Board Meeting Agenda

Wednesday 11 September 2019, Auckland
M Social Hotel, 196–200 Quay Street, Auckland

Est Time	Item	Topic	Objective		Page
B: PUBLIC SESSION					
For-profit and PBE Item for Consideration					
11.40 am	**3**	**Auditor Responsibility for Going Concern**	(MP)		
	3.1	Cover memo from NZAuASB staff	Consider	Paper	
	3.2	NZAuASB ED 2019-1 ITC	Note	Paper	
PBE Items for Approval					
12.10 pm	**4**	**IPSASB CP *Measurement***	(JS)		
	4.1	Cover memo	Note	Paper	
	4.2	Draft comment letter	Approve	Paper	
	4.3	IPSASB CP *Measurement*	Note	Supp paper	
1.00 pm		*Lunch*			
1.30 pm	**5**	**Withdrawal of PBE FRS 46**	(JS)		
	5.1	Cover memo	Consider	Paper	
	5.2	Draft ED	Approve	Paper	
	5.3	Draft ITC	Approve	Paper	
For-Profit Item for Consideration					
2.00pm	**6**	**Disclosure of Accounting Policies**	(DB/LK)		
	6.1	Cover memo	Consider	Paper	
	6.2	Draft comment letter	Consider	Paper	
	6.3	IASB ED/2016/6 *Disclosure of Accounting Policies*—Proposed Amendments to IAS 1 and IFRS Practice Statement 2	Note	Paper	
	6.4	Section 6—Discussion Paper *Disclosure Initiative—Principles of Disclosure*	Note	Supp paper	
Accounting Standards Framework					
2.30 pm	**7**	**Amendments to EG A1**	(ALH)		
	7.1	Cover memo	Note	Paper	
	7.2	Draft EG A1 *Guide to the Application of the Accounting Standards Framework*	Consider/ approve	Paper	
	7.3	Draft EG A1 marked up	Note	Supp paper	

Est Time	Item	Topic	Objective		Page
For-profit Item for Approval					
2.50 pm	**8**	***2019 Omnibus Amendments to NZ IFRS***	(VSF)		
	8.1	Cover memo	Note	Paper	
	8.2	*2019 Omnibus Amendments to NZ IFRS*	Approve	Paper	
	8.3	Draft signing memorandum	Approve	Paper	
	8.4	Submission received: Audit New Zealand	Note	Paper	
3.10 pm		*Afternoon tea*			
Standards for Noting					
3.25 pm	**9**	**Standards Approved**	(VSF)		
	9.1	Approval 110 *Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12)	Note	Paper	

Next NZASB meeting: Wednesday 30 October 2019

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	30 August 2019
To:	NZASB Members
From:	Misha Pieters, Senior Project Manager, Assurance Standards
Subject:	**Auditors' responsibilities related to going concern**

Recommendations

1. The Board is asked to PROVIDE FEEDBACK on two options being considered by the NZAuASB for inclusion in interim review reports issued by auditors.

Background

2. Many listed entities in New Zealand voluntarily seek to have their interim financial statements reviewed by the auditor. (In Australia there is a statutory requirement to do so).

3. The NZAuASB, in a joint domestic project with the AUASB, is proposing to revise the requirements of the interim review report, to align more closely, as deemed appropriate for a review engagement, with the changes introduced to the auditors' reports. This is to enhance the communicative value of the report, and to promote consistency in practice. Internationally, the equivalent international standard has not been updated since 2006 and the IAASB has no intent to amend the international equivalent standard in the near future.

4. The project is not proposing to revise the procedures required to be performed by auditors when conducting an interim review. This is a limited scope project focussing on improving the interim review report.

5. The NZAuASB is seeking feedback from preparers, investors and other users (in addition to seeking responses from auditors themselves). On this matter, it is particularly important to get feedback from the broader stakeholder group, as we are seeking feedback on the best way to communicate in the interim review report with this broader group.

Going concern

6. The key issue, which has generated the most discussion, is related to going concern. The NZAuASB is exploring the best way to describe the auditor's responsibilities in relation to going concern in the interim review report, so as to reduce the risk of an expectation gap and to enhance transparency and the information value of the interim review report.

7. Preparers of financial statements are responsible for assessing the entity's ability to continue as a going concern or making appropriate disclosures about matters related to going concern. The preparers' responsibilities are the same at the interim and year end phase.

8. A key challenge in describing the auditors' responsibility at the interim stage, is that this is a review engagement. During a review, the auditor performs procedures, generally limited to making enquiries and applying analytical review procedures, which are substantially less than those procedures performed during an audit. This statement is already articulated in the review report, as illustrated in the extract from the existing review report below, although is not explicitly related to going concern.

9. Another point to note is that future events or conditions may cause the entity to cease to be a going concern.

10. With this context, the NZAuASB is interested in your understanding of two options to include within the review report to describe the auditors' responsibilities for going concern. One of these options will follow the sentence already included in the report as illustrated below:

Options to describe the auditors' responsibilities

<table>
<tr><td colspan="2">Extract from existing review report

The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on those financial statements.</td></tr>
<tr><td>Option 1

Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by those charged with governance is not appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our conclusion. However, future events or conditions may cause the entity to cease to continue as a going concern.</td><td>Option 2

We make enquiries whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When as a result of this enquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:

• enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and

• consider the adequacy of the disclosure about such matters in the financial statements.</td></tr>
</table>

11. Option 1 amends the description included in the auditor's report with an emphasis on the limited assurance conclusion provided in a review engagement. This option recognises that the auditor is performing review procedures in order to conclude whether anything has come to their attention. It tailors the approach adopted in the auditor's report on the annual

financial statements to appropriately reflect the limited assurance engagement performed, to distinguish this from the audit and to communicate the reporting implications if the auditor concludes that a material uncertainty exists. It also highlights that future events may cause the entity to cease to continue as a going concern.

12. This paragraph uses similar language to that used in the annual auditor's report, except that the introductory sentence has been amended to reflect the nature of the review conclusion. The audit report states that the auditor concludes on the appropriateness of use of the going concern basis of accounting and then goes on to deal with reporting where a material uncertainty exists and reminds the user that future events may cause the entity to cease to continue.

13. Option 2 is not based on the wording of the annual auditor's report. Rather option 2 repeats one of the required procedures that the auditor is required to perform related to going concern as stated in the review standard. It does not go on to explain the outcome of the procedures performed, nor does it deal with the additional responsibilities, required by the review standard, where a material uncertainty exists.

Questions for Board

Q1. What is your understanding of the two options?

Q2. How do these options compare with your understanding of a review engagement?

Attachments

Agenda item 3.2: NZAuASB Invitation to Comment

Appendix: Extract from an Illustrative review report with options identified

We have reviewed the accompanying interim financial statements of [name of entity], which comprise the statement of financial position as at [date], and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, and a summary of significant accounting policies and other explanatory information.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that these interim financial statements of [name of entity] do not present fairly, in all material respects, the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] ended on that date, in accordance with NZ IAS 34.

Directors' Responsibility for the [period] Financial Statements

The Directors are responsible, on behalf of the entity, for the preparation and fair presentation of the interim financial statements in accordance with the NZ IAS 34 and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Review of the Financial Statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34.

A review of the interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly we do not express an audit opinion on those interim financial statements.

Option 1	**Option 2**
Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by those charged with governance is not appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our conclusion. However, future events or conditions	We make enquiries whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When as a result of this enquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall: • enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and

may cause the entity to cease to continue as a going concern.	• consider the adequacy of the disclosure about such matters in the financial statements.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ AUDITING AND ASSURANCE STANDARDS BOARD

EXPOSURE DRAFT NZAUASB 2019-1

AMENDMENTS TO NEW ZEALAND STANDARD ON REVIEW ENGAGEMENTS 2410 *REVIEW OF FINANCIAL STATEMENTS PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY*

(ED NZAUASB 2019-1)

Invitation to Comment

July 2019

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New Zealand
http://www.xrb.govt.nz

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Information for respondents

Invitation to comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. Responses to this Invitation to Comment will be considered by the NZAuASB which will then make final decisions about New Zealand Standard on Review Engagements 2410.

Respondents are encouraged to supplement their opinions by 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. Respondents should feel free to provide comments only for those questions that are relevant to their perspective if they so wish.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

Email: submissions@xrb.govt.nz
(please include the title of the Exposure Draft in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submission is 14 October 2019.

[1] The NZAuASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting auditing and assurance standards.

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 of 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 ground 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).

List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

AUASB	Australian Auditing and Assurance Standards Board
ED	Exposure Draft
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
ISA	International Standard on Auditing
ISA (NZ)	International Standard on Auditing (New Zealand)
ISRE	International Standard on Review Engagements
ITC	Invitation to Comment
KAM	Key audit matters
NOCLAR	Non-compliance with laws and regulations
NZAuASB	New Zealand Auditing and Assurance Standards Board
NZ IAS	New Zealand Equivalent to International Accounting Standard
NZ SRE	New Zealand Standard on Review Engagements
PES	Professional and Ethical Standard
XRB	External Reporting Board

Summary of questions for respondents

1. Do you agree with the proposals to incorporate the reporting amendments made to the annual audit report consistently into the interim review report?
2. More specifically, do you agree with the proposals to require the auditor to:
    a. Move the review conclusion to the top of the interim review report?
    b. Include the independence statement in the interim review report?
    c. To include the engagement partner's name?
    d. To refer to a "Material Uncertainty Related to Going Concern" rather than an Emphasis of Matter paragraph, when appropriate?
3. Questions specific to going concern
    3.1 Do you agree that the requirement in paragraph 20 of the exposure draft should not make it explicit that the auditor is required to conclude on going concern and that this is implicit in the exposure draft as a whole?
    3.2 Do you agree that the review report should include a description of the responsibilities of both management and the auditor in respect of going concern? If not, why not?
    3.3 Do you agree with the NZAuASB's preferred option (in paragraph 28) to describe the auditor's responsibilities related to going concern? If not, why not?
4. Do you agree that it is not appropriate to include a section on Other Information in the interim review report? If you disagree, please explain why?
5. Do you agree that it is unnecessary to refer to a website when describing the auditor's responsibilities given that this description is more condensed for a review?
6. Do you agree that reporting of Key Review Matters at the interim stage is not appropriate?
7. Do you agree with the proposed amendments to align with the new ethical framework when encountering non-compliance with laws and regulations, including a reference to guidance in ISA (NZ) 250 rather than including detailed requirements and application material within NZ SRE 2410?
8. Do you consider that there are any further amendments required to be made to NZ SRE 2410? If so, please expand on what changes and why such changes are considered necessary?
9. Do you agree with the proposed effective date? If not, please explain why not.

1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment is to seek feedback on the proposed amendments to NZ SRE 2410.

1.2 Background

2. The XRB has delegated authority to the NZAuASB to issue auditing and assurance standards to govern the professional conduct of assurance practitioners. In doing so, the XRB requires the NZAuASB to adopt international auditing and assurance standards, unless there is a compelling reason not to do so. A second key strategic objective of the XRB is harmonisation with Australia.

3. The IAASB has issued ISRE 2410 but has not amended it since 2006 and it is not in the clarified format. An update to ISRE 2410 is not on the IAASB's work plan. It was for this reason that the NZAuASB agreed to issue a domestic standard to address interim reviews conducted by the auditor of the entity. The NZAuASB based NZ SRE 2410 on an equivalent Australian standard, which is in the clarified format, rather than the older version issued by the IAASB. Further explanations for the decision to issue a domestic standard are outlined in the Explanations for Decisions made by the NZAuASB in Finalising NZ SRE 2410.

4. Given that the IAASB has not prioritised the maintenance of the international standard, the NZAuASB and the AUASB have agreed to work together to maintain the domestic standard that deals with a review engagement performed by the auditor.

1.3 Reasons for issuing this Exposure Draft

5. From December 2016, the auditor's report was changed as a result of the IAASB's project to enhance the auditor's report from the user's perspective. These changes were limited to the ISAs.

6. Subsequently, questions have arisen, both in New Zealand and Australia, as to whether and how the new auditor reporting requirements impact the format and content of the interim review report in accordance with NZ SRE 2410, or the Australian equivalent.

7. Currently, while NZ SRE 2410 has not been updated, auditors can, but are not required to, use the new reporting format and new features when issuing a review report provided any reporting is not inconsistent with NZ SRE 2410. There was a view expressed by the Board that it would be preferable to promote consistency in practice. Based on indicative and early feedback from informal discussions with targeted stakeholders the NZAuASB agreed to develop an exposure draft to incorporate these updates into NZ SRE 2410 to promote consistency in reporting.

8. In addition, the NZAuASB identified a need to include conforming amendments as a result of the new ethical framework related to non-compliance with laws and regulations (NOCLAR).

9. The NZAuASB is not proposing to reopen or fundamentally revise NZ SRE 2410, rather to make conforming amendments to the standard as a result of recent changes to the ISAs (NZ) and PES 1 (Revised).

1.4 Timeline and next steps

10. Submissions on ED 2019-1 are due by 14 October 2019. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

11. The NZAuASB will consider the submissions received immediately after the consultation period ends. Subject to the content of feedback, the NZAuASB hopes to finalise any amendments to NZ SRE 2410 by the end of 2019.

2. Overview of ED NZ 2019-1

12. Key changes made to the auditor's report by the IAASB's auditor reporting project include, but were not limited to, the reporting of key audit matters (KAMs). Other changes made included:

- Re-ordering the report so that the opinion comes first, followed by a "Basis for Opinion" section;
- Naming the engagement partner in the report;
- An affirmative statement about the auditor's independence and fulfilment of relevant ethical requirements;
- A description of the respective responsibilities of those charged with governance and the auditor for going concern;
- Referring to a material uncertainty related to going concern as an "emphasis of matter" or under the heading "Material uncertainty related to going concern";
- An "Other Information" section to clarify that the auditor's opinion does not cover the other information included in an annual report;
- An enhanced and expanded auditor's responsibility section describing the key features of an audit. There is also an option to refer to the XRB website instead of repeating these responsibilities in all reports;

A key reason for making these changes to the auditor's report was to enhance the value of the auditor's report to better meet user needs.

2.1 Key Differences Between the Exposure Draft and Extant NZ SRE 2410

2.1.1 Reporting Requirements

13. The exposure draft is proposing to include the enhanced features of the revised auditor's report that are deemed relevant for an interim review report, into NZ SRE 2410. However, not all of the revised auditor reporting requirements have been determined to be appropriate for a review engagement.

Interim Review Reporting requirements to align with the auditor's report

14. The NZAuASB is proposing to include the following requirements in NZ SRE 2410:

- Re-ordering the report so that the conclusion comes first, followed by a "Basis for Conclusion" section;
- Naming the engagement partner in the interim review report;
- An affirmative statement about the auditor's independence and fulfilment of relevant ethical requirements;
- Referring to a material uncertainty related to going concern as an "emphasis of matter" or under the heading "Material uncertainty related to going concern";
- A description of the respective responsibilities of those charged with governance and the auditor for going concern.

15. The NZAuASB has not identified that any of these proposals will be overly onerous to apply in the New Zealand context.

16. The NZAuASB has heard favourable feedback from users, that including the Opinion first is an improvement to the auditor's report. Given that this is also the most useful information to the user of the interim review report, it would enhance the value of, and consistency of the user experience, if the review conclusion (and the structure of the report) followed the same basic order. For this reason, the ED proposes to mandate the order of the review report, so that the conclusion comes first, followed by the "Basis for Conclusion".

17. In Australia, it is required by law for the engagement partner to include their name on both the auditor's report and the interim review report (this was required before the auditor reporting changes), i.e. it is consistent practice for the engagement partner's name to appear in both the year end and interim review reports. This is not required in New Zealand.

18. Naming the engagement partner was identified as useful for the user. Reporting the engagement partner name at year end, but not including the name at the interim period may be misleading. If the engagement partner

has changed since the year end audit, it could mislead the user to believe that the same engagement partner has performed the interim review. As noted above this is inconsistent with practice in Australia. For this reason, the ED proposes to require the name of the engagement partner to be included in the interim review report. This is common practice in the public sector in New Zealand.

19. The auditor is subject to the same independence and ethical requirements when performing the interim review. Independence is most likely just as important to the user at the interim review stage. The ED therefore proposes to make this explicit statement in the review report.

20. Changes to ISA (NZ) 570 (Revised)[2] require a new heading to be used when the auditor concludes that there is a material uncertainty and adequate disclosures have been made about a material uncertainty in the financial statements. Historically this was reported under the heading "Emphasis of Matter". NZ SRE 2410[3] refers to an emphasis of matter paragraph in these circumstances. The NZAuASB considered that there is a need to promote consistency in this reporting. Not to do so may result in inadvertent non-compliance with extant NZ SRE 2410.

Going concern

21. The requirements in NZ IAS 1[4] related to making an assessment of the ability of an entity to continue as a going concern apply when preparing interim financial statements. Similarly, the auditor is required by extant NZ SRE 2410[5] to perform review procedures related to the use of the going concern basis of accounting.

22. Under the revised auditor reporting requirements, given the importance of the use of the going concern basis of accounting, the auditor's report is more transparent around both management's responsibilities and the responsibilities of auditors specifically related to going concern.

23. The NZAuASB considered whether to require a description of the responsibilities related to going concern in the interim review report. The option to remain silent about these responsibilities was rejected by the NZAuASB, given the importance of the underlying going concern basis of accounting, especially in the current environment. The NZAuASB prefers to include a description of these responsibilities to reduce the risk of an

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2 ISA (NZ) 570 (Revised), Going Concern, paragraph 22

3 NZ SRE 2410, paragraph 41

4 NZ IAS 1, *Presentation of Financial Statements*, paragraph 4 and 25

5 NZ SRE 2410, paragraph 20

expectation gap, in order to enhance transparency and the information value of the interim review report.

24. The NZAuASB is proposing to include the same description of management's responsibilities in the interim review report as the description included in the annual auditor's report.

25. The description of the auditor's responsibilities related to going concern in the annual auditor's report include:

- To conclude on the appropriateness of the use of the going concern assumption; and
- To communicate the reporting implications if the auditor concludes that a material uncertainty exists.

