added	PBE IPSAS 39 *Employee Benefits* [May 2017]
Paragraph 42.7	Added	*2018 Omnibus Amendments to PBE Standards* [Nov 2018]
Paragraph B1	Amended	PBE IPSAS 34 [Jan 2017]
Paragraph B4	Amended	PBE IPSAS 34 [Jan 2017]
Paragraph C1	Amended	PBE IPSAS 34 [Jan 2017]
Paragraph C1	Amended	PBE IPSAS 39 *Employee Benefits* [May 2017]
Paragraph C1	Amended	*2018 Omnibus Amendments to PBE Standards* [Nov 2018]
Paragraph C4	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph C8	Amended	PBE IPSAS 39 *Employee Benefits* [May 2017]
Paragraph C11 (and preceding heading)	Amended	PBE IPSAS 34 [Jan 2017]
Paragraph C12	Amended	PBE IPSAS 34 [Jan 2017]
Paragraph C13	Amended	PBE IPSAS 34 [Jan 2017]
Paragraph C31 (and preceding heading)	Added	PBE IPSAS 34 [Jan 2017]
Paragraph C32 (and preceding heading)	Added	*2018 Omnibus Amendments to PBE Standards* [Nov 2018]

Table of Amended Paragraphs in PBE FRS 47		
Paragraph affected	**How affected**	**By … [date]**
Paragraphs D1–D2 (and preceding heading)	Added	PBE IPSAS 34 [Jan 2017]
Paragraph D3	Amended	PBE IPSAS 39 *Employee Benefits* [May 2017]

Amendments to other standards

This is an indicative list of amendments that would be required

Standard	Amendments required?
PBE IPSAS 1	Nil
PBE IPSAS 2	Nil
PBE IPSAS 3	Add a footnote to BC4 which refers to PBE FRS 46
PBE IPSAS 4	Nil
PBE IPSAS 5	Nil
PBE IPSAS 9	Nil
PBE IPSAS 10	Nil
PBE IPSAS 11	Nil
PBE IPSAS 12	Nil
PBE IPSAS 13	Nil
PBE IPSAS 14	Nil
PBE IPSAS 16	Nil
PBE IPSAS 17	Nil
PBE IPSAS 19	Nil
PBE IPSAS 20	Nil
PBE IPSAS 21	Nil
PBE IPSAS 22	Nil
PBE IPSAS 23	Nil
PBE IPSAS 25	Nil
PBE IPSAS 26	Nil
PBE IPSAS 27	Nil
PBE IPSAS 28	Nil
PBE IPSAS 29	Nil
PBE IPSAS 30	Nil
PBE IPSAS 31	Nil
PBE IPSAS 32	Nil
PBE IPSAS 34	Nil
PBE IPSAS 35	Nil
PBE IPSAS 36	Nil
PBE IPSAS 37	Nil
PBE IPSAS 38	Nil
PBE IPSAS 39	Amend title of PBE FRS 47 in para 177
PBE IPSAS 40	Amend title PBE FRS 47 in para 134.3 Add effective date para Amend title PBE FRS 47 in para AG50.1 Check whether AG50.1 and AG50.2 require any other amendments
PBE IPSAS 41	Nil (Note PBE IPSAS 41 amended PBE FRS 47)
PBE IFRS 3	Nil

Standard	Amendments required?
PBE IFRS 4	Nil
PBE IFRS 5	Nil
PBE IFRS 9	NA– This Standard will be withdrawn before these amendments become effective.
PBE IFRS 17 (NFP)	Nil
PBE IAS 12	Nil
PBE IAS 34	Nil
PBE FRS 42	Amend para 73
PBE FRS 43	Nil
PBE FRS 45	Nil
PBE FRS 46	Withdraw
PBE FRS 47	The amendments to PBE FRS 47 will be set out in the body of the amending standard. The marked up text in this document shows the changes that staff think would be required.
PBE FRS 48	Nil (Note PBE FRS 48 amended PBE FRS 46 and PBE FRS 47)
PBE FRS A PS	Not checked yet
PBE FRS A NFP	Not checked yet
PBE FRS C PS	Not checked yet
PBE FRS C NFP	Not checked yet
Explanatory Guides	Not checked yet
XRB A1	Not checked yet

NZ ACCOUNTING STANDARDS BOARD

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

Date:	26 July 2019
To:	NZASB Members
From:	Tracey Crookston
Subject:	**Disclosure – Entity Classification**

Recommendations[1]

1. The Board is asked to:

   (a) CONSIDER the feedback received from TRG members on introducing a disclosure requirement into NZ IFRS and PBE Standards for an entity to disclose additional information about its classification as either a public benefit entity (PBE) or a for-profit entity; and

   (b) AGREE with the staff recommendation not to propose a new disclosure requirement for an entity to disclose additional information about its classification as either a PBE or a for-profit entity.

Background

2. At the TRG[2] meeting in September 2018, the TRG discussed proposed amendments to Appendix A *When is an Entity a Public Benefit Entity?* of XRB A1.

3. During the discussion a suggestion was made that it could be helpful for an entity to disclose its rationale for determining its classification as a PBE or a for-profit entity. It was acknowledged that this may be helpful when professional judgement is exercised, particularly where there are conflicting indicators.

4. At its meeting on 31 October 2018, the NZASB agreed that staff should explore the possibility of requiring an entity to disclose significant judgements made in determining its classification as a PBE or a for-profit entity.

[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).

[2] The Technical Reference Group (TRG) was established in 2014 to provide a forum for the New Zealand Accounting Standards Board (NZASB) to consult on technical accounting issues.

5. In July, staff circulated a memo to TRG members asking them to consider the pros and cons of three options:
   (a) **Option 1:** require an entity to disclose the rationale for its classification;
   (b) **Option 2:** require an entity to disclose *material*[3] judgements made in determining the classification of the entity; or
   (c) **Option 3:** do nothing, that is, not require any additional disclosures about an entity's classification.

6. Appendix 1 sets out options 1–3 and the associated pros and cons as presented to the TRG. TRG members were asked whether:
   (a) the main pros and cons for each option had been captured;
   (b) a disclosure requirement should be added to NZ IFRS and PBE Standards and if so, whether option 1, 2 or a combination of options 1 and 2 should be added; and
   (c) if a disclosure requirement is added, there should be an RDR concession.

Structure of this memo

7. The remainder of this memo sets out:
   (a) Existing related disclosure requirements under NZ IFRS and PBE Standards;
   (b) Disclosure of significant judgements;
   (c) TRG feedback; and
   (d) the staff recommendation.

Existing related disclosure requirements under NZ IFRS and PBE Standards

Basis of Preparation

8. NZ IFRS and PBE Standards require for-profit entities and PBEs respectively to disclose information about the basis of preparation.

9. Paragraph 7 of FRS-44 *New Zealand Additional Disclosures* and paragraph 28.2 of PBE IPSAS 1 *Presentation of Financial Statements* require disclosure of:
   (a) the statutory basis or other reporting framework, if any, under which the financial statements have been prepared;
   (b) a statement whether the financial statements have been prepared in accordance with GAAP; and
   (c) that for the purposes of complying with GAAP the entity is a for-profit entity or a public benefit entity (as appropriate).

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[3] We note that the IASB and IPSASB referred to significant judgements, however *significant* is not a defined term and has led to confusion in practice. The IASB is currently developing proposed amendments to paragraphs 117–124 of IAS 1 *Presentation of Financial Statements* to require and entity to disclose its *material* accounting policies rather than its *significant* accounting policies. The IASB is proposing to publish an ED in H2 2019.

Statement of compliance

10. An entity is also required to disclose whether its financial statements comply with:

    (a) NZ IFRS (paragraph 5 of FRS-44) (and therefore IFRSs (paragraph 16 of NZ IAS 1 *Presentation of Financial Statements*));

    (b) NZ IFRS RDR (paragraph RDR 5.1 of FRS-44);

    (c) PBE Standards (paragraph 28 of PBE IPSAS 1); or

    (d) PBE Standards RDR (paragraph RDR 28.1 of PBE IPSAS 1).