26. Extant NZ SRE 2410 is not explicit that the auditor shall conclude on the appropriateness of the use of the going concern basis of accounting. The NZAuASB considers that the required procedures in NZ SRE 2410 adequately captures what the auditor is expected to do at an interim review so there is no urgent need to update this requirement which may be viewed as beyond the scope of the project. Rather, it is implicit within the exposure draft that the procedures are performed in order to form a conclusion. This is implicit in that the auditor has to conclude as to whether anything has come to their attention that causes them to believe that the financial statements have not been prepared, in all material respects, with the applicable financial reporting framework. It explicitly requires the auditor to make enquiries about the entity's ability to continue as a going concern and perform additional review procedures[6]. It also requires inclusion of a material uncertainty paragraph where the auditor concludes that a material uncertainty exists[7].

27. The NZAuASB is seeking feedback on the best way to describe the auditor's responsibilities in relation to going concern in the interim review report. It has explored two possible options to describe these responsibilities. The options below illustrate how these two options would look within the review report under the heading *Auditor's responsibilities*:

Option 1 (the preferred option included in the exposure draft)

28. In this option, the description from the auditor's report has been amended to describe both elements covered by ISA (NZ) 700 (Revised), noting that the conclusion has been amended appropriately for a review engagement:

"Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of

---

6 Refer to paragraph 20 of the exposure draft.

7 Refer to paragraph 52 and 53 of the exposure draft.

the going concern basis of accounting by [those charged with governance] is not appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the [period] financial statements or, if such disclosures are inadequate, to modify our conclusion. However, future events or conditions may cause the entity to cease to continue as a going concern."

29. This is the NZAuASB's preferred option proposed to be included in NZ SRE 2410. This option recognises that the auditor is performing the procedures in order to conclude whether anything has come to their attention. This option tailors the approach adopted in the auditor's report on the annual financial statements to appropriately reflect the limited assurance engagement performed, to clearly distinguish this from the audit and to communicate the reporting implications if the auditor concludes that a material uncertainty exists as required by ED NZ SRE 2410.

Option 2

30. While the NZAuASB considers the first option appropriate, in this option, the review report repeats the procedures (required in paragraph 20 of the ED) the auditor is required to perform within the review report, noting that future events or conditions may cause the entity to cease to continue as a going concern:

"We make enquiries about whether management have changed their assessment of the entity's ability to continue as a going concern. When, as a result of this enquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall enquire of management as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation. We consider the adequacy of the disclosures about such matters in the financial statements." [8]

31. It is in the public interest for users of financial statements to have a clear understanding of the limited assurance obtained in the interim review engagement. The NZAuASB considers the review report already describes the limited nature of the procedures performed in a review engagement. Repeating the specified procedures on going concern in the interim review report may introduce the potential for misunderstanding and may inadvertently increase the expectation gap in New Zealand. If the report does not go on to explain why the auditor is performing these procedures or

[8] Note this option is included in the proposals issued by the AUASB.

what they found it may be unlikely to satisfy investor perceptions around the auditor's responsibilities. References to "other review procedures" may in fact increase the risk that such reporting could be misinterpreted.

32. The NZAuASB is interested in your view as to which option better meets users' needs and is less likely to introduce the potential for misunderstanding of the limited assurance obtained in the interim review engagement.

Auditor Reporting requirements that have not been included

33. The NZAuASB is not proposing to incorporate the following features:

- Reporting of key audit matters or key review matters;
- An "Other Information" section to clarify that the auditor's opinion does not cover the other information included in an annual report;
- An enhanced and expanded auditor's responsibility section describing the key features of a review. There is also an option to refer to the XRB website instead of repeating these responsibilities in all reports.

34. The NZAuASB is not proposing to require the reporting of key audit matters in the interim review report because it was not considered appropriate given the limited nature of procedures performed when performing a review engagement.

35. The NZAuASB is not proposing to include a section on "Other Information" for interim review engagements. There is less "other information" reported at the interim stage and therefore there is no need to place additional reporting requirements on the auditor at the interim stage. This may be re-considered after a post implementation review of the reporting requirements has been completed by the IAASB.

36. The description of the auditor's responsibilities when performing the review is more condensed than for an audit, as the procedures performed are substantially less than for a review. Given the condensed nature of the description, it is not necessary to provide the option to refer to a website.

Question for respondents

1. Do you agree with the proposals to incorporate the reporting amendments made to the annual audit report consistently into the interim review report?

2. More specifically, do you agree with the proposals to require the auditor to:

   a. Move the review conclusion to the top of the interim review report?

   b. Include the independence statement in the interim review report?

   c. To include the engagement partners name?

d. To refer to a "Material Uncertainty Related to Going Concern" rather than an Emphasis of Matter paragraph, when appropriate?

Question 3 (specific to going concern)

3.1 Do you agree that the requirement in paragraph 20 of the exposure draft should not make it explicit that the auditor is required to conclude on going concern and that this is implicit in the exposure draft as a whole?

3.2 Do you agree that the review report should include a description of the responsibilities of both management and the auditor in respect of going concern? If not, why not?

3.3 Do you agree with the NZAuASB's preferred option to describe the auditor's responsibilities related to going concern? If not, why not?

4. Do you agree that it is not appropriate to include a section on Other Information in the interim review report? If you disagree, please explain why?

5. Do you agree that it is unnecessary to refer to a website when describing the auditor's responsibilities given that this description is more condensed for a review?

6. Do you agree that reporting of Key Review Matters at the interim stage is not appropriate?

2.1.2 Non-Compliance with Laws and Regulations (NOCLAR)

37. Amendments to PES 1 (Revised) *Non-compliance with Laws and Regulations* was issued in August 2016 to align with changes made by the IESBA to the *Code of Ethics for Professional Accountants*. The IAASB revised ISA 250[9] and issued conforming amendments to a number of other pronouncements, including ISRE 2400 (Revised)[10]. However, no changes were made to ISRE 2410. The conforming amendments made by the IAASB, responded to new requirements in the IESBA Code of Ethics to enable the IAASB's standards to be effectively applied alongside the IESBA Code.

38. This ED is proposing to make limited amendments to NZ SRE 2410 to align with the new terminology of identified and suspected NOCLAR, and amend the communication requirements to prompt the auditor to think about whether to report identified or suspected NOCLAR to an appropriate authority outside the entity, taking into consideration the provisions of laws,

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9 ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

10 ISRE 2400 (Revised), *Review of Historical Financial Statements Performed by an Assurance Practitioner*

regulations or relevant ethical requirements. Limited changes are proposed to the application material, which refers the auditor to the ISA (NZ) 250 (Revised).

Question for respondents

7. Do you agree with the proposed amendments to align with the new ethical framework when encountering non-compliance with laws and regulations, including a reference to guidance in ISA (NZ) 250 rather than including detailed requirements and application material within NZ SRE 2410?

2.1.3 Other changes

39. The extent of the proposed amendments are limited in nature, restricted to changes to the auditor reporting requirements and conforming amendments to NOCLAR.

40. Minor changes are proposed to revise the title of the standards, to reflect changes to the restructured Code and other recent developments in the ISAs.

Question for respondents

8. Do you consider that there are any further amendments required to be made to NZ SRE 2410? If so, please expand on what changes and why such changes are considered necessary?

2.2 Effective Date

41. The NZAuASB proposes that the effective date of the proposals should be effective for reviews of financial statements for periods beginning on or after 1 January 2020, with early adoption permitted. The NZAuASB does not consider that a lengthy transition period is required, given that the extent of change is limited in nature.

Question for respondents

9. Do you agree with the proposed effective date? If not, please explain why not.

NZ ACCOUNTING STANDARDS BOARD

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

Date:	30 August 2019
To:	NZASB Members
From:	Joanne Scott
Subject:	**IPSASB CP *Measurement***

Recommendation

1. The Board is asked to CONSIDER and APPROVE the comment letter at agenda item 4.2.

Background

2. The International Public Sector Accounting Standards Board (IPSASB) issued the Consultation Paper *Measurement* (the CP) in April 2019. Comments are due to the IPSASB by 30 September.

3. In May the Board received an education session on the CP. In June the Board considered a draft of the comment letter and noted TRG feedback on selected issues.

4. We circulated a revised draft to the Board in early August. Some Board members provided feedback on that draft – we have incorporated that feedback in the current draft.

5. We have not received any submissions. However, we are aware that our outreach on the CP has raised awareness of the CP and potential issues with the proposals. Some of the New Zealand constituents we contacted planned to discuss the CP proposals with international colleagues or groups.

Next steps

6. We will revise the comment letter for any changes agreed at this meeting and, subject to any review process agreed by the Board, submit the comment letter to the IPSASB.

Attachments

Agenda item 4.2: Draft comment letter

Agenda item 4.3: IPSASB CP *Measurement* (in supporting papers)

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

[xx September 2019]

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA

Submitted to: www.ifac.org

Dear John

Consultation Paper, *Measurement*

Thank you for the opportunity to comment on the Consultation Paper, *Measurement* (the CP). The CP has been exposed in New Zealand and some New Zealand constituents may comment directly to you.

More conceptual thinking required

The IPSASB needs to prioritise work on its limited-scope review of the Conceptual Framework.[1] One of the measurement project's stated objectives is to better align IPSAS with the Conceptual Framework. We do not think the IPSASB can meet this objective without doing more thinking about the measurement bases used in the Conceptual Framework, whether it is proposing any changes to the bases identified in the Conceptual Framework or changes in the discussion of those bases, and how it intends to apply those measurement bases in standards.

This need for further conceptual thinking is illustrated by the following proposals in the CP.

- The CP proposes to identify fair value, as defined in IFRS 13 *Fair Value Measurement*, as a measurement basis. This contrasts with the IPSASB's previous views. The IPSASB deliberately chose not to identify fair value as a measurement basis in its Conceptual Framework issued in 2014. The CP (Paragraph 2.17) indicates that the IPSASB plans to address the challenge of incorporating fair value into IPSAS as part of its Conceptual Framework Limited-Scope project. We think that the IPSASB needed to address this matter first, before proceeding to develop a

[1] *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, 2014. Also referred to as the Conceptual Framework in this letter.

measurement standard. It is not clear why the IPSASB has changed its views on this matter, what this means for market value (being the measurement basis discussed in the Conceptual Framework) and what the implications will be on individual IPSAS that require or permit a current value measurement basis.

- The CP proposes to adopt much of the guidance in IFRS 13, including the guidance dealing with the use of the cost approach (also referred to as current replacement cost) as a valuation technique to estimate fair value. It also proposes to provide guidance on replacement cost as a separate measurement basis. If the IPSASB decides that fair value, as defined in IFRS 13, should be acknowledged as a measurement basis appropriate for IPSAS and supported by application guidance, the IPSASB will need to give more detailed consideration to a number of matters. It will need to differentiate between the use of the cost approach under fair value and replacement cost as a separate measurement basis, outline its views on when each would be appropriate and indicate how it intends to give effect to these views in standards, particularly in relation to the revaluation model in IPSAS 17 *Property, Plant and Equipment.* The CP (paragraph 2.17) does acknowledge that the IPSASB needs to further develop the relationship between replacement cost as a measurement basis and replacement cost as a measurement technique. We believe this work should have been done first and needs to be done before any guidance is finalised.
- The CP proposes to update the term *cost of fulfilment* currently applied in the IPSASB Conceptual Framework with *fulfilment value.* The CP states that this is to align with the terminology used in the IASB 2018 Conceptual Framework. Our view is that this is not merely a change in terminology. The illustrative ED proposes that *fulfilment value* should include a risk premium (also referred to as a risk adjustment). Although, the IPSASB Conceptual Framework is silent on this matter, the Basis for Conclusions on IPSAS 42 *Social Benefits* states that *cost of fulfilment* does not include a risk adjustment. The appropriateness of including a risk margin for the liabilities of public sector entities has been the subject of much debate in New Zealand. We think the IPSASB needs to do more thinking about whether it wants to adopt a measurement basis that includes a risk premium, why a risk premium is appropriate, how the risk premium should be calculated (in general terms) and any implications for existing standards.

Standards should not drive changes to a conceptual framework

The CP states that the proposed standard will focus on the measurement bases commonly used in IPSAS. This approach gives rise to a number of risks. There is a risk that current requirements rather than conceptual thinking will drive changes to the Conceptual Framework and the proposed measurement standard might be given undue prominence in setting standards-level requirements. Conceptual frameworks should guide debates during the development of standards. If recent projects have led the IPSASB to conclude that it disagrees with aspects of its Conceptual Framework we would like to see those issues outlined and debated.

Risk of unnecessary changes to standards based on IFRS® Standards

The IPSASB is proposing to develop a measurement standard that contains guidance on a number of measurement bases. We think this approach runs the risk of making unnecessary changes to some

standards for little or no benefit as well as the risk of inadvertently changing meaning. This is especially so in the case of historical cost guidance in IPSAS, much of which is specific to the transactions and balances dealt with in those standards.

This proposal could also lead to unnecessary differences between IFRS Standards and IPSAS. This difference could impact on mixed groups that also include entities reporting under IFRS. Also, alignment with IFRS Standards allows constituents to draw upon the body of knowledge that has developed in support of those standards. We have concerns that even minor changes, which are not intended to create differences between the suites of standards, could lead preparers to think that there is an intentional difference and query the appropriateness of related IFRS guidance. We acknowledge that there are instances in which public sector specific changes may be warranted, but we cannot see any public sector specific reason for relocating or revising some measurement guidance.

Illustrative ED approach

The IPSASB has trialled a new approach with this CP and included an illustrative ED. The IPSASB hoped that this approach would provide constituents with a clearer view of the IPSASB's direction of travel, by showing how the ideas in the CP could be reflected in a draft IPSAS. We appreciate the IPSASB's intentions, but have not found this approach to be helpful. We would have found it more helpful if the IPSASB had developed a consultation paper in the usual way. We believe this approach has led to the omission of some important first steps, including undertaking the conceptual thinking we have highlighted above and consulting on these matters.

In addition, the partial nature of the illustrative ED has made it difficult to comment on the guidance. The amendments to other standards are critical to forming a view on the appropriateness of the measurement bases selected and the appropriateness and completeness of the proposed application guidance. A Basis for Conclusions is also essential for commenting on an ED.

Scope of the project

The IPSASB has stated that it will not be considering amendments to the impairment standards in this project. Because the impairment standards refer to various measurement bases and approaches (including fair value and depreciated replacement cost) we think that these standards would need to be amended to be consistent with the proposed measurement standard.

If you have any queries or require clarification of any matters in this letter, please contact Joanne Scott (joanne.scott@xrb.govt.nz) or me.

Yours sincerely

Kimberley Crook

Chair – New Zealand Accounting Standards Board

APPENDIX

Responses on Preliminary Views and Specific Matters for Comment

We have responded to PVs 1 to 7, SMC1 and SMC3. To the extent that we have commented on the PVs and SMCs, we have thought about the needs of public benefit entities (PBEs) in New Zealand, including both public sector and not-for-profit entities such as charities. We have referred solely to public sector entities in a few places – this is because we have more information about the views of public sector entities on certain issues.

Preliminary View 1—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View fair value, fulfillment value, historical cost and replacement cost require additional application guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

Preliminary View 2—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, and state what guidance should be included, and why.

We have combined our responses to PV1 and PV2.

We have serious reservations about developing additional application guidance for measurement bases without having first thought through the application of the Conceptual Framework to the measurement of particular transactions and balances, and determined what this means for particular standards and whether any changes are required to the Conceptual Framework. Until the IPSASB has done this work, we are unable to agree with PV1 and PV2.

The IPSASB has indicated that it intends to undertake a Conceptual Framework Limited Scope Review project. We think that this project needed to come first.

The proposed focus on the most commonly used measurement bases carries a risk that current requirements will drive the IPSASB's future decisions in determining an appropriate measurement basis, overshadowing the Conceptual Framework. Conceptual frameworks should guide debates during the development of standards. If recent projects have led the IPSASB to conclude that it disagrees with aspects of its Conceptual Framework we would like to see those issues outlined and debated. For example, we think the IPSASB needs to explain to constituents why the IPSASB chose to identify market value rather than fair value as a measurement basis in the Conceptual Framework and the IPSASB's views about how market value should be reflected in standards. If the IPSASB has

since decided that fair value is an appropriate measurement basis for IPSAS, then we think the IPSASB should explain to constituents when and how it thinks fair value rather than market value should be used in standards and how it plans to explain the relationship between fair value and market value in the Conceptual Framework. Or, if the IPSASB decides to remove market value from the Conceptual Framework, we think it needs to explain to constituents which aspects of its previous thinking have changed.

Our key point is that the IPSASB needs to do more thinking about which measurement bases should be outlined in the Conceptual Framework and when those bases should be used. Only then will the IPSASB be in a position to decide what guidance is required at standards level and whether some of that guidance should be included in a general measurement standard.

If the IPSASB decides to proceed to develop a measurement standard we have a number of concerns about the proposed application guidance – both in relation to location and content. These concerns are as follows.

(a) There is a risk that the proposed measurement standard will inappropriately stray into Conceptual Framework territory. It also runs the risk of inappropriately limiting future standards-level discussions or conflicting with current standards. For example, the IPSASB's views on the appropriateness of a risk premium in current value measures for liabilities needs to be thought through before developing any generic guidance. If the IPSASB considers that a risk premium might not be appropriate in some instances, then both the measurement bases identified and any generic guidance relating to that measurement basis should reflect this. The review of the Conceptual Framework needs to occur before, or at the same time as the development of the measurement standard, to make sure that the guidance is both appropriate and appropriately located.

(b) We are not convinced that all measurement application guidance belongs in one standard. Some of the existing guidance in IPSAS is transaction specific and would sit better in specific standards than in generic guidance. For example, we do not support the development of generic guidance on historical cost.

If the IPSASB's subsequent work on conceptual issues results in the conclusion that fair value, as defined by the IASB, is an appropriate measurement base to use in certain IPSAS (for example, the financial instrument standards), we agree that general application guidance on fair value would be useful. This would have the advantage of bringing additional guidance from IFRS 13 into IPSAS and lead to better alignment between the discussion of fair value in IPSAS and IFRS Standards.

If the IPSASB decides to proceed with a general measurement standard (rather than developing an IPSAS that is equivalent to IFRS 13), we think the following two conditions could be used to identify application guidance that is appropriate for inclusion in a general measurement standard. The conditions are that the application guidance is:

(a) public sector specific; and

(b) sufficiently generic that it can be used in more than one standard.

Application guidance on the replacement cost of non-cash-generating assets is an example of guidance that is both public sector specific and can be used in more than one standard. It is relevant

to both IPSAS 17 *Property, Plant and Equipment* and IPSAS 21 *Impairment of Non-Cash-Generating Assets*.

Application guidance on historical cost would not meet these conditions because there is little or no generic application guidance needed. We believe that much of the current application guidance on historical cost is best located in individual standards.[2] In addition, moving guidance on historical costs from individual standards to a general measurement standard would result in unnecessary changes to IPSAS and potentially unnecessary differences between IPSAS and IFRS Standards.

As discussed elsewhere in our comment letter, the proposed guidance on fulfilment cost/value needs further consideration. We do not believe that changing the term *cost of fulfilment* to *fulfilment value* is merely a change in terminology. The IPSASB needs to do more thinking about the appropriateness of a risk premium before considering the need for general guidance.

General comments on PVs 3 to PV6

We have three general comments on PV3 to PV6.

(a) We do not understand why the IPSASB is seeking feedback about whether the draft appendices are *complete*. We think it would have been more appropriate to focus on whether constituents agree with the proposed guidance, with completeness being a secondary matter.

(b) Constituents would need to see the Basis for Conclusions on the proposed application guidance to provide informed comments.

(c) We cannot fully consider the usefulness of generic guidance on particular measurement bases without knowing more about when and how that guidance will be referred to in standards. Our views on the generic descriptions and the need for guidance on those bases could well be influenced by how these bases are applied in standards. Taking property, plant and equipment as an example, depending upon the type of asset and the purpose for which that asset is held, historical cost, fair value (as per IFRS 13 *Fair Value Measurement*) or replacement cost might be appropriate for different assets.

Preliminary View 3—Chapter 2 (following paragraph 2.10)

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

As noted in our comments on PV1 and PV2 we do not support the development of generic guidance on historical cost. In this case we think that the guidance is better located in individual standards. If the current guidance on historical cost were to be rewritten in the form of general guidance and

[2] This point is illustrated by paragraphs C15 and C17 on historical cost in the illustrative ED which clearly relate to property, plant and equipment rather than inventory.

transaction specific guidance, there is a risk of making inadvertent changes. However, it would be worthwhile to consider whether the existing guidance in various standards is consistent.

We note that the treatment of borrowing costs is an historical cost issue and that the discussion of historical cost should have included the borrowing cost discussion. Recent debates about which costs to include in the measurement of liabilities could also have been considered as part of a broader historical cost discussion.

We disagree with the IPSASB's assertion that historical cost is not applicable to liabilities (as per the footnote 38 to Appendix C, shown below). Historical cost is a possible measurement basis for liabilities, with some liabilities being measured at amortised cost. As noted in an AASB occasional paper (2013),[3] many liabilities do not have historical proceeds but, if the amounts of the proceeds attributable to a liability are clearly evident and the amount reflects the characteristics of the liability, historical cost could be a reasonable surrogate for exit-price or entity-specific value. The assertion that historical cost is not applicable to liabilities also seems inconsistent with Diagram 4.2 *Subsequent Measurement: Liabilities* which suggests that the IPSASB will consider historical cost as a measurement basis for liabilities.

> **Extract from CP, footnote 38 to Appendix C**
>
> This application guidance focuses on historical cost for assets, because the consultation paper's flow chart for liability measurement indicates that historical cost is not applicable to the measurement of liabilities. It does not address depreciation, amortization and impairment, because previous IPSASB decisions have indicated that these should be addressed in other IPSAS, rather than IPSAS, *Measurement*.

Preliminary View 4—Chapter 2 (following paragraph 2.16)

The IPSASB's Preliminary View is fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

To the extent that, having done more conceptual thinking about how fair value sits within the Conceptual Framework and when it is appropriate within standards, the IPSASB decides that some IPSAS should require the use of fair value as defined in IFRS 13, fair value guidance aligned with IFRS 13 would be helpful for constituents. As noted earlier, in order to provided informed feedback on proposed fair value guidance we would need to understand how the IPSASB plans to incorporate fair value in the Conceptual Framework and the proposed amendments to standards.

If the IPSASB proceeds to issue application guidance on fair value, it will need to decide how to clearly differentiate between the use of the cost approach to determine fair value and replacement cost as a separate measurement basis. There is a risk of constituents being confused about the use of replacement cost in two contexts. Appendix A (paragraph A39) refers to current replacement cost in the discussion of the cost approach to determining fair value and Appendix D is about replacement cost as a measurement basis in its own right. Although these two terms are very similar

[3] AASB Occasional Paper No. 1 *Liabilities – the neglected element: a conceptual analysis of the financial reporting of liabilities*, Warren J McGregor, Principal author, 2013

they are talking about quite different measures. The cost approach in Appendix A has a different measurement objective to replacement cost as a measurement basis.. Different terminology might be one way of avoiding confusion. The IPSASB will also need to clearly indicate in standards when they are referring to replacement cost as a separate measurement basis.

Addendum C of the CP shows that the IPSASB has not included the IFRS 13 guidance on non-performance risk (paragraphs 42 to 45 of IFRS 13) in the illustrative ED. Addendum C indicates that this guidance is potentially to be included in IPSAS 41 *Financial Instruments*. In the absence of a Basis for Conclusions outlining why the IPSASB has decided not to include such guidance in the illustrative ED and the IPSASB's views about the impact of omitting such guidance from the proposed measurement standard, we cannot form a view on whether this omission is appropriate.

Preliminary View 5—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that fulfillment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfillment Value–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

We are unable to agree with the IPSASB's proposal to switch from *cost of fulfilment* to *fulfilment value* as a measurement basis as the CP has not explored the implications of this change. The CP states that change in terminology is to align with the terminology used in the IASB 2018 Conceptual Framework. However, the proposals in the CP reflect more than a change in terminology and needed more in-depth consultation.

Fulfilment value, as described in the IASB 2018 Conceptual Framework, includes a risk premium. The risk premium (for a liability) is described as being "the price for bearing the uncertainty inherent in the cash flows". Paragraph 6.20 of the IASB 2018 Conceptual Framework clarifies that in the case of fulfilment value the risk premium is determined from an entity-specific perspective whereas in the case of fair value it is determined from a market-participant perspective.

Appendix B of the CP indicates that the fulfilment value of a liability is to include a risk premium (see paragraphs B12–B13 and B37 shown below).

> B12. The fulfillment value is an entity specific value. An entity shall measure the fulfillment value of a liability using the assumptions from the entity's perspective, assuming the entity acts in its own economic best interest.
>
> B13. In developing those entity-specific assumptions, an entity shall identify characteristics specific to the entity and the liability, considering factors specific to all the following:
>
> (a) The liability;
>
> (b) The entity's expectations about the amount and timing of future outflows of resources;
>
> (c) The time value of money; and
>
> (d) The risk that the actual outflow of resources may ultimately differ from those expected (i.e., a risk premium).
>
> …

> B37. An entity shall apply judgement when determining an appropriate risk adjustment technique to use. If a risk premium were not included, the measurement would not faithfully represent the cost to fulfill the liability. In some cases determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.

This contrasts with the description of cost of fulfilment in the IPSASB Conceptual Framework which does not mention a risk premium. It also conflicts with the Basis for Conclusions on IPSAS 42 *Social Benefits* (see paragraph BC52 shown below) which states that *cost of fulfilment* does not include a risk adjustment.

> BC152. The IPSASB sought the views of respondents to the CP regarding a risk adjustment. Respondents generally considered that the cost of fulfillment measurement basis, which does not include a risk adjustment, was the most appropriate measurement basis for social benefits.

Given that the inclusion of a risk premium or risk adjustment in liability measures has been a hotly debated topic in the public sector the IPSASB needs to do more thinking about whether it wants to adopt a measurement basis that includes a risk premium, why a risk premium is appropriate, and from whose perspective the risk premium should be calculated.

Any change in the IPSASB's views about the appropriateness of a risk premium in an entity-specific liability measure would be a significant change that should be highlighted in due process documents.

In addition to wanting to know why the IPSASB is proposing to make this change, we would need to see the proposed amendments to other standards that could be affected by this change, such as IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* and IPSAS 39 *Employee Benefits*, before we could comment on the appropriateness of this guidance.

On a more detailed note, the proposed definition of risk premium in the CP is appropriate for fair value, but not for fulfilment value. Both fulfilment value and fair value require consideration of a risk premium, albeit from different perspectives.

Preliminary View 6—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

Replacement cost is being used in two contexts

The IPSASB needs to consider more fully how it will clarify what it means by replacement cost as a measurement basis, how this differs from the use of current replacement cost (the cost approach) in estimating fair value and when each is appropriate. We would need to know the IPSASB's views on these matters before we could comment on the appropriateness of the proposed guidance on replacement cost.

In both cases an entity would be using cost information to arrive at a measure for financial reporting. But the measurement objective determines what costs should be used. IFRS 13 has a specific

measurement objective – it discusses the use of the cost approach as a method to estimate fair value as defined in IFRS 13 (which is from the perspective of a market participant seller). Moreover, IFRS 13 is focused on the price that a market participant would be willing to pay to acquire the cash-generating-capacity of the asset, rather than its potential to provide public services (i.e. its service potential).

In summary, in order to apply the measurement requirements in IPSAS, constituents will need to know whether the measure is an entry or exit measure and whether it is intended to be entity specific or have a market participant focus. They also need to know whether to focus solely on the asset's potential to generate cash flows or whether to consider an asset's service potential. The distinction between assets held mainly for cash generation and assets held mainly for service potential may be one way of determining when the cost approach (as a method of estimating fair value) versus replacement cost (as a distinct and different measurement basis) are appropriate.

Comments on using DRC to estimate fair value (as currently defined in IPSAS)

IPSAS 17 permits the use of depreciated replacement cost as a means of estimating the fair value of an asset. When the NZASB introduced PBE IPSAS 17 *Property, Plant and Equipment* it noted that public benefit entities in New Zealand frequently use depreciated replacement cost to estimate the fair value of property, plant and equipment, including infrastructure assets. The NZASB noted that neither IPSAS 17 nor IPSAS 21 *Impairment of Non-Cash-Generating Assets* provide guidance on this topic at the level of detail previously provided in NZ IAS 16 *Property, Plant and Equipment*. The NZASB included additional application guidance on this topic in order to enhance the consistency of asset valuations in financial statements.[4] That guidance addressed specific issues that had arisen in practice.

In our view the application guidance that accompanies PBE IPSAS 17 more clearly addresses some of these issues than the proposed guidance in Appendix D. For example, Appendix D doesn't appear to cover the situation where the entity has to do extensive work to get land into a condition suitable for use and that use is specialised. We also note that paragraph D5 refers to "the current value of the existing site" but it isn't clear whether this is (i) the value of the current site, based on the current use or (ii) the highest and best use of that site. The additional guidance in PBE IPSAS 17 drew upon international valuation guidance available when PBE IPSAS 17 was developed.

In the interests of developing guidance that works internationally and is consistent with the international valuation standards, we encourage the IPSASB to continue to work with the International Valuation Standards Council.

[4] PBE IPSAS 17 is available on the XRB's website here

Preliminary View 7—Chapter 3 (following paragraph 3.28)

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset. Do you agree with the IPSASB's Preliminary View? If not, please state which option you support and provide your reasons for supporting that option.

We do not agree with PV7. We acknowledge that it is common practice in the public sector, including the public sector in New Zealand, to expense borrowing costs. We also acknowledge that public sector entities borrow for purposes other than financing the construction of assets and could experience difficulties in identifying and allocating borrowing costs, over and above the difficulties experienced by large private sector groups applying IAS 23 *Borrowing Costs*.

However, we do not consider that the IPSASB has presented sufficiently strong arguments to eliminate the option in IPSAS 5 to capitalise certain borrowing costs. We note the following.

- There are conceptual arguments in support of capitalising borrowing costs. One can argue that if an entity has borrowed to finance the construction of an asset including the borrowing costs during the period of construction gives a faithful representation of the cost of the asset.
- The argument that expensing borrowing costs leads to more comparable measurement of assets works in relation to self-constructed assets. However, expensing can lead to less comparable measurement of purchased versus constructed assets.
- Not all public sector entities experience the difficulties encountered by larger governments.
- Retaining the option would allow those entities that form part of mixed groups to select accounting policies that are consistent with IFRS Standards.
- Private sector preparers and users have expressed divergent views on the two options.[5] More research on the views of public sector preparers and users (including views about the importance of transparent reporting of total interest expense) would inform debates on this issue.

In our view, mandating the treatment of borrowing costs on initial measurement does not address the issue of what costs should be included in assets measured at fair value using the cost approach nor what costs should be included in a replacement cost measurement. Given the prevalence of depreciated replacement cost valuations in some jurisdictions this is an important issue. In the case of current value measures, the costs that are included depend upon the measurement objective. More guidance on the extent to which financing costs should be included in such valuations is required. We would encourage the IPSASB to work with the International Valuation Standards Council on this issue.

[5] European Commission (May 2008), Endorsement of IAS 23 *Borrowing Costs*, Effect Study – Report https://ec.europa.eu/info/sites/info/files/ias23_effect_study_en.pdf

Preliminary View 8—Chapter 3 (following paragraph 3.36)

Preliminary View 9—Chapter 3 (following paragraph 3.42)

Preliminary View 10—Chapter 3 (following paragraph 3.54)

Preliminary View 11—Chapter 3 (following paragraph 3.54)

We have not commented on Preliminary Views PV8 to PV11.

Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29)

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED. Do you agree that the list of definitions is exhaustive? If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

Given our earlier comments about the need for more thinking before proceeding with this ED we are not commenting on SMC1 at this point.

When the IPSASB next seeks comments on proposed definitions for a measurement standard we recommend that it asks whether the definitions are appropriate, rather than exhaustive. We note that some of the definitions (for example, fulfilment value and inputs) are based on those in IFRS 13 and were developed for use in that standard. They would need to be changed to work with other measurement bases.

Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5)

We have not commented on SMC2.

Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including: - The Conceptual Framework Measurement Objective; - Reducing unnecessary differences with GFS; - Reducing unnecessary differences with IFRS Standards; and - Improving consistency across IPSAS. If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

We do not agree. As mentioned in our cover letter we think the IPSASB needs to do more conceptual thinking about the measurement bases it intends to use in its Conceptual Framework, the objectives

of those measurement bases and the circumstances in which their use would be appropriate. We consider that the use of these flowcharts by the IPSASB would carry a number of risks.

- There is a risk that the flow charts will undermine the role of the Conceptual Framework.
- There is a risk that the flow charts could be inconsistent with the Conceptual Framework (to the extent that they incorporate more recent thinking).
- The flow charts highlight a broader debate on measurement (cost verses current value approaches) that has not been fully explored in the CP.
- Flow charts cannot capture all of the factors that might be relevant to consideration of measurement issues in a particular project. There is a risk that the use of the flow charts in a particular project could hinder debates.
- Although the IPSASB says it would consider the flow charts in conjunction with other matters such as reducing unnecessary differences with IFRS Standards, we are concerned that use of the flow charts could lead to these other factors becoming secondary considerations.
- The flow chart will not necessarily guide decision making. Different Board members might consider the matters identified on the flow chart and still come to different conclusions.

Other Comments

The AASB is currently looking at some issues associated with the application of AASB 13 *Fair Value Measurement* to public sector not-for-profit entities which may be of interest to the IPSASB. The AASB is proposing to develop illustrative examples to help public sector entities determine current replacement cost in accordance with AASB 13 *Fair Value Measurement*. The AASB has also been deliberating on whether the fair value of assets held for their service capacity should be determined differently from those assets held primarily for their ability to generate net cash inflows.

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	30 August 2019
To:	NZASB Members
From:	Joanne Scott
Subject:	**PBE First-time Adoption**

Recommendations[1]

1. We recommend that the Board APPROVES for issue NZASB ED 2019-X *Withdrawal of PBE FRS 46* (Proposed amendments to PBE FRS 47) and the accompanying Invitation to Comment (ITC).

Structure of this memo

2. This memo has the following sections.
   (a) Background;
   (b) Issue 1: Previous GAAP;
   (c) Issue 2: Comparison of RDR concessions;
   (d) Issue 3: Comparison of short-term exemptions;
   (e) Issue 4: Public sector entities;
   (f) Issue 5: Changing designation;
   (g) Approval to issue; and
   (h) Next steps.

Background

3. In August 2019 the Board agreed to propose to withdraw PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* and amend PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS.*

4. The Board asked that we:
   (a) consider whether the term "previous GAAP" is appropriate in PBE FRS 47;
   (b) check whether there are any public sector entities yet to adopt PBE Standards; and

[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).

(c) consider how the proposals would affect entities changing designation (from for-profit to PBE) or vice versa.

Issue 1: Previous GAAP

5. PBE FRS 47 currently uses the term "previous GAAP". The Board asked that we consider whether this term is the most appropriate term to use in PBE FRS 47, given that an entity's previous GAAP, as defined in PBE FRS 47, might not be generally accepted accounting practice as defined elsewhere. We have identified two instances in which the references to previous GAAP in PBE FRS 47 could be confusing.

   (a) Special purpose reports are not GAAP, as defined in XRB A1 *Application of the Accounting Standards Framework*.

   (b) XRB A1 refers to the *PBE Simple Format Reporting – Cash* standards as non-GAAP standards.