Disclosure of significant judgements

11. Currently paragraph 122 of NZ IAS 1 and paragraph 137 of PBE IPSAS 1 require an entity to disclose the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

12. At the September meeting, some TRG members asked whether paragraph 122 of NZ IAS 1 and paragraph 137 of PBE IPSAS 1 would capture significant judgements involved in determining an entity's classification.

13. As these paragraphs require disclosure of the significant judgements made in applying an entity's accounting policies, we would not expect these paragraphs to extend to disclosure of the significant judgements made in relation to an entity's classification.

14. The judgements involved in determining whether an entity is a PBE or a for-profit entity are different to the judgements made about the application of an entity's accounting policies.

TRG Feedback

15. Five TRG members responded to the request for feedback on the circulated memo. The majority of respondents supported option 2 (i.e. require disclosure of material judgements made in determining an entity's classification). One TRG member preferred option 3 (i.e. do nothing). The two TRG members who answered the question on the pros and cons agreed with those identified by staff.

16. TRG members who supported option 2 provided the following comments.

    (a) An entity's classification as a for-profit entity or a PBE can have a significant impact on the carrying amount of assets (e.g. non-cash generating assets). Where material judgements are involved in determining this classification one TRG member considered disclosure could provide helpful information to users of the financial statements.

    (b) The cost to preparers of making this disclosure is not expected to be significant as entities should have already identified and considered any material judgements in determining their classification. Where no material judgements are involved the entity would not be required to make a disclosure.

(c) Material judgements involved in determining an entity's classification are likely to specifically relate to that entity, therefore option 2 is less likely to result in boilerplate disclosures compared to option 1.

(d) Requiring entities to disclose material judgements may lead preparers to give greater consideration to material judgements involved in determining an entity's classification and result in better quality assessments being performed.

(e) Added disclosure may help users understand an entity's classification where that entity is part of a mixed group, e.g. where the entity is a for-profit entity but its parent and the group are a PBE.

17. The TRG member who supported option 3 noted that the key disclosure is for an entity to disclose which suite of accounting standards it is applying (which is already required by NZ IFRS and PBE Standards).

18. In relation to option 2, one TRG member suggested that the use of "material" is not any clearer than requiring the disclosure of significant judgements. This TRG member believes that it is unclear how "material" would be applied in the context of making judgements about an entity's classification. The TRG member noted that:

(a) if PBE Standards and NZ IFRS are significantly different, the decision to apply one or the other will always be material; and

(b) the judgement could be considered material only if applying the other set of standards would materially change the entity's accounting (e.g. if an entity is a PBE and has to apply PBE Standards would the judgement that the entity is classified as a PBE be considered material only if material adjustments would be required to its PBE financial statements in order to apply NZ IFRS?) and that very few for-profit preparers would be happy with also having to understand the PBE framework and vice versa.

19. This TRG member suggested that rather than requiring the disclosure of "material judgements", it may be clearer if there is a requirement to disclose "the factors considered in determining classification in circumstances where there are contradictory indicators".

20. The TRG member who preferred option 3, suggested that the key information for users of the financial statements is which standards are being used and this is already disclosed.

21. All four of the TRG members who responded to the question on whether an RDR concession should be provided, if a disclosure requirement was introduced, believed that an RDR concession should not be provided. Comments from TRG members on this question included the following points.

(a) Tier 2 entities often have to make significant judgements in determining their classification – Entities "at the margin" are often Tier 2 entities, rather than Tier 1 entities.

(b) No RDR concession has been provided for the disclosure of significant judgements involved in applying an entity's accounting policies, therefore by analogy we consider that it would not be appropriate to provide a concession.

Staff Recommendation

22. We agree with the TRG member's comment that an entity's classification as a for-profit entity or a PBE can have a significant impact on the carrying amount of assets. However, we consider the information that is useful to users of the financial statements is already required by NZ IFRS and PBE Standards, which require an entity to disclose:

    (a) a statement of compliance with the suite of standards applied (e.g. NZ IFRS, PBE Standards etc.);

    (b) the basis for preparation, including whether for the purposes of complying with GAAP the entity is a for-profit entity or a PBE; and

    (c) significant accounting policies applied.