6. Table 1 sets out relevant extracts from XRB A1, PBE FRS 47, and NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

Table 1 GAAP and Previous GAAP

Standard	Extracts
XRB A1	**Generally accepted accounting practice** 4 The financial statements of various reporting entities are required by legislation to comply with "generally accepted accounting practice" (GAAP). GAAP comprises: (a) accounting standards issued by the XRB, or its sub-Board the New Zealand Accounting Standards Board (NZASB), pursuant to section 12(a) of the Financial Reporting Act 2013; and (b) authoritative notices issued by the XRB or the NZASB, pursuant to section 12(c) of the Financial Reporting Act 2013. **Non-GAAP standard** 5 Certain enactments permit an entity that does not meet the size threshold to be a "specified not-for-profit entity"[1] to prepare its financial statements in accordance with a "non-GAAP standard". A "non-GAAP standard" is a standard issued by the XRB or NZASB pursuant to section 12(a) of the Financial Reporting Act 2013 that is stated to be a non-GAAP standard. Only the Tier 4 PBE Accounting Requirements comprise non-GAAP standards. [1] Section 46 of the Financial Reporting Act 2013 provides that an entity is a "specified not-for-profit entity" if, in each of the preceding two accounting periods, its total operating payments are $125,000 or more. Standard XRB A2 *Meaning of Specified Statutory Size Thresholds* sets out the meaning for the size threshold of a "specified not-for-profit entity".
PBE FRS 47	Previous GAAP is the basis of accounting that a first-time adopter used immediately before adopting PBE Standards.
NZ IFRS 1	previous GAAP The basis of accounting that a first-time adopter used immediately before adopting NZ IFRS or NZ IFRS RDR.

7. In order to address this issue we recommend expanding the definition of previous GAAP in PBE FRS 47. Our arguments for continuing to use the term previous GAAP are that it has been

used in the PBE first-time adoption standards for some time, it is also used in NZ IFRS, and it is the risk of a narrow interpretation, rather than the term itself, that is a concern.

8. We propose to expand the definition of previous GAAP in PBE FRS 47, as shown below. New text is double underlined. The addition of the words "or PBE Standards RDR in the first sentence of the definition is for consistency with NZ IFRS 1. The addition of the second sentence is to avoid a narrow interpretation of previous GAAP.

> Previous GAAP is the basis of accounting that a first-time adopter used immediately before adopting PBE Standards or PBE Standards RDR. Previous GAAP refers to any basis of accounting previously used by a first-time adopter, including the Tier 4 PBE Accounting Requirements and the basis of accounting used in special purpose financial reports.

9. The proposed new sentence refers to special purpose financial reports, which is not a defined term. We considered whether we needed to define special purpose financial reports. On balance, we decided not to because we would also need to refer to general purpose financial reports. Entities adopting PBE Standards are likely to have read XRB A1 which defines general purpose financial reports. EG A1 *Guide to Application of the Accounting Standards Framework* discusses general purpose financial reports and contrasts them with special purpose financial reports.[2]

Question for the Board

Q1. Does the Board agree to amend the definition of previous GAAP in PBE FRS 47, as shown above?

Issue 2: Comparison of RDR concessions

10. This project presented us with an opportunity to check the RDR concessions in PBE FRS 47 for consistency with those in NZ IFRS 1. Most of the concessions are identical. We have identified two matters that require action now.

    (a) PBE FRS 47 paragraph RDR 8.4 refers to paragraph RDR 8.1. It should also refer to paragraph RDR 8.2 (see below). This will align it with NZ IFRS 1 paragraph RDR 5.5. We have included this amendment in the ED.

    (b) NZ IFRS 1 paragraph 29A should also have an RDR concession. We propose to deal with this in the *2019 Omnibus Amendments to NZ IFRS* (see agenda item 8).

PBE FRS 47 paragraph RDR 8.4 – proposed amendment

RDR 8.4 Notwithstanding the requirements in paragraphs 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.

[2] See agenda item 7 for a copy of EG A1. The proposed amendments to EG A1, as shown in agenda item 7, have been reflected in the draft ED at agenda item 5.2.

Question for the Board
Q2. Does the Board agree to amend PBE FRS 47 paragraph RDR 8.4, as shown above?

11. The Appendix to this memo sets out a few other paragraphs where the concessions in PBE FRS 47 and NZ IFRS 1 differ, but the difference either has no impact, or would be better considered when the for-profit RDR concessions are next reviewed.

Issue 3: Comparison of short-term exemptions

12. Both PBE FRS 47 and NZ IFRS 1 set out some short-term exemptions for first-time adopters. These exemptions generally avoid the use of hindsight or give first-time adopters the ability to use the transitional provisions in particular standards for a limited period (so that they are not disadvantaged compared to existing preparers). The IASB periodically withdraws the short-term exemptions when they can no longer be used.

13. This project was also a good opportunity to compare the short-term exemptions in PBE FRS 47 and NZ IFRS 1 (see Table 2). As a result, we identified an editorial correction (to renumber paragraphs E1 and E2 of PBE FRS 47, as D5 and D6).

Table 2 Comparison of short-term exemptions

NZ IFRS 1 Appendix E	**PBE FRS 47 Appendix D**	**Comment**
E1 and E2 give first-time adopters with a reporting period beginning before 1 January 2019 an exemption from the requirement to restate comparative information for IFRS 9 *Financial Instruments*.	~~E1–E2~~ D5–D6 These paragraphs give first-time adopters an equivalent exemption in relation to new disclosures added by PBE IPSAS 41 *Financial Instruments*. They were originally issued as paragraphs E1 and E2. The ED proposes to renumber them as D5 and D6.	These paragraphs are still needed in PBE FRS 47.
E3 [Deleted by IASB] E3 was added as a consequence of *Limited Exemption from Comparative NZ IFRS 7 Disclosures for First-time Adopters* (Amendment to NZ IFRS 1) issued in March 2010.	–	Not needed in PBE FRS 47. All of these disclosures to which this amendment related were included in PBE Standards when first issued so a separate exemption for first-time adopters was not required.
E4 [Deleted by IASB] E4 permitted a first-time adopter to apply the transition provisions in paragraph 44M of NZ IFRS 7. It was added as a consequence of *Disclosures–Transfers of Financial Assets* (Amendments to NZ IFRS 7) issued in November 2010.	–	Not needed in PBE FRS 47. The general exemption for new disclosures added by PBE IPSAS 41 (see the first item in this table) already covers the disclosures to which paragraph E4 related.
E4A [Deleted by IASB]	–	Not needed in PBE FRS 47.

NZ IFRS 1 Appendix E	PBE FRS 47 Appendix D	Comment
E4A permitted a first-time adopter to apply the transition provisions in paragraph 44AA of NZ IFRS 7. It was added by *Annual Improvements to NZ IFRSs 2012–2014 Cycle* issued in November 2014. E4A gave a short term relief from disclosures about continuing involvement in a transferred asset. The equivalent paragraphs in PBE IPSAS 30 are AG32–32A, which were added by PBE IPSAS 41.		The general exemption for new disclosures added by PBE IPSAS 41 (see the first item in this table) already covers the disclosures to which paragraph E4A related.
E5 [Deleted by IASB] E5 allowed an entity to make use of the relief in NZ IAS 19 *Employee Benefits* paragraph 173(b).	D3 is equivalent to NZ IFRS 1 paragraph E5. It allows an entity to make use of the relief in PBE IPSAS 39 paragraph 175(b). This relates to comparative disclosures about the sensitivity of the defined benefit obligation. The relief is available for financial statements for periods beginning before 1 January 2019.	Still appropriate in PBE FRS 47. Delete in a future improvements project (maybe in 2021).
E6–E7 [Deleted by IASB] E6 specified the point at which a first time adopter parent assessed whether it was an investment entity. E7 allowed an investment entity to apply certain transition provisions in other standards.	D1–D2 are equivalent to NZ IFRS 1 paragraphs E6–E7. The relief in D2 is available for an entity's first PBE Standards financial statements for an annual period ending on or before 31 December 2019.	Still appropriate in PBE FRS 47. Delete in a future improvements project (maybe in 2021).
E8 allows an entity not to reflect the application of NZ IFRIC 23 *Uncertainty over Income Tax Treatments* in comparative information in its first NZ IFRS financial statements. The relief is available to first-time adopters whose date of transition is before 1 July 2017.	D4 is equivalent to NZ IFRS 1 paragraph E8. The relief is available to first-time adopters whose date of transition is before 1 October 2019.	Still appropriate in PBE FRS 47.

Question for the Board

Q3. Does the Board agree that only one minor change to the short-term exemptions in PBE FRS 47 is required (to renumber paragraphs E1 and E2 as D5 and D6)?

Issue 4: Public sector entities

14. Staff's understanding is that the only public sector entities that are likely to adopt PBE Standards in the future are newly created entities, entities moving from Tiers 3 or 4 and those changing designation from for-profit to PBE. Newly created entities do not apply a first-time adoption standard. PBE FRS 47 caters for the other situations.

Issue 5: Changing designation

15. The Board asked us to consider how, following the withdrawal of PBE FRS 46, the first-time adoption requirements would apply to entities changing designation, bearing in mind the recent amendments to Appendix A *When is an entity a public benefit entity* of XRB A1. The amendments to Appendix A of XRB A1 were issued in May 2019 and are effective for reporting periods beginning on or after 1 January 2020. We have set out the relevant requirements and our comments in Table 3 using Entity A and Entity B as examples of entities that change designation twice. The blue shading in Table 3 highlights the impact of the withdrawal of PBE FRS 46 on entities applying NZ IFRS that change designation from for-profit to PBE.

Table 3 Changing designation

Entity A: PBE Standards → NZ IFRS → PBE Standards	**Entity B: NZ IFRS → PBE Standard → NZ IFRS**
Entity A Change 1: PBE Standards to NZ IFRS Entity A would apply NZ IFRS 1. There is an option to apply NZ IFRS 1 or to apply NZ IFRS retrospectively. See NZ IFRS 1 paragraphs 4A and RDR 5.5. 4A. Notwithstanding the requirements in paragraphs 2 and 3 , a Tier 1 entity that has applied NZ IFRS in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with NZ IFRS, must either apply this Standard or else apply NZ IFRS retrospectively in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* as if the entity had never stopped applying NZ IFRS.	**Entity B Change 1: NZ IFRS to PBE Standards** Prior to the withdrawal of PBE FRS 46, Entity B would have applied PBE FRS 46. Following the withdrawal of PBE FRS 46, Entity B would apply PBE FRS 47 and would have to comply with the reconciliation requirements in PBE FRS 47, which are similar to those in NZ IFRS 1. We are recommending that PBE FRS 46 be withdrawn for periods beginning on or after 1 January 2021. In our view, the possibility of some for-profit entities currently applying NZ IFRS changing designation to PBE as a result of the amendments to Appendix A of XRB A1 do not warrant delaying the withdrawal of PBE FRS 46. PBE FRS 46 is already outdated and will only become more so as new standards take effect.
Entity A Change 2: NZ IFRS to PBE Standards Entity A would have to apply PBE FRS 47 (applying PBE FRS 46 has never been an option for such entities because of the scope restrictions in PBE FRS 46 paragraph 5). PBE FRS 47 gives entities *changing back* to PBE Standards the option of applying PBE FRS 47 or PBE Standards retrospectively.	**Entity B Change 2: PBE Standards NZ IFRS** Entity A would apply NZ IFRS 1. There is an option to apply NZ IFRS 1 or to apply NZ IFRS retrospectively. See NZ IFRS 1 paragraphs 4A and RDR 5.5. 4A. Notwithstanding the requirements in paragraphs 2 and 3, a Tier 1 entity that has applied NZ IFRS in a previous reporting period, but whose most recent

Entity A: PBE Standards → NZ IFRS → PBE Standards	**Entity B: NZ IFRS → PBE Standard → NZ IFRS**
See PBE FRS 47 paragraphs 6 and RDR 8.4 (including the proposed editorial amendments) 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. … RDR 8.4 Notwithstanding the requirements in paragraphs 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.	previous annual financial statements did not contain an explicit and unreserved statement of compliance with NZ IFRS, must either apply this Standard or else apply NZ IFRS retrospectively in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* as if the entity had never stopped applying NZ IFRS. … RDR 5.5 Notwithstanding the requirements in paragraphs RDR 5.1 and RDR 5.2, a Tier 2 entity that has applied NZ IFRS RDR in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with NZ IFRS RDR, must either apply this Standard or else apply NZ IFRS RDR retrospectively in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* as if the entity had never stopped applying NZ IFRS RDR.

Questions for the Board

Q4. Does the Board agree to the proposed minor amendment to PBE FRS 47 paragraph RDR 8.4 (to add a reference to paragraph RDR 8.2)?

Q5. Does the Board agree that changes in designation should be dealt with consistently in PBE Standards and NZ IFRS, and that the amendments to Appendix A of XRB A1 do not warrant delaying the withdrawal of PBE FRS 46?

Approval to issue

16. We are seeking approval to issue the ITC and ED. At the Board meeting we plan to go through the ED first, followed by the ITC.

17. We recommend:

    (a) that the title of the ED be *Withdrawal of PBE FRS 46* (Proposed amendments to PBE FRS 47). We considered other options, but think this title best reflects both aspects of the proposals;[3]

[3] The other titles we considered were:
(a) *PBE First-time Adoption* (Proposed withdrawal of PBE FRS 46); and
(b) *PBE First-time Adoption* (Proposed amendments to PBE FRS 47).

(b) a four month comment period, with comments due on 31 January 2020. This is a month longer than usual, to allow for the holiday season; and

(c) a proposed effective date of 1 January 2021. This is based on the expectation that we will finalise these proposals early next year.

Questions for the Board

Q6. Does the Board agree with:

(a) the proposed title of the ED;

(b) the proposed comment period;

(c) the proposed effective date?

Q7. Does the Board approve for issue the ITC and ED?

Next steps

18. If the Board approves the ITC and ED we will finalise the documents and communicate this to constituents in the usual way (via the website and newsletters). We will also alert key stakeholders (such as Audit NZ and Charity Services) and plan to seek feedback from the TRG at its meeting on 5 November.

19. We have considered what other outreach, if any, would be appropriate. Given the relatively few entities likely to be affected, and the other major consultations in progress, we do not propose to hold a webinar. We welcome suggestions as to who else we should contact.

Attachments

Agenda item 5.2: Draft NZASB ED/2019-X *Withdrawal of PBE FRS 46* (Proposed amendments to PBE FRS 47)

Agenda item 5.3: Draft Invitation to Comment

Appendix RDR differences

This Appendix explains differences between the RDR concessions in PBE FRS 47 and NZ IFRS 1 and notes whether the concessions in NZ IFRS 1 are the same as those in AASB 1.

PBE FRS 47	NZ IFRS 1	Comment
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.** … 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.**	*21 An entity's first NZ IFRS financial statements shall include at least three statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information. RDR 21.1 To comply with NZ IAS 1, a Tier 2 entity's first NZ IFRS RDR financial statements shall include at least two statements of financial position, two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity, and related notes, including comparative information.	PBE FRS 47 paragraph 25 has no RDR concession. This appears to be inconsistent with NZ IFRS 1 paragraph 21, but it is not. The requirements in the two standards are merely organised differently. NZ IFRS 1 paragraph RDR 21.1 *repeats* the relevant requirements, whereas PBE FRS 47 paragraph RDR 27.1 does not. **AASB 1** The NZ IFRS 1 RDR concession is consistent with that in AASB 1 paragraph RDR21.1.
Non-PBE Standards Comparative Information and Historical Summaries 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**	**Non-NZ IFRS comparative information and historical summaries** *22 Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with NZ IFRS. This Standard does not require such summaries to comply with the recognition and measurement requirements of NZ IFRS. Furthermore, some entities present comparative information in accordance with previous GAAP as well as the comparative information required by NZ IAS 1. In any financial statements	There is a difference between PBE FRS 47 and NZ IFRS 1. We think that this difference should be considered when the for-profit RDR concessions are next reviewed. **AASB 1** The NZ IFRS 1 RDR concession is identical to that in AASB 1.

PBE FRS 47	NZ IFRS 1	Comment
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.**	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 NZ IFRS; and (b) disclose the nature of the main adjustments that would make it comply with NZ IFRS. An entity need not quantify those adjustments.	
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. *The exception referred to in PBE FRS 47 paragraph 33 is the treatment of service concession arrangements.*	*27 NZ IAS 8 does not apply to the changes in accounting policies an entity makes when it adopts NZ IFRS or to changes in those policies until after it presents its first NZ IFRS financial statements. Therefore, NZ IAS 8's requirements for disclosures about changes in accounting policies do not apply in an entity's first NZ IFRS financial statements.	There is a difference between PBE FRS 47 and NZ IFRS 1. However, the RDR concession for NZ IFRS 1 paragraph 27 has no real effect as paragraph 27 says that a disclosure requirement *does not apply*. We think that this difference should be considered when the for-profit RDR concessions are next reviewed. **AASB 1** The NZ IFRS 1 RDR concession is identical to that in AASB 1.
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**.	*28 If an entity did not present financial statements for previous periods, its first NZ IFRS financial statements shall disclose that fact.	There is a difference between PBE FRS 47 and NZ IFRS 1. We think that this difference should be considered when the for-profit RDR concessions are next reviewed. **AASB 1** The NZ IFRS 1 RDR concession is identical to that in AASB 1.

NZASB EXPOSURE DRAFT 2019-X

WITHDRAWAL OF PBE FRS 46 (PROPOSED AMENDMENTS TO PBE FRS 47)

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 H.

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 amends PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* to reflect the withdrawal of PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*. It changes the title of PBE FRS 47 to *First-time Adoption of PBE Standards* and updates some of the requirements in PBE FRS 47.

This [draft] Standard applies only to Tier 1 and Tier 2 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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Part A: Introduction

This [draft] Standard amends PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* to reflect the withdrawal of PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* and to update some of the requirements in PBE FRS 47.

The amendments:

(a) Amend the title of PBE FRS 47. The amended title is *First-time Adoption of PBE Standards*;

(b) Remove references to PBE FRS 46 and the requirements in that Standard; and

(c) Make editorial corrections.

Part B: Scope

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

Part C: Withdrawal of PBE FRS 46

In conjunction with the issue of this amending standard, PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* is withdrawn. The effective date of the revocation of PBE FRS 46 is the same as the effective date of this amending standard [proposed date is 1 January 2021].

Part D: Amendments to PBE FRS 47

On the cover page of the Standard, the title of PBE FRS 47 is amended and a sentence is added at the bottom of the page. New text is underlined and deleted text is struck through.

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 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.

In [date] the title of this Standard was changed to *First-time Adoption of PBE Standards.*

In the rubric, the title of PBE FRS 47 is amended. Deleted text is struck through.

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~~47 and Appendices A–D. …

…

Paragraphs 4 and 6 are amended. New text is underlined and deleted text is struck through. Paragraphs 5 and 5.1 are shown for context.

Tier 1 Entities

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.**

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.

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.

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.

Paragraphs RDR 8.1 and RDR 8.4 are amended. New text is underlined and deleted text is struck through. Paragraphs RDR 8.2 and RDR 8.3 are shown for context.

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.**

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.

RDR 8.4 Notwithstanding the requirements in paragraphs 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.

The definitions in paragraph 9 are amended. A sentence is added at the end of paragraph 9.
New text is double underlined. Deleted text is struck through.

Definitions

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

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

(a) …

…

~~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.~~

…

PBE Standards Reduced Disclosure Regime (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 or PBE Standards RDR. Previous GAAP refers to any basis of accounting previously used by a first-time adopter, including the Tier 4 PBE Accounting Requirements and the basis of accounting used in special purpose financial reports.

…

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

Paragraphs 13, 14, 16 and 22 are amended. New text is underlined and deleted text is struck through.

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~~D.

14. **Except as described in paragraphs 18–23 and Appendices A–~~C~~D, an entity shall, in its opening statement of financial position under PBE Standards:**

    (a) …

    …

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) …

    (b) **Appendices B–~~C~~D grant exemptions from some requirements of other PBE Standards.**

    …

22. **An entity may elect to use one or more of the exemptions contained in Appendices B–~~C~~D. An entity shall not apply these exemptions by analogy to other items.**

Paragraph RDR 30.1 is amended. New text is underlined and deleted text is struck through.

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.

Paragraph 42.7 is amended. New text is underlined and deleted text is struck through.

42.7 ***2018 Omnibus Amendments to PBE Standards*, issued in November 2018, amended paragraph C1 and added paragraph C~~32~~33. An entity shall apply those amendments when it applies Appendix A of PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*.**

Paragraph 42.9 is amended. New text is underlined and deleted text is struck through.

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 D5–D6~~E1 and E2~~. An entity shall apply those amendments when it applies PBE IPSAS 41**.

Paragraph 42.12 is added. New text is underlined.

42.12 ***Withdrawal of PBE FRS 46* (Amendments to PBE FRS 47), issued in [date], amended the title of PBE FRS 47 to reflect the withdrawal of PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*. It also amended paragraphs 4, 6, RDR 8.1, RDR 8.4, 9, 13, 14, 16, 22, RDR 30.1, 42.7, 42.9 and A8D. An entity shall apply the amendments to paragraphs 4, 6, RDR 8.1, RDR 8.4, 9, 13, 14, 16, 22, RDR 30.1 and 42.7 to annual financial statements covering periods beginning on or after 1 January 2021. Earlier application is permitted. An entity shall apply the amendments to paragraphs 42.9, A8D, D5 and D6 when it applies PBE IPSAS 41.**

Appendix A
Exceptions to the Retrospective Application of other PBE Standards

In Appendix A, paragraph A8D, which was added by PBE IPSAS 41, is amended. New text is underlined and deleted text is struck through.

A8D. An entity shall apply the impairment requirements in paragraphs 57–112 of PBE IPSAS 41 retrospectively subject to paragraphs A8E–A8G and D5–D6~~E1–E2~~.

Appendix D

Short-Term Exemptions from PBE Standards

Paragraphs E1 and E2, which were added by PBE IPSAS 41 *Financial Instruments*, are renumbered as paragraphs D5 and D6 and the preceding heading is amended. New text is underlined and deleted text is struck through.

Investment Entities

D1. …

D2. …

Employee Benefits

D3. …

Uncertainty over Income Tax Treatments

D4. …

Exemption from the requirement to restate comparative information for PBE IPSAS 41

~~**Appendix E**~~

~~**Short-Term Exemptions from PBE Standards**~~

D5~~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.

D6~~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.

The footnote to paragraph BC3 is amended. New text is underlined and deleted text is struck through.

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* 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.

…

* When PBE Standards were first issued, t~~T~~he 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.

Paragraph BC4 is amended. A footnote is added. New text is underlined.

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*.*

…

* 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 and amended the title of PBE FRS 47 in [date]. Matters considered at that time are discussed later in this Basis for Conclusions.

The footnote to paragraph BC5 is amended. New text is underlined.

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* 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.

…

* Old GAAP is New Zealand accounting standards and pronouncements that have authoritative support that were applicable in New Zealand prior to the adoption of NZ IFRS in New Zealand, and comprises Financial Reporting Standards (FRSs) and Statements of Standard Accounting Practice (SSAPs). [Old GAAP was withdrawn in 2015.]

Paragraphs BC13 to BC15 and the preceding heading are added.

Withdrawal of PBE FRS 46 in [date]

BC13. PBE FRS 46 was withdrawn in [date]. In [month] 2019 the NZASB issued ED 2019-X *Withdrawal of PBE FRS 46* (Proposed amendments to PBE FRS 47). The NZASB proposed to withdraw PBE FRS 46 because of the limited circumstances in which entities could apply the Standard and the increasing differences between NZ IFRS and PBE Standards. These differences meant that the assumptions

underpinning the approach in PBE FRS 46 no longer held and it would be difficult to maintain PBE FRS 46 as a separate standard. The NZASB noted that PBE FRS 47 had been developed for a wider range of entities than PBE FRS 46 and did not assume that an entity had applied a particular set of accounting policies. It was therefore suitable for application by all entities adopting PBE Standards, including those previously applying NZ IFRS.

BC14. The NZASB also proposed to change the title of PBE FRS 47 to *First-time Adoption of PBE Standards*.

BC15. The NZASB considered whether the RDR concessions in PBE FRS 47 were appropriate for all Tier 2 entities adopting PBE Standards. PBE FRS 47 permits a Tier 2 not-for-profit entity not to provide comparative information in its first set of financial statements prepared under PBE Standards. If a Tier 2 not-for-profit entity makes use of this concession it is required to attach a copy of the previous year's financial statements and explain significant differences in accounting policies between the two sets of financial statements. This concession was originally included in PBE FRS 47 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. The NZASB agreed that, following the withdrawal of PBE FRS 46, this concession should continue to be available to all Tier 2 not-for-profit entities.

Part E: Amendments to other PBE Standards

PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph BC4 is amended. A footnote is added. New text is underlined and deleted text is struck through.

First-time Adoption of PBE Standards

BC4. The NZASB agreed to develop a separate standard to establish requirements and concessions for the first-time adoption of PBE Standards. In developing PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*, the NZASB decided that a change from one basis of accounting to another basis of accounting (for example, from NZ IFRSs to PBE Standards) is not a change in accounting policy to which PBE IPSAS 3 applies.*

…

* PBE FRS 46 was subsequently withdrawn – see *Withdrawal of PBE FRS 46* (Amendments to PBE FRS 47) issued in [Date].

PBE IPSAS 39 *Employee Benefits*

Paragraph 177 is amended. New text is underlined and deleted text is struck through.

177. When an entity adopts PBE FRS 47 *First-time Adoption of PBE Standards ~~by Entities Other Than Those Previously Applying NZ IFRS~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of PBE Standards.

PBE IPSAS 40 *PBE Combinations*

Paragraph 134.4 is amended and a footnote is added. New text is underlined and deleted text is struck through.

Limited Retrospective Application

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

…

* In [date of issue of amending standard] the title of PBE FRS 47 was amended from *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* to *First-time Adoption of PBE Standards*. See *Withdrawal of PBE FRS 46* (Amendments to PBE FRS 47) issued in [Date].

Paragraph AG50.1 is amended. New text is underlined and deleted text is struck through.

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

(a) Prepare an opening statement of financial position as at the amalgamation date (this shall be the date of transition to PBE Standards) in accordance with paragraphs 10–23 of PBE FRS 47 *First-time Adoption of PBE Standards ~~by Entities Other Than Those Previously Applying NZ IFRS~~* for each of the combining operations that have not previously applied PBE Standards; and

(b) Use the same accounting policies for those combining operations as are already being applied by the continuing reporting entity. However, the resulting entity may early adopt new or amending PBE Standards that have been issued but are not yet effective.

PBE IPSAS 41 *Financial Instruments*

PBE IPSAS 41, issued in March 2017, amended PBE FRS 47. These amendments were set out in Appendix D of PBE IPSAS 41. For the avoidance of doubt, the impact of *Withdrawal of PBE FRS 46* (Amendments to PBE FRS 47) on those amendments to PBE FRS 47 are noted here. They will be shown in Appendix D of PBE IPSAS 41.

Appendix D (of PBE IPSAS 41) Amendments to Other Standards

…

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

Paragraph A8D, which was added by PBE IPSAS 41, is amended. New text is underlined and deleted text is struck through.

Impairment of Financial Assets

A8D. An entity shall apply the impairment requirements in paragraphs 57–112 of PBE IPSAS 41 retrospectively subject to paragraphs A8E–A8G and D5–D6~~E1–E2~~.

Paragraphs E1 and E2 are renumbered as paragraphs D5 and D6 and the preceding heading is amended. New text is underlined and deleted text is struck through.

Uncertainty over Income Tax Treatments

D4. …

Exemption from the requirement to restate comparative information for PBE IPSAS 41

~~Appendix E: Short-Term Exemptions from PBE Standards~~

D5~~E1~~. If an entity's first PBE Standards reporting period begins before 1 January 2023 and the entity applies PBE IPSAS 41 *Financial Instruments*, …

D6~~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) …

PBE FRS 42 *Prospective Financial Statements*

Paragraph 73 is amended and a footnote is added. Paragraph 73.3 is added. New text is underlined and deleted text is struck through.

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

…

* In [date of issue of amending standard] the title of PBE FRS 47 was amended from *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* to *First-time Adoption of PBE Standards.* See *Withdrawal of PBE FRS 46* (Amendments to PBE FRS 47) issued in [Date].

…

73.3 Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47) issued in [date] amended paragraph 73.

XRB A1 *Application of the Accounting Standards Framework*

Appendix C is amended. Deleted text is struck through.

Accounting Standards

~~PBE FRS 46~~	~~*First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*~~
PBE FRS 47	*First-time Adoption of PBE Standards* ~~*by Entities Other Than Those Previously Applying NZ IFRS*~~

Part F: Amendments to EG A1 *Guide to Application of the Accounting Standards Framework*

Amendments to EG A1 as a consequence of the issuance of *Withdrawal of PBE FRS 46* (Amendments to PBE FRS 47) are shown below. Explanatory guides may be issued without formal public consultation because they contain explanatory material, have no legal status and are not mandatory. These amendments are included in this ED for completeness.

Paragraph 86 is amended.[2] New text is underlined and deleted text is struck through.

86 XRB A1 also sets out the "first-time adoption" requirements that must be applied when an entity first moves into a particular tier: a Tier 3 or Tier 4 PBE that subsequently applies Tier 1 or Tier 2 PBE Accounting Requirements is required to apply PBE FRS 47 *First-time Adoption of PBE Standards ~~by Entities Other Than Those Previously Applying NZ IFRS~~*.

Part G: Changing heading levels in PBE FRS 47

The following headings are changed from Level 2 (10 font, bold, not italics) to Level 3 (10 font, italics). This aligns the level of these headings with the level of the equivalent headings in NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

Heading	Paragraph
Estimates	18
Non-PBE Standards Comparative Information and Historical Summaries	28
Reconciliations	30
Designation of Financial Assets or Financial Liabilities	36
Use of Fair Value as Deemed Cost	37
Use of Deemed Cost for Investments in Controlled Entities, Joint Ventures and Associates	38
Interim Financial Reports	39
Prospective Financial Statements	41

Part H: Effective Date

The amendments in this Standard, with the exception of those that relate to PBE IPSAS 41 *Financial Instruments*, are effective for annual financial statements covering periods beginning on or after [Proposed date: 1 January 2021]. The amendments that relate to PBE IPSAS 41 *Financial Instruments* are effective when an entity applies PBE IPSAS 41.

[2] Paragraph 86, as shown in this ED, reflects recent editorial amendments to EG A1.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

NZASB Exposure Draft 2019-X

Withdrawal of PBE FRS 46
(Proposed amendments to PBE FRS 47)

(NZASB ED 2019-X)

Invitation to Comment

[Month] 2019

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NZASB ED 2019-X *Withdrawal of PBE FRS 46* (Proposed amendments to PBE FRS 47)

Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposal to withdraw PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* and amend PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to comment on only those questions, or issues that are relevant to you.

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

Please include *Withdrawal of PBE FRS 46* in the subject line and indicate whether the comments are made on your own behalf, or on behalf of a group of people, or an entity.

The closing date for submissions is **31 January 2020**.

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
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZ IFRS RDR	NZ IFRS Reduced Disclosure Regime, with disclosure concessions for Tier 2 for-profit entities
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public benefit entity
PBE FRS	Public Benefit Entity Financial Reporting Standard, a domestic PBE Standard
PBE Standards	Public Benefit Entity Standards
PBE Standards RDR	Public Benefit Entity Standards Reduced Disclosure Regime, with disclosure concessions for Tier 2 PBEs
RDR	Reduced Disclosure Regime

Questions for respondents

		Paragraphs
1	Do you agree with the proposal to withdraw PBE FRS 46? If you disagree, please explain why.	6–10
2	Do you agree with the proposed amendments to PBE FRS 47 and other PBE Standards? If you disagree, please explain why.	11
3	Do you agree with the proposed effective dates (1 January 2021 for most of the amendments)? If you disagree, please explain why.	12–13
4	Do you have any other comments on the ED?	

1. Introduction

1.1 Background

1. There are two PBE Standards dealing with first-time adoption of PBE 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.*

2. These two standards were developed to address the needs of the first wave of entities adopting PBE Standards following the introduction of the Accounting Standards Framework. Since then two things have changed. There are now few entities that fall within the scope of PBE FRS 46. The increasing differences between NZ IFRS and PBE Standards mean that the approach taken in PBE FRS 46 is no longer the most appropriate approach for entities moving from NZ IFRS to PBE Standards. The New Zealand Accounting Standards Board (NZASB) is therefore proposing to withdraw PBE FRS 46 and to amend PBE FRS 47.

1.2 Purpose of this Invitation to Comment

3. The purpose of this Invitation to Comment and associated Exposure Draft (ED) is to seek comments on the proposals to:

   (a) withdraw PBE FRS 46;

   (b) amend the title of PBE FRS 47 to *First-time Adoption of PBE Standards*;

   (c) amend PBE FRS 47 to remove references to PBE FRS 46 and the requirements in PBE FRS 46; and

   (d) make editorial corrections to PBE FRS 47.

1.3 Timeline and next steps

4. Submissions on NZASB ED 2019-X are due by 31 January 2020. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

5. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to withdraw PBE FRS 46 and finalise and issue the amendments to PBE FRS 47.

2. Overview of Invitation to Comment and ED

2.1 Withdrawal of PBE FRS 46

6. The NZASB is seeking feedback on its proposal to withdraw PBE FRS 46.

7. When PBE Standards were first introduced, PBE FRS 46 was developed to streamline the adoption of PBE Standards by entities that had been applying NZ IFRS (or one of the NZ IFRS suites of standards), the majority of which were public sector entities. The approach to first-time adoption in PBE FRS 46 relied on the close alignment between NZ IFRS and PBE Standards at that point in time. PBE FRS 46 required that entities continue to use the same accounting policies as before, except when PBE Standards required a change.

8. In contrast PBE FRS 47 was developed for a wider range of entities and did not assume that an entity had applied any particular accounting policies. It was based on NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. PBE FRS 47 was thus better suited than PBE FRS 46 to be a long-term standard.

9. PBE FRS 46 has always had a limited life. The NZASB considers that it is appropriate to withdraw PBE FRS 46 now because of the increasing differences between NZ IFRS and PBE Standards. The ongoing changes to NZ IFRS, including new standards dealing with revenue, leases and insurance, mean that maintaining PBE FRS 46 as a separate standard is not a viable option.

10. The NZASB also notes that the number of entities applying PBE FRS 46 has fallen. NZ IFRS (PBE) and NZ IFRS (Diff Rep) were withdrawn in 2015,[2] leaving NZ IFRS and NZ IFRS RDR as the remaining NZ IFRS suites. An entity applying NZ IFRS or NZ IFRS RDR is required (by paragraph 7 of FRS-44 *New Zealand Additional Disclosures*) to disclose that, for the purposes of complying with GAAP, it is a for-profit entity. In order for a for-profit entity applying NZ IFRS or NZ IFRS RDR to subsequently adopt PBE Standards, it would have to decide that it is now a PBE for reporting purposes. Such changes in designation are unlikely to happen often.

Question for respondents

1. Do you agree with the proposal to withdraw PBE FRS 46? If you disagree, please explain why.

[2] *Revocation of Tier 3 and Tier 4 For-profit Accounting Standards* (issued March 2015) withdrew NZ IFRS Diff Rep, NZ IFRS PBE and Old GAAP.

2.2 Amendments to PBE FRS 47 (and other PBE Standards)

11. Table 1 below summarises the proposed amendments to PBE FRS 47 and other PBE Standards. The key change is to shorten the title of PBE FRS 47 to *First-time Adoption of PBE Standards.* The amendments reflect the revised title of PBE FRS 47 and remove references to PBE FRS 46.