23. We are not convinced that disclosure of material judgements made in assessing an entity's classification would provide users with additional useful information beyond what is already required even though this information may not be costly to provide.

24. We appreciate that disclosure of material judgements may lead preparers to give greater consideration to material judgements and may be helpful to practitioners and auditors when having discussions with an entity about its classification. However, we do not consider this to be an objective of disclosure requirements.

25. TRG members' feedback suggests that the interpretation of material in the context of assessing an entity's classification might not be clear and could result in unintended disclosures, the consequences of which may result in adding more 'clutter' to financial statements. We also note that internationally, there is a focus on 'decluttering' the financial statements and not providing unnecessary information.

26. Having considered the feedback received from TRG members and the pros and cons set out in Appendix 1, our recommendation is option 3 (i.e. no additional disclosure requirement is necessary).

Question for the Board

Q1. Does the Board AGREE with the staff recommendation not to introduce a disclosure requirement (into NZ IFRS and PBE Standards) for an entity to disclose additional information about its classification as either a public benefit entity (PBE) or a for-profit entity?

Appendix 1 – Options presented to the TRG

Option 1 – Disclosure of rationale for classification

Pros	Cons
• May help users better understand why the entity has classified itself as a PBE or a for-profit entity. • Entities, particularly those where the assessment is not straightforward, might give greater consideration to their classification assessment. (Staff note that this is not an objective of disclosure requirements.)	• Entities might take a *boiler plate* approach to this disclosure – for example "As the primary objective of the entity is to provide goods and services for community and social benefit, rather than making a financial return the entity is a PBE." • Users may be more interested in disclosure where material judgements were involved rather than in all situations. • If the disclosure is not seen as providing useful information to users it could add clutter to the financial statements and impose additional costs on preparers that exceed any benefits.

Option 2 –Disclosure of material judgements made in determining an entity's classification

Pros	Cons
• Would provide users with greater transparency around the material judgements made by an entity in determining its classification. • May help users better understand why the entity has classified itself as a PBE or a for-profit entity. • Entities, particularly those where the assessment is not straightforward, might give greater consideration to their classification assessment. (Staff note that this is not an objective of disclosure requirements.)	• Entities might take a *boiler plate* approach to this disclosure – for example describing all the indicators and noting that "on balance the entity assessed itself as "x"". • If the disclosure is not seen as providing useful information to users it could add clutter to the financial statements and impose additional costs on preparers that exceed any benefits. • Some entities could perceive non-disclosure as a compliance risk and make the disclosure even if there are no material judgements involved in the classification assessment.

Option 3 – Do nothing

Pros	Cons
• If users do not consider that additional information about an entity's classification is useful for their decision making this approach does not create additional costs for preparers or add clutter to the financial statements.	• Users may not have sufficient information to understand an entity's classification. • Entities might not give the same level of consideration to their classification decision compared to if they were required to provide additional disclosures about their classification. (Staff note that this is not an objective of disclosure requirements.)

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 108

Approval to Issue PBE IPSAS 40 *PBE Combinations*

In accordance with the protocols established between the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB Board), the NZASB has:

- approved for issue PBE IPSAS 40 *PBE Combinations;* and
- provided a signing memo outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memo and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue PBE IPSAS 40 *PBE Combinations* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 28th day of June 2019

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Michele J Embling
Chair
External Reporting Board

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 109

Approval to Issue
PBE IFRS 17 *Insurance Contracts*

In accordance with the protocols established between the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB Board), the NZASB has:

- approved for issue PBE IFRS 17 *Insurance Contracts* applicable to Tier 1 and Tier 2 not-for-profit public benefit entities*;* and
- provided a signing memo outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memo and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue PBE IFRS 17 *Insurance Contracts* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 28th day of June 2019

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Michele J Embling
Chair
External Reporting Board