Table 1 Proposed amendments

Proposed amendment	Reason
Title	To reflect the withdrawal of PBE FRS 46
Heading styles	Editorial correction to align the level of certain headings in PBE FRS 47 with the equivalent headings in NZ IFRS 1.
Scope	
Para 4	To reflect the withdrawal of PBE FRS 46 and the fact that NZ IFRS PBE and NZ IFRS Diff Rep were withdrawn some time ago.
Para 6	Editorial
Para RDR 8.1	To reflect the withdrawal of PBE FRS 46 and the fact that NZ IFRS PBE and NZ IFRS Diff Rep were withdrawn some time ago.
Para RDR 8.4	Editorial
Definitions (para 9)	
Date of transition to PBE Standards	The amendment to the definition is to reflect the withdrawal of PBE FRS 46.
~~NZ IFRS~~ ~~NZ IFRS Diff Rep~~ ~~NZ IFRS PBE~~ ~~NZ IFRS RDR~~	NZ IFRS PBE and NZ IFRS Diff Rep were withdrawn some time ago.
PBE Standards Reduced Disclosure Regime	Editorial – to refer in full to the Reduced Disclosure Regime
Previous GAAP	The amendment is to clarify that the reference to GAAP in this definition is broader than definitions of GAAP.
New sentence at end	Editorial. This generic sentence which refers to the *Glossary of Defined Terms* is used throughout PBE Standards.
Recognition and Measurement	
Para 13	Editorial
Para 14	Editorial
Para 16	Editorial
Para 22	Editorial
Para RDR 30.1	Editorial
Para 42.7	Editorial
Para 42.9	Editorial. Paragraphs E1 and E2 which were added to PBE FRS 47 by PBE IPSAS 41 should have been numbered D5 and D6.

Proposed amendment	Reason
Para 42.12	Effective date paragraph to record the amendments.
Para A8D	Editorial
D5	Editorial
D6	Editorial
BC3	To reflect the withdrawal of PBE FRS 46.
BC4	To reflect the withdrawal of PBE FRS 46.
BC5	To delete the outdated reference to OLD GAAP.
BC13–BC15	New BC paragraphs to document the reasons for the proposals in this ED.
Amendments to other PBE Standards	
PBE IPSAS 3	To reflect the withdrawal of PBE FRS 46.
PBE IPSAS 39	To reflect the new title of PBE FRS 47.
PBE IPSAS 40	To reflect the new title of PBE FRS 47.
PBE IPSAS 41	Editorial. Paragraphs E1 and E2, which were added to PBE FRS 47 by PBE IPSAS 41, should have been numbered D5 and D6.
PBE FRS 42	To reflect the withdrawal of PBE FRS 46 and the new title of PBE FRS 47.
XRB A1	To reflect the withdrawal of PBE FRS 46 and the new title of PBE FRS 47.
EGA1	To reflect the new title of PBE FRS 47.

Question for respondents

2. Do you agree with the proposed amendments to PBE FRS 47 and other PBE Standards? If you disagree, please explain why.

2.3 Effective date and other comments

12. The proposed effective date for most of the amendments in the ED is 1 January 2021, with early adoption permitted.

13. The effective date for the amendments that relate to PBE IPSAS 41 is when an entity applies PBE IPSAS 41.

Questions for respondents

3. Do you agree with the proposed effective dates (1 January 2021 for most of the amendments)? If you disagree, please explain why.

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

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	30 August 2019
To:	NZASB Members
From:	David Bassett and Lisa Kelsey
Subject:	**Disclosure of Accounting Policies**

Recommendations[1]

1. We recommend that the Board:

   (a) AGREES to comment on IASB ED/2019/6 *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2 (see agenda item 6.3);

   (b) AGREES the proposed timeline and outreach for the project (see Appendix A); and

   (c) PROVIDES FEEDBACK on the draft comment letter (see agenda item 6.2).

Background

2. In March 2017 the IASB issued the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (POD DP) to help it identify and address issues related to the disclosure of information in financial statements prepared applying IFRS Standards.

3. One of the issues discussed in the POD DP related to the disclosure of accounting policies. Section 6 *Disclosure of Accounting Policies* of the POD DP (see supporting papers at agenda item 6.4) discussed ways to improve how entities disclose their accounting policies.

4. The IASB's *Disclosure Initiative* was a high priority project for the Board. The Board undertook extensive outreach activities (see Appendix C) and submitted a detailed comment letter on the proposals contained in the POD DP (see Appendix B for extracts relating to the disclosure of accounting policies).

5. Most users of financial statements who provided feedback to the IASB on the POD DP thought that accounting policy disclosures are often not useful and could be improved.[2] Most users said they do not find accounting policies that reproduce or summarise the requirements in IFRS Standards useful. They thought that accounting policy disclosures are useful only when they:

   (a) relate to material transactions, other events or conditions; and

[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] IASB meeting October 2018 staff paper 11A

(b) provide insight into how an entity has exercised judgment in selecting and applying accounting policies.

6. Unlike some other areas of the POD DP, there was clear support from users for the IASB developing guidance to help preparers decide which accounting policies to disclose. Further, users said that the application of materiality is key to deciding which accounting policies to disclose and thought that materiality should be the basis of any requirements developed by the IASB. These users thought it would be useful if the IASB developed more guidance on how to determine if an accounting policy is material.

7. In response to the feedback received on the POD DP, on 18 July 2018, the IASB added a project to its agenda to develop guidance and examples to help entities make materiality judgements about accounting policy disclosures.

8. On 1 August 2019 the IASB issued ED/2019/6 *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2 (the ED). Comments are due to the IASB by 29 November 2019.

9. The proposed amendments are intended to help entities provide accounting policy disclosures that are more useful to primary users of financial statements. The IASB has heard that users of financial statements do not find accounting policy disclosures useful when they contain standardised (or 'boilerplate') information and only duplicate or summarise the content of the recognition and measurement requirements of IFRS Standards.

10. The proposed amendments are intended to help entities:

    (a) identify and disclose to primary users of financial statements all accounting policies that provide material information; and

    (b) identify immaterial accounting policies and eliminate them from their financial statements.

11. The Board tentatively agreed to comment on the ED at its August 2019 meeting.

Structure of this memo

12. The remaining sections in this memo are:

    (a) Proposed timeline and outreach;

    (b) Draft comment letter;

    (c) Domestic standards

    (d) IFRS Practice Statement 2; and

    (e) Next steps.

Proposed timeline and outreach

13. Appendix A sets out the proposed timeline and outreach for this project. Staff are proposing to undertake separate outreach with the Technical Reference Group (TRG) and the Financial Markets Authority (FMA) (as requested by the Board at its August 2019 meeting).

14. Apart from the above, we are not proposing to undertake any additional outreach at this stage. As noted above, we did conduct extensive outreach on the POD DP (see Appendix C). While the IASB has not carried forward the three categories of accounting policies it identified in the POD DP, the feedback received on section 6 *Disclosure of Accounting Policies* of the POD DP is still relevant to this project.

Question for Board

Q1. Does the Board agree with the proposed timeline and outreach for the project?

Draft comment letter

15. Agenda item 6.2 contains a first draft of the comment letter to the IASB.

Domestic standards

16. We have checked to see if any of our domestic standards refer to significant accounting policies. Paragraphs 28 and 60 of FRS 42 *Prospective Financial Statements* do refer to significant accounting policies. We would need to expose this consequential amendment to FRS 42 via an omnibus amendment if the proposed amendments are issued by the IASB.

IFRS Practice Statement 2

17. In addition to amending IFRS Standards, the IASB is also proposing to amend a non-mandatory practice statement.

18. The Board considered the status of IFRS Practice Statement 2 *Making Materiality Judgements* at its February 2018 meeting. At that meeting the Board agreed not to issue a New Zealand equivalent to IFRS Practice Statement 2. We currently have a link on our website to the practice statement on the IASB website. In order to access the practice statement, the user has to have a user ID and password to sign in (there is no cost to the user).

19. To facilitate easier access to the IASB's practice statements, we are working to update our website to provide constituents with an NZ IP address direct access to the IASB's practice statements. We hope to have this in place before the September Board meeting.

Next steps

20. Staff will bring back a final comment letter for approval at the October Board meeting. This will include feedback received from the Board at its September meeting, feedback received from the TRG and the FMA, and any feedback received from constituents via comment letters.

Attachments

Agenda item 6.2: Draft comment letter

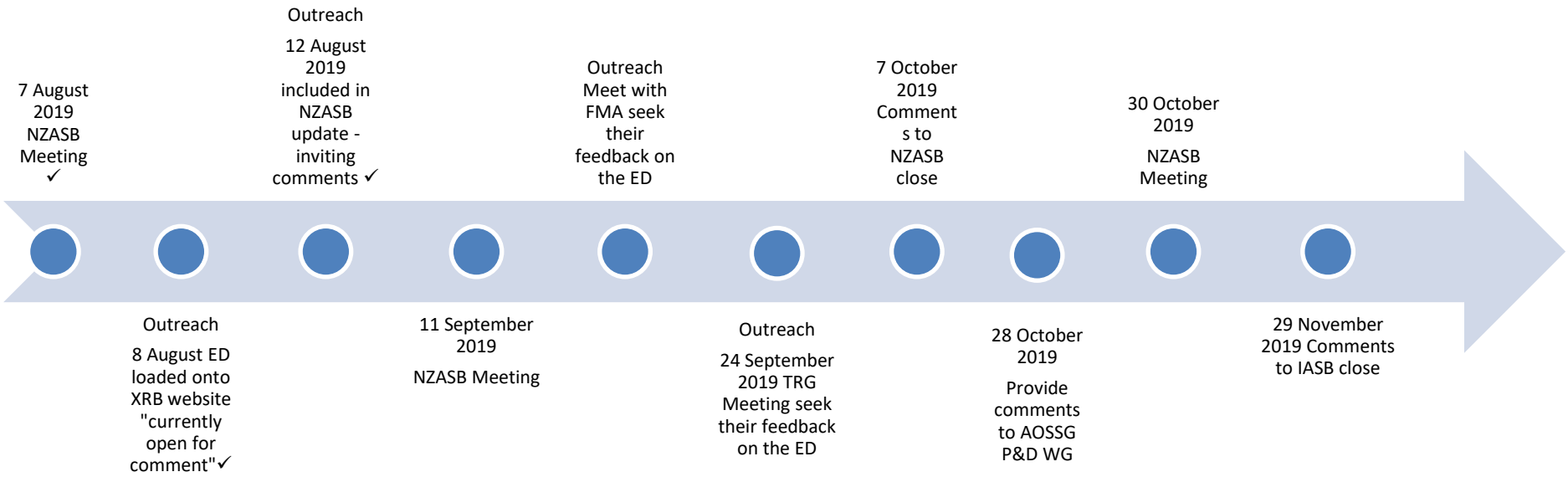
Agenda item 6.3: IASB ED/2019/6 *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2

Agenda item 6.4 Section 6—Discussion Paper *Disclosure Initiative—Principles of Disclosure* (in supporting papers)

Appendix A

Project timeline

✓ = completed



NZASB Meetings	
Date	**Proposed action required by the Board**
7 August 2019	We will be asking the Board to tentatively agree to comment on the ED. ✓
11 September 2019	We will be asking the Board to agree the proposed timeline and outreach for the project. We will be asking the Board to consider a draft comment letter and provide feedback.
30 October 2019	The draft comment letter will be updated for feedback received at the Board's September 2019 meeting, feedback from the TRG and the FMA and feedback received from constituents in their submissions (if any). The Board will be asked to approve the final comment letter to the IASB at this meeting.

Appendix B

Extracts from NZASB comment letter on IASB DP/2017/1 Disclosure Initiative—Principles of Disclosure dated 20 September 2017

Thank you for the opportunity to comment on DP/2017/1 *Disclosure Initiative–Principles of Disclosure* (the DP). The DP has been exposed in New Zealand and some New Zealand constituents may have made comments directly to you.

We are very supportive of the IASB's focus on the theme of Better Communication and the Disclosure Initiative. We believe that there is a need to improve the communication effectiveness of financial statement disclosures, and are therefore supportive of the objective of the Principles of Disclosure project.

As an international standard setter, the IASB plays an important role in improving the disclosure effectiveness of financial statements. However, we acknowledge that other financial statement stakeholders also have an important part to play in overcoming the disclosure problem.

Summary of our response

We are broadly supportive of the IASB's preliminary views in the DP. However, there are some aspects of the proposals in sections 4 to 6 with which we disagree, with the key areas summarised below

…

Section 6 – Disclosure of accounting policies

- We do not agree with the proposed use of three categories of accounting policies as it would create additional complexity. In our view the disclosure of all material accounting policies should be required, making it unnecessary to distinguish between Category 1 and Category 2 accounting policies.

…

Appendix to Principles of Disclosure Discussion Paper comment letter to IASB

…

Section 6—Disclosure of accounting policies

Question 10
The IASB's preliminary views are that: • a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16; and

- the following guidance on the location of accounting policy disclosures should be included either in a general disclosure standard or in non-mandatory guidance (or in a combination of both):
  - the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22–6.24; and
  - the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate.

(a) Do you agree with the IASB's preliminary view that a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16? Why or why not? If you do not agree, what alternative proposal(s) do you suggest, and why?

(b) Do you agree with the IASB's preliminary view on developing guidance on the location of accounting policy disclosures? Why or why not? Do you think this guidance should be included in a general disclosure standard or non-mandatory guidance (or in a combination of both)? Why?

If you support the issuance of non-mandatory guidance in Question 10(b), please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a)–(c)) and give your reasoning.

Question 10(a)

We partly agree with the IASB's preliminary view that a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16.

We agree that a general disclosure standard should explain the objective of providing accounting policy disclosures, and agree with the objective set-out paragraph 6.16(a) of the DP.

We agree with paragraph 6.16(c) of the DP, that the disclosure of immaterial accounting policies should not be required (but also not prohibited) and that an entity should not allow the disclosure of immaterial accounting policies to obscure material information or to make the financial statements more difficult to understand.

We do not agree with the proposed use of the three categories of accounting policies in paragraph 6.16(b). We believe that the introduction of the three categories would create unnecessary complexity. In our view, the disclosure of all material accounting policies should be required, making it unnecessary to distinguish between Category 1 and Category 2 accounting policies. We recommend that the IASB considers amendments to IAS 1 *Presentation of Financial Statements* to require the disclosure of material accounting policies, as opposed to significant accounting policies. We believe that this would remove confusion regarding the meaning of significant and would place greater emphasis on the application of materiality when making accounting policy disclosures.

Question 10(b)

We do not believe that additional guidance is needed regarding the location of accounting policies. We consider that paragraphs 113–114 of IAS 1 contain sufficient guidance regarding the ordering and grouping of the notes.

> 113. An entity shall, as far as practicable, present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows to any related information in the notes.
>
> 114. Examples of systematic ordering or grouping of the notes include:
>
> (a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities;
>
> (b) grouping together information about items measured similarly such as assets measured at fair value; or
>
> (c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:
>
> (i) statement of compliance with IFRSs (see paragraph 16);
>
> (ii) significant accounting policies applied (see paragraph 117);
>
> (iii) supporting information for items presented in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and
>
> (iv) other disclosures, including:
>
> (1) contingent liabilities (see NZ IAS 37) and unrecognised contractual commitments, and
>
> (2) non-financial disclosures, eg the entity's financial risk management objectives and policies (see NZ IFRS 7).

We also do not agree with the IASB's preliminary view that significant judgements and assumptions should be disclosed adjacent to the related accounting policies. We have heard that some users of financial statements prefer information about significant judgements and assumptions to be located in a separate section at the front of the notes. Therefore, we do not think that the IASB should restrict an entity from providing disclosures of significant judgements and assumptions in a format that may better reflect the needs of the users of its financial statements.

Appendix C

Feedback received from New Zealand outreach on Principles of Disclosure DP

Below are extracts from an NZASB staff paper, dated 21 August 2017, which was sent to IASB staff in 2017.

…

Introduction

1. We have collated feedback from our New Zealand outreach activities on DP/2017/1 *Disclosure Initiative — Principles of Disclosure* (the DP). We have received agreement from the New Zealand Accounting Standards Board (NZASB) to share this collation of feedback with IASB staff. Please note that this feedback may not reflect the views of the NZASB. The NZASB will be making a formal submission to the IASB on the DP.

…

Outreach events

Attendance

3. Table 1 summarises the attendance at each of the outreach events.

Table 1: Summary of attendance				
	Wellington	Christchurch	Auckland	Total
Headcount	31	13	29	73
Less staff and Board members	9	3	5	17
Total attendees	**22**	**10**	**24**	**56**
Total registered	34	12	34	80
No shows	12	2	10	24

…

7. In this section, we detail the feedback received. We have organised this section by each discussion question.

Section 6—Disclosure of accounting policies

Q1 Which of the following categories of accounting policies do you think should be disclosed in the financial statements and why?

Category 1 – Only accounting policies used for material items transactions or events where there has been a change in an accounting policy or the entity has had to make judgements/choices, rather than simply apply the standard.

An example of an accounting policy that might be disclosed under Category 1 is an accounting policy for an asset (that is material to the entity) accounted for under IAS 16 *Property, Plant and Equipment*. An entity has an accounting policy choice under IAS 16 to apply the cost model or revaluation model.

Under Category 1, accounting policies for material items, transactions or events would not be disclosed if the accounting policy was simply a 'standard' IFRS recognition and/or measurement requirement.

Examples of accounting policies that might **not** be disclosed under Category 1 are:

- an accounting policy for business combinations accounted for under IFRS 3 *Business Combinations*
- an accounting policy for income taxes accounted for under IAS 12 *Income Taxes.*

However, if an entity has to make significant judgements or assumptions in applying these accounting policies it would disclose these policies.

Category 2 – Accounting policies that are not in Category 1, but also relate to items, transactions or events that are material.

Category 3 – Any other accounting policies that are not included in categories 1 and 2, (i.e. accounting policies for non-material items, transactions or events).

8. Feedback received.

- Agreement that improvements are needed to the disclosure of accounting policies in the financial statements generally accounting policies are written poorly and not understandable. It is not useful to make boiler plate disclosures, copy and paste from the standards or repeat information directly from model financial statements.
- Entity specific accounting policies in plain English would be welcomed by users of financial statements. Many unsophisticated users are not familiar with accounting "jargon" and would not understand what terms like "amortised cost" mean.
- Limited resources (time) and risk aversion are driving the current checklist approach. Applying judgement requires time and adds to preparation costs. Some entities still have concerns that they will be questioned by the regulator if they remove disclosures.
- Management need to be brave to reduce disclosures. However, standards need to provide some support for them to do so. Entities still make disclosures that may be confusing/not relevant, to tick the box in a checklist.
- Consensus that immaterial accounting policies (Category 3 accounting policies) should not be disclosed.
- Consensus that Category 1 accounting policies should always be disclosed – important for users to know if judgement is applied in the application of an accounting policy or if a choice is made.
- The key judgements applied in material accounting policies were seen as being important to users and should be highlighted, maybe by placing them upfront in a separate sub-section. Users want to know the areas where a set of financial statements are prepared on a different basis to assist with comparability with other entities.
- Some participants felt that it was sufficient that only Category 1 accounting policies are disclosed as this would cut the clutter from financial statements.

- There were various views expressed about the inclusion of Category 2 accounting policies. Most of the tables did not reach a consensus on whether Category 2 accounting policies should always be disclosed. Some participants felt that all material accounting policies are important to understand the financial statements and therefore should be disclosed. Other participants said the inclusion of Category 2 accounting policies in the financial statements would depend the entity's users (institutional investors versus mum and dad investors) and whether they are likely to be familiar with the requirements in IFRS Standards.
- The inclusion of Category 2 accounting policies could also depend on whether the entity operated in a specialist industry, such as oil and gas, and how familiar users would be with the accounting requirements in that industry.
- The suggestion was made that Category 2 accounting policies could be placed on the entity's website, which could be updated annually.
- At one table discussion focused on whether there was a need for the categories as suggested by the IASB and whether this was just another way of saying apply materiality. Some expressed concerns that the categories will cause confusion.
- Some participants felt strongly that the financial statements should be understandable as a standalone document and therefore should include all accounting policies related to material items, transactions or events.
- Another suggestion was summarised accounting policies in the financial statements with more detail to be found on the entity's website.
- A few of the participants mentioned they have moved immaterial accounting policies to the back of the financial statements into a separate appendix. This was seen by the participants as an intermediary step to removing these altogether.
- Focus disclosures on what is "core" to the business for example, if PP&E is not core, no need to have detailed disclosures.
- There was support for locating the accounting policies with the note on the underlying numbers, rather than having the accounting policies located in a separate section at the beginning of the notes.
- The IASB needs to think outside the paper version of financial statements as some entities are now producing digital interactive annual reports.

…

TRG feedback

15. The following has been extracted from a summary of the TRG meeting on 23 June 2017.

Principles of disclosure

15. TRG members discussed the July 2017 Accounting Standards Advisory Forum (ASAF) meeting paper Discussion Paper *Principles of Disclosure* (the DP). The meeting paper provided an overview of the outreach activities carried out to date by the International Accounting Standards Board (IASB) and comments received on the DP to date.

16. TRG members had the following comments on the DP.

…

(e) Section 6 – Disclosure of accounting policies: There was a strong view that material accounting policies should always be disclosed as cannot assume that all users of financial statements are familiar with IFRS Standards. The DP does not cover the different means of delivery, which could include, for example, a hyperlink to a website for the accounting policies.

XRB EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

29 November 2019

Mr Hans Hoogervorst
Chairman of the International Accounting Standards Board
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Submitted to: www.ifrs.org

Dear Hans

ED/2019/6 *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2

Thank you for the opportunity to comment on ED/2019/6 *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2. The ED has been exposed in New Zealand and some New Zealand constituents may comment directly to you.

We are very supportive of the IASB's focus on the theme of Better Communication in Financial Reporting.

[We will draft the cover letter to incorporate the main points for the Board's October meeting]

Our detailed recommendations and responses to the specific questions for respondents are provided in the Appendix to this letter.

If you have any queries or require clarification of any matters in this letter, please contact Lisa Kelsey (Lisa.Kelsey@xrb.govt.nz) or me.

Yours sincerely

Kimberley Crook
Chair – New Zealand Accounting Standards Board

Appendix to *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2

Recommendations and responses to questions for respondents

The ***Notes for the Board*** sections will be removed from the final comment letter.

Notes for the Board

One of the IASB members did not support the proposals in the ED. The alternative view of Mr Martin Edelmann can be found on page 23 of the ED. We have referred to this alternative view in our draft response.

Question 1
The Board proposes to amend paragraph 117 of IAS 1 to require entities to disclose their 'material' accounting policies instead of their 'significant' accounting policies. Do you agree with this proposed amendment? If not, what changes do you suggest and why?

Notes for the Board

Below is the definition of material, including the amendments in Disclosure Initiative—Definition of Material *(Amendments to IAS 1 and IAS 8) – these amendments come into effect on 1 January 2020.*

Material:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

[Refer:
paragraphs 29, 30 and 139T
Basis for Conclusions paragraphs BC13A–BC13S
Conceptual Framework paragraph 2.11]

[Note: IFRS Practice Statement 2 *Making Materiality Judgements* (Practice Statement) provides reporting entities with guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Standards. The Practice Statement is non-mandatory guidance developed by the International Accounting Standards Board (Board). It is not a Standard. Therefore, its application is not required to state compliance with IFRS Standards]

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

(a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

(b) information regarding a material item, transaction or other event is scattered throughout the financial statements;

(c) dissimilar items, transactions or other events are inappropriately aggregated;

(d) similar items, transactions or other events are inappropriately disaggregated; and

(e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

Key take away from above paragraphs:

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination, is material in the content of its financial statements taken as a whole (emphasis added).

Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently (emphasis added).

The Board made the following comments in its submission on the IASB's DP/2017/1 Disclosure Initiative—Principles of Disclosure *dated 20 September 2017:*

"We recommend that the IASB considers amendments to IAS 1 Presentation of Financial Statements *to require the disclosure of material accounting policies, as opposed to significant accounting policies. We believe that this would remove confusion regarding the meaning of significant and would place greater emphasis on the application of materiality when making accounting policy disclosures."*

Extract from Basis for Conclusions on the ED:

Replacing 'significant' with 'material'

BC6 The Board observed that one of the difficulties entities face is understanding the difference, if any, between 'significant' accounting policies and 'material' accounting policies. The Board considered developing a definition of 'significant' in the context of accounting policy disclosure. However, the Board concluded that this approach could have unintended consequences for other uses of the term 'significant' in IFRS Standards.

BC7 Consequently, the Board considered whether an entity should instead apply the concept of materiality to accounting policy disclosures. The Board observed that an accounting policy considered in isolation would rarely be assessed as material to the financial statements. This is because information about an accounting policy considered in isolation would be unlikely to affect the decisions of users of financial statements. However, an accounting policy may be considered material when information about it is considered in combination with other information in a complete set of financial statements. In the Board's view, an accounting policy would be material if its disclosure is needed for a user to understand information provided about a material transaction, other event or condition in the financial statements. This view is consistent with the application of materiality to other information. A single disclosure considered in isolation is unlikely to be judged material. However, when taken together with other information in the financial statements, that single disclosure may be assessed as material information. Thus, the Board concluded that the concept of materiality could be applied in making decisions about the disclosure of accounting policies.

BC8 The Board therefore proposes to amend paragraph 117 of IAS 1. As amended, paragraph 117 of the Standard would require an entity to disclose its 'material' accounting policies rather than those that are 'significant'.

We would like to draw the Board's attention to the proposed amendment to paragraph 117 of IAS 1 shown below:

117 An entity shall disclose its ~~significant~~ material accounting policies ~~comprising:~~. Information about an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements.

~~(a) the measurement basis (or bases) used in preparing the financial statements; and~~

~~(b) the other accounting policies used that are relevant to an understanding of the financial statements.~~

As you can see, the proposed amendment is more extensive than just changing significant to material. The IASB also proposes deleting the description of what an accounting policy comprises. The IASB has explained its rationale for this decision in BC11 (see extract below).

Extract from Basis for Conclusions on the ED:

BC11 The Board also proposes deleting the description of what an accounting policy comprises from paragraph 117 of IAS 1. This deletion is to better enable preparers to apply judgement and disclose only that accounting policy information which is assessed as being material to the financial statements. For example, paragraph 117(a) of IAS 1 refers to the measurement basis (or bases) used in preparing the financial statements and might be interpreted to mean that an entity should always disclose this information. In many cases, information about the measurement basis (or bases) used in preparing the financial statements is material. However, in some circumstances the measurement basis (or bases) used for a particular asset or liability would not be material to the financial statements and therefore would not need to be disclosed. For example, a measurement basis might not be material if an IFRS Standard required entities to use it. Therefore entities would not apply choice or judgement in complying with the Standard.

The Board made the following comments in its submission on the IASB's DP/2017/1 Disclosure Initiative—Principles of Disclosure *dated 20 September 2017:*

"We agree that a general disclosure standard should explain the objective of providing accounting policy disclosures, and agree with the objective set-out paragraph 6.16(a) of the DP."

6.16 Having considered the three categories in paragraphs 6.12–6.14, the Board's preliminary view is that a general disclosure standard should:

(a) explain the objective of providing accounting policy disclosures to help entities better understand which accounting policies to disclose, and why. The objective of disclosing accounting policies in the financial statements is to provide an entity-specific description of accounting policies that:

(i) have been applied by the entity in preparing its financial statements; and

(ii) are necessary for an understanding of the financial statements.

Draft response Question 1

We agree with the IASB's proposal to amend paragraph 117 of IAS 1 *Presentation of Financial Statements* to require entities to disclose their *material* accounting policies instead of their *significant* accounting policies. However, we have concerns with the IASB's application of materiality to information about accounting policies. We discuss this further in our response to question 2 and 3 below.

The proposal is consistent with the NZASB's recommendation to the IASB in its 2017 comment letter on DP/2017/1 *Disclosure Initiative—Principles of Disclosure* (POD DP). Similar to the feedback the IASB has received, the NZASB has also received feedback that the use of *significant*, an undefined term, causes confusion in practice, and stakeholders have differing views about what constitutes a *significant* accounting policy. We believe that requiring the disclosure of *material* accounting policies would place greater emphasis on the application of materiality when making accounting policy disclosures.

We agree with the IASB's view (outlined in paragraph BC7 of the Basis for Conclusions (BC) that accompanies the ED) that the concept of materiality can be applied in making decisions about the

disclosure of accounting policies. As noted in paragraph IN3 of IFRS Practice Statement 2 *Making Materiality Judgements* "the need for materiality judgements is a pervasive concept in the preparation of financial statements. An entity makes materiality judgement when making decisions about recognition and measurement as well as presentation and disclosure."

We believe information about accounting policies can affect users' understanding and analysis of other material information in the financial statements and therefore has the potential to [reasonably be expected to] influence decisions primary users of general purpose financial statements make.

Therefore, we agree that *information about an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements*.

However, we do not agree that it is necessary to add the italicised sentence above, which essentially replicates part of the definition of material, to paragraph 117. Rather, we consider it would be more helpful to replace this proposed wording with the first sentence proposed in paragraph 117B – "An accounting policy is material if information about that accounting policy is needed to understand other material information in the financial statements."

We are comfortable with the proposed deletion from paragraph 117 of the reference to "measurement basis (or bases) used in preparing the financial statements" and "other accounting policies used that are relevant to an understanding of the financial statement". We agree with the IASB's view in paragraph BC11 that this deletion will better enable preparers to apply judgement and disclose only that accounting policy information which is assessed as being material to the financial statements.

Question 2
The proposed new paragraph 117A of IAS 1 states that not all accounting policies relating to material transactions, other events or conditions are themselves material to an entity's financial statements. Do you agree with this proposed statement? If not, what changes do you suggest and why?

Notes for the Board

This is the new paragraph 117A:

117A Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. Furthermore, not all accounting policies relating to material transactions, other events or conditions are themselves material.

The Board made the following comments in its submission on the IASB's POD DP dated 20 September 2017:

"We agree with paragraph 6.16(c) of the DP, that the disclosure of immaterial accounting policies should not be required (but also not prohibited) and that an entity should not allow the disclosure of immaterial accounting policies to obscure material information or to make the financial statements more difficult to understand."

Extract from IASB staff paper October 2018 Agenda 11A:

Which accounting policies to disclose

17. Feedback from users suggests that not all accounting policies that relate to material transactions, other events or conditions are themselves material. For example, users have told us that accounting policies that simply repeat the requirements of an IFRS Standard, or that do not require the exercise of significant judgement, do not influence the decisions that users make (see paragraphs 8-11). Staff agree with this feedback. Furthermore, we have noted numerous examples of accounting policies that do not contain useful information when reviewing financial statements (see also paragraph 28). Consequently, staff have developed a two-tiered approach to help preparers identify when an accounting policy is material and should be disclosed (see Appendix C). This approach requires preparers to address two questions:

    (a) *is the transaction, other event or condition material in size or nature, or both?* —this question helps entities determine which accounting policies *have the potential* to be material by explicitly linking accounting policies for disclosure to material transactions, other events or conditions; and

    (b) *is the accounting policy that relates to the material transaction, other event or condition material?* —this question helps entities determine if an accounting policy that relates to a material transaction, other event or condition is material to the financial statements and therefore should be disclosed.

18. Staff recommend that the Board clarify that not all accounting policies relating to material transactions, other events or conditions are themselves material. Consequently, staff have developed the guidance and examples in the remainder of this paper using the two-tiered approach.

Extract from Basis for Conclusions on the ED:

BC10 To assist an entity in determining whether information about an accounting policy is material to its financial statements and to address the feedback from stakeholders described in paragraphs BC5 and BC9, the Board proposes adding explanatory paragraphs to accompany the proposed amendment described in paragraph BC8. The proposed explanatory paragraphs:

(a) clarify that not all accounting policies relating to material transactions, other events or conditions are themselves material (see proposed paragraph 117A of IAS 1). For example, feedback from users of financial statements suggests that accounting policies that only duplicate the requirements of an IFRS Standard, and those that describe situations which do not require the exercise of judgement, are unlikely to influence the decisions that primary users of financial statements make on the basis of those financial statements (see paragraph BC9(b)). The Board is proposing this amendment to help entities eliminate immaterial accounting policy disclosures from their financial statements.

(b) identify circumstances in which an entity normally would conclude that information about an accounting policy is material to its financial statements (see proposed paragraphs 117A–117D of IAS 1). The Board is proposing this amendment to help entities determine whether information about an accounting policy is material.

Draft response Question 2

We do not agree with the inclusion of the second sentence of paragraph 117A "that not all accounting policies relating to material transactions, other events or conditions are themselves material to an entity's financial statements". To a large extent we agree with the alternative view expressed by Mr Martin Edelmann. In contrast to the views expressed in paragraph BC10(a), we believe that information about an accounting policy for a material transaction, other event or condition can still be material even if no choices or judgements were involved. For example, information about how an entity has applied IFRS requirements to its own facts and circumstances could be material to the understanding of a particular transaction.

Additionally, as noted in the POD DP (paragraph 6.13) and in the alternative view of Mr Martin Edelmann, users of financial statements are not expected to be IFRS experts/accounting experts. Thus, information that could help users understand and analyse other material information in the financial statements is likely to be material itself as it has the potential to [reasonably be expected to] influence decisions primary users of general purpose financial statements make.

We are concerned that the IASB has mistaken feedback on how entities can make accounting policies more useful (i.e. effective communication), with feedback about materiality per se. Although, we agree with BC9(b) that users of financial statements do not find accounting policy disclosures useful when they:

(a) contain standardised information, sometimes referred to as 'boilerplate'; and

(b) only duplicate or summarise the content of the recognition and measurement requirements of IFRS Standards;

we consider that this feedback reflects users' preference for how an entity makes its accounting policy disclosures, rather than whether or not an accounting policy is material.

We believe it would be more helpful for the IASB to clarify that not all information about accounting policies relating to material transactions, other events or conditions is material to an entity's financial statements.

We believe that this would give preparers more confidence to make materiality judgements in relation to the information an entity discloses about its accounting policies for material transactions, other events or conditions.

For example, an entity that has a material class of property, plant and equipment but has not had material additions or disposals during the reporting period may have more confidence to conclude that although disclosing the measurement basis of that class of property, plant and equipment may be material, disclosing information about its accounting policy for additions and disposals may not be material.

We also believe this clarification would avoid confusion about what is meant by the term "accounting policies". Often multiple accounting policies relating to a particular transaction, other event or condition are collectively described as *an accounting policy*. For example, the accounting policy for property, plant and equipment can comprise accounting policies for depreciation, revaluations, additions etc. It is important to be clear what is meant by an accounting policy as this will affect what information is required to be disclosed.

Therefore, we recommend that the IASB amend 117A to state *not all information about accounting policies relating to material transactions, other events or conditions ~~are themselves~~ is material to an entity's financial statements.*

We agree that accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. This is consistent with the NZASB's view that the disclosure of immaterial accounting policies should not be required (but also not prohibited), which was expressed in its comment letter on the POD DP.

Question 3
The proposed new paragraph 117B of IAS 1 lists examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements. Do the proposed examples accurately and helpfully describe such circumstances? If not, what changes do you suggest and why?

Notes for the Board

This is the proposed new paragraph 117B:

117B An accounting policy is material if information about that accounting policy is needed to understand other material information in the financial statements. For example, an entity is likely to consider an accounting policy to be material to its financial statements if that accounting policy relates to material transactions, other events or conditions and

(a) was changed during the reporting period because the entity was required to or chose to change its policy and this change resulted in a material change to the amounts included in the financial statements;

(b) was chosen from one or more alternatives in an IFRS Standard, for example, the option to measure investment property at either historical cost or fair value;

(c) was developed in accordance with IAS 8 in the absence of an IFRS Standard that specifically applies

(d) relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy and discloses those judgements or assumptions in accordance with paragraphs 122 and 125 of IAS 1; or

(e) applies the requirements of an IFRS Standard in a way that reflects the entity's specific circumstances, for example, by explaining how the requirements of a Standard are applied to the facts and circumstances of a material class of transactions, other events or conditions.

117C Information about accounting policies that focuses on how an entity has applied the requirements in IFRS Standards to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised descriptions or information that only duplicates the recognition or measurement requirements of IFRS Standards.

We listened to the audio recording from the October 2018 IASB meeting to get clarification of the difference between paragraph 117B (e) and 117C. IASB staff made the following comments:

"We think there are two issues here, one is do you need to disclose an accounting policy in the first place….and the existence of entity specific application might be the trigger to make you consider doing that……then having decided for whatever reason that you need to disclose an accounting policy you then get to well you don't need to disclose chapter and verse of every single thing you are doing with that item, just disclose the stuff that is useful or material to users and that is the point that 117C is making….so that is the distinction between the two….for example, it may be that an accounting policy has two different applications applied to two different revenue streams, if revenue is material then this specific application is the trigger to disclose…what you would then go on to disclose in the accounting policy is the entity specific application…not everything else that might just repeat requirements from the Standard."

Draft response Question 3

We believe that the inclusion of the proposed examples in IAS 1 will help preparers make better materiality judgements about accounting policy disclosures and help eliminate immaterial

accounting policy disclosures from their financial statements. Including these examples in IAS 1 will give the examples authoritative status and greater transparency than if they were merely included in IFRS Practice Statement 2. However, we have the following concerns with the examples proposed in paragraph 117B.

We believe that these 'examples' would be better described as qualitative factors. We note Example S on page 13 of the ED already refers to these 'examples' as qualitative factors.[1]

We agree with the examples provide in paragraph 117B(a)–(d). However, we believe that the lead in to these 'examples' should clarify that they indicate when information about an accounting policy may be material – as opposed to an accounting policy in its entirety.

We have found paragraph 117B(e) difficult to understand in the context of an example of a *material* accounting policy. We found the wording "...applies the requirements of an IFRS Standard in a way that reflects the entity's specific circumstances..." confusing and question if this is not how entities apply all applicable/relevant requirements of IFRS Standards. We were also confused by the example provided, which appears to describe how an accounting policy disclosure could be more effectively communicated – which we believe is better described in paragraph 117C of the ED.

We believe 117B(e) should be revised to clearly capture information about an accounting policy that relates to material transactions, other events or conditions and "that is needed to understand how an entity has applied requirements in IFRS Standards relating to material transactions, other events or conditions to the entity's specific facts and circumstances. For example, where the recognition and measurement requirements of a Standard relate to specific facts and circumstances (such as recognising revenue at a point in time or over time)."

[1] Extract from Example S on page 13 of the ED:

The entity evaluates the effect of disclosing the accounting policies by considering the presence of qualitative factors. The entity noted that its revenue recognition accounting policies:

(a) were not changed during the reporting period;

(b) were not chosen from alternatives in IFRS Standards; and

(c) were not developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies.

Question 4
The Board proposes to add to IFRS Practice Statement 2 two examples that illustrate how the concept of materiality can be applied in making decisions about accounting policy disclosures. Are these examples useful and do they demonstrate effectively how the concept of materiality can be applied in making decisions about accounting policy disclosures? If not, what changes do you suggest and why?

Notes for the Board

Extract from IASB staff paper March 2019 Agenda 11A

Examples demonstrating the application of the four-step materiality process to accounting policy disclosure

15. Staff think the examples included in the Materiality Practice Statement should directly address the issues identified by users of financial statements and others with today's typical accounting policy disclosures (see Appendix B). In particular, we recommend that the examples should highlight the need to focus on information that is useful to users of financial statements, and address each of the scenarios listed below:

    (a) scenario 1—boilerplate or generic information being disclosed in accounting policies (paragraph 21); and

    (b) scenario 2—accounting policies which duplicate recognition and measurement requirements of IFRS Standards (paragraphs 22-23).

16. We think that the examples, together with the guidance, will provide entities with the tools they need to have confidence in judging whether to disclose an accounting policy.

17. The Board discussed four examples in its October 2018 Board meeting, and provided the following feedback:

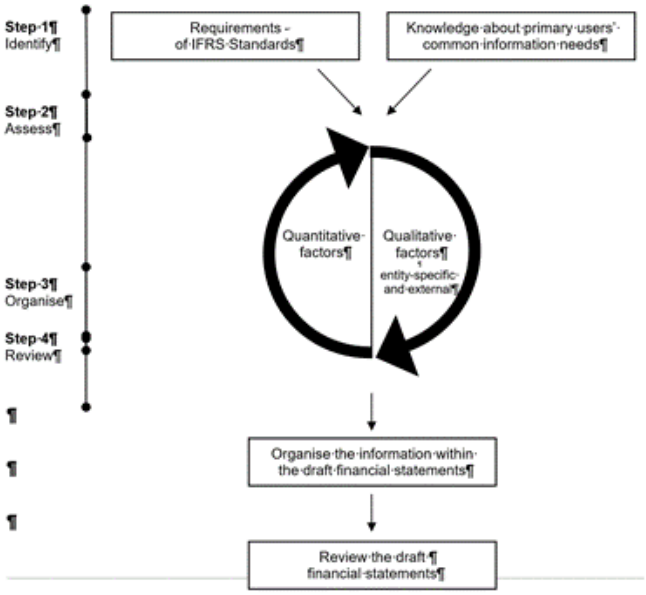
    (a) the use of the term 'useful' in the examples should align with the definition of 'useful' in the *Conceptual Framework for Financial Reporting*;

    (b) any example that addresses an entity making an accounting policy choice should specify which factors the entity considered in making that choice. In particular, examples should clearly explain why a specific component of an accounting policy is material and should be disclosed;

    (c) examples should clarify that, while an accounting policy may be judged to be immaterial, other information about the transaction, other event or condition may be material and may need to be disclosed; and

    (d) examples should be more explicit in demonstrating the application of judgement to excluding boilerplate or generic information, or information which only repeats the requirements of IFRS Standards, from accounting policies.

Diagram—the four-step materiality process



Draft response Question 4

Example S

Although we believe that Example S will provide helpful guidance for preparers, we do not agree with the conclusion of this example.

We are not convinced that the entity has made significant judgements in applying its accounting policies. We believe the fact pattern provided in Example S better illustrates a situation where an entity has not applied a choice or judgement in complying with a standard. However, information about how an entity has applied the requirements of IFRS Standards to its particular facts and circumstances may be material to understand information about its material revenue streams (for example, is revenue recognition at a point in time or over time?).

Therefore, we recommend that the IASB consider making the following amendments to Example S.

The entity evaluates the effect of disclosing the accounting policies by considering the presence of qualitative factors. The entity noted that its revenue recognition accounting policies:

(a) were not changed during the reporting period;

(b) were not chosen from alternatives in IFRS Standards; ~~and~~

(c) were not developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies; and

(d) did not relate to an area for which significant judgements or assumptions were required.

However, information about the entity's ~~revenue recognition~~ accounting policy~~ies~~ ~~relate to an area for which the entity:~~ relating to revenue recognition is needed to understand how the entity has applied the requirements of the Standard to the entity's specific facts and circumstances.

~~(a) has made significant judgements in applying its accounting policies, for example, in deciding how to allocate the transaction price to the performance obligations; and~~

~~(b) has had to consider how the requirements of the Standard apply to its own circumstances.~~

Example T

We are less convinced of the usefulness of Example T in helping preparers make materiality judgements about accounting policies. Rather, this example seems to emphasise: (i) accounting policies are more useful when they contain entity-specific information; and (ii) if sufficient information is disclosed elsewhere in the financial statements, an entity is not expected to replicate that information.

Although we agree that accounting policies are more useful when they contain entity-specific information and do not duplicate information disclosed elsewhere in the financial statements, we think this better reflects how an entity can communicate more effectively – rather than how the entity has applied materiality to the disclosure of accounting policies.

We would recommend reframing Example T to illustrate a situation where an entity may conclude that certain information about an accounting policy related to a material transaction, other event or condition is not material, but other information about that accounting policy may still be material for an understanding of that material transaction, other event or condition. Example T could be reframed to illustrate where an entity has material intangible assets but does not have a material goodwill balance – information about its accounting policies relating to goodwill may therefore be immaterial.

Other comments on proposed amendments to IFRS Practice Statement 2

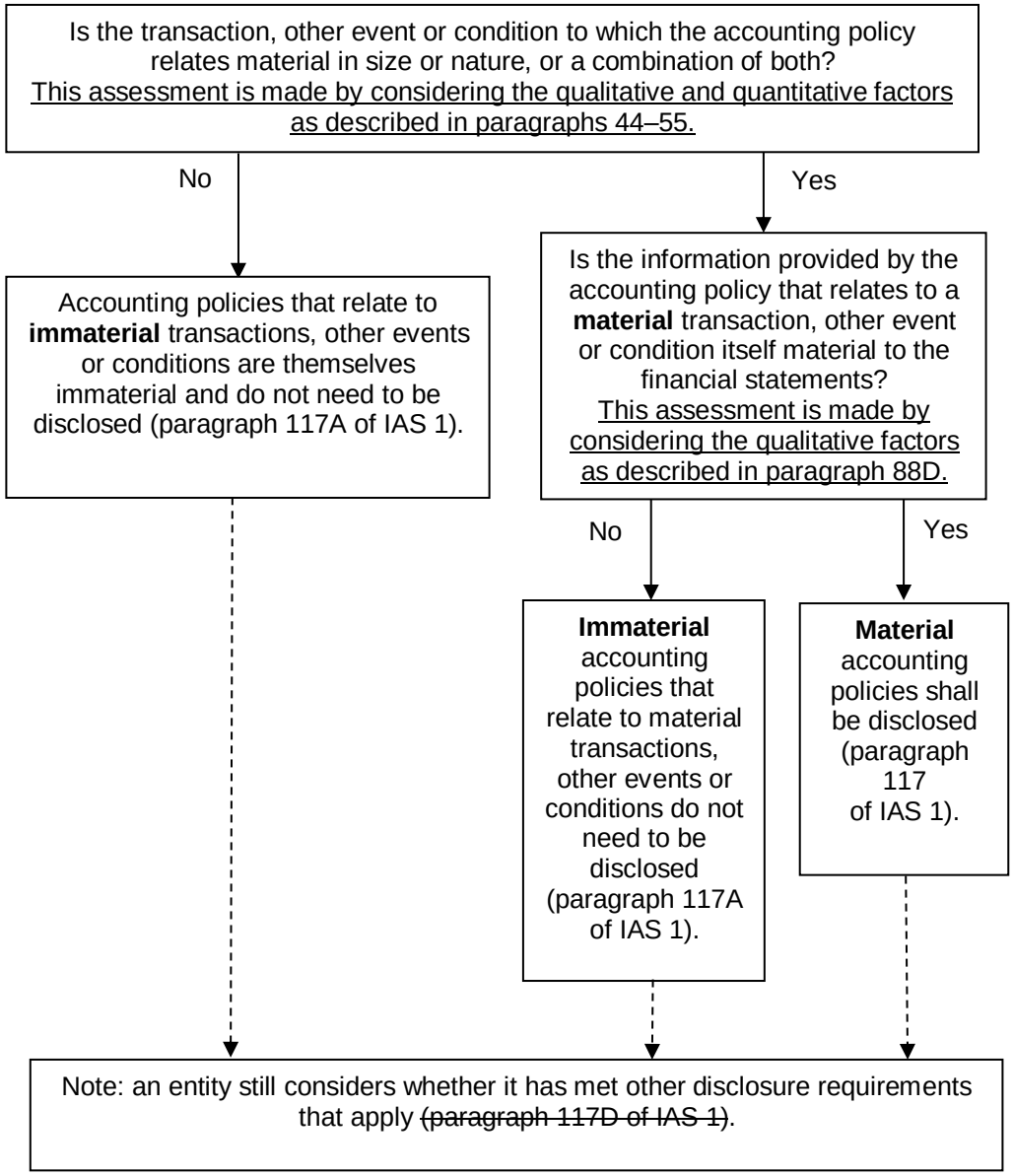
We have not found the proposed diagram particularly helpful. However, we do not have any strong objection against it being included in IFRS Practice Statement 2. To improve the helpfulness of the diagram, we recommend that the IASB consider adding cross-references to the relevant paragraphs in the Practice Statement to each step in the diagram.

It may also be helpful if the IASB described how the process illustrated in the diagram fits into the four-step materiality process described in IFRS Practice Statement 2.

Our comments in our response to question 3 above are also applicable to the proposed paragraph 88D(a)–(e).

Some suggested edits (proposed new text is underlined and deleted text is struck through).

Diagram—determining whether an accounting policy is material



Question 5
Would any wording or terminology introduced in the proposed amendments be difficult to understand or to translate?

Draft response Question 5

Other than what has been noted elsewhere in our comment letter, we have not identified any wording or terminology in the proposed amendments that is difficult to understand.

We cannot comment on the difficulty of translation as the NZASB does not translate IFRS Standards into any other languages.

Question 6
Do you have any other comments about the proposals in this Exposure Draft?

Draft response Question 6

Disclosure objective

In its 2017 comment letter on the POD DP, the NZASB agreed that a general disclosure standard should explain the objective of providing accounting policy disclosures. We believe that if preparers had better clarity around the objective of accounting policy disclosures, they would be able to make better materiality judgements about such disclosures. We therefore recommend that the IASB develops a disclosure objective for accounting policies.

Paragraph 117C

We agree information about accounting policies that focuses on how an entity has applied the requirements in IFRS Standards to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised descriptions or information that only duplicates the recognition or measurement requirements of IFRS Standards. Therefore, we agree with the proposed new paragraph 117C.

Many entities in New Zealand have already taken steps to improve the communication effectiveness of their financial statements. For many, this has included relocating the disclosure of significant accounting policies, judgements and estimates to the related notes and tailoring these disclosures to be entity-specific. We have found that entity-specific accounting policies disclosed by many of these entities have been more useful, than boilerplate disclosures, for an understanding of the financial statements.

Paragraph 117D

We consider that the proposed paragraph 117D is redundant and recommend that the IASB does not incorporate this paragraph into the final amendments to IAS 1.

Editorials

IFRS Standard or publication	**Paragraph reference**
IFRS Practice Statement 2—Making Materiality Judgements	Paragraph IN4 (c) add in new specific topic "information about accounting policies"

August 2019

IFRS® Standards
Exposure Draft ED/2019/6

Disclosure of Accounting Policies

Proposed amendments to IAS 1 and IFRS Practice Statement 2

Comments to be received by 29 November 2019

IASB®

IFRS®

Exposure Draft

Disclosure of Accounting Policies

Proposed amendments to IAS 1 and IFRS Practice Statement 2

Comments to be received by 29 November 2019

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Introduction

In this Exposure Draft, the International Accounting Standards Board (Board) proposes amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*. The proposed amendments are intended to help entities provide accounting policy disclosures that are more useful to primary users of financial statements.

IAS 1 requires entities to disclose their 'significant' accounting policies. The Board proposes to replace that requirement with a requirement to disclose 'material' accounting policies. In addition, the Board is proposing amendments to IAS 1 and IFRS Practice Statement 2 to help entities apply the concept of materiality in making decisions about accounting policy disclosures. The proposed amendments are intended to help entities:

- identify and disclose all accounting policies that provide material information to primary users of financial statements; and
- identify immaterial accounting policies and eliminate them from their financial statements.

The proposed amendments build on *Definition of Material*, issued in October 2018, which made amendments to IAS 1 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

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Invitation to comment

The Board invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) respond to the questions as stated;

(b) indicate the specific paragraph or paragraphs to which they relate;

(c) contain a clear rationale; and

(d) include any alternative(s) the Board could consider, if applicable.

The Board is requesting comments only on matters addressed in this Exposure Draft.

Questions for respondents

Question 1
The Board proposes to amend paragraph 117 of IAS 1 to require entities to disclose their 'material' accounting policies instead of their 'significant' accounting policies. Do you agree with this proposed amendment? If not, what changes do you suggest and why?

Question 2
The proposed new paragraph 117A of IAS 1 states that not all accounting policies relating to material transactions, other events or conditions are themselves material to an entity's financial statements. Do you agree with this proposed statement? If not, what changes do you suggest and why?

Question 3
The proposed new paragraph 117B of IAS 1 lists examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements. Do the proposed examples accurately and helpfully describe such circumstances? If not, what changes do you suggest and why?

Question 4
The Board proposes to add to IFRS Practice Statement 2 two examples that illustrate how the concept of materiality can be applied in making decisions about accounting policy disclosures. Are these examples useful and do they demonstrate effectively how the concept of materiality can be applied in making decisions about accounting policy disclosures? If not, what changes do you suggest and why?

Question 5
Would any wording or terminology introduced in the proposed amendments be difficult to understand or to translate?

Question 6
Do you have any other comments about the proposals in this Exposure Draft?

Deadline

The Board will consider all comments received in writing by 29 November 2019.

How to comment

We prefer to receive comments electronically. However, you may submit comments using any of the following methods:

Electronically	Visit the 'Open for comment' page at: https://www.ifrs.org/projects/open-for-comment
By email	Send email comments to: commentletters@ifrs.org
By post	IFRS Foundation Columbus Building 7 Westferry Circus Canary Wharf London E14 4HD United Kingdom

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this and on how we use your personal data.

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[Draft] Amendments to IAS 1 *Presentation of Financial Statements*

Paragraphs 7, 10, 114, 117 and 122 are amended. Paragraphs 117A–117D and 139U are added. Paragraphs 118, 119 and 121 are deleted. New text is underlined and deleted text is struck through.

Definitions

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

***Accounting policies* is defined in paragraph 5 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and is used in this Standard with the same meaning.**

...

Complete set of financial statements

10 **A complete set of financial statements comprises:**

...

(e) notes, comprising ~~significant~~ material accounting policies and other explanatory information;

...

Notes

Structure

...

114 Examples of systematic ordering or grouping of the notes include:

...

(c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:

...

(ii) ~~significant~~ material accounting policies applied (see paragraph 117);

...

Disclosure of accounting policies

117 **An entity shall disclose its ~~significant~~ material accounting policies ~~comprising~~. Information about an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions**

that primary users of general purpose financial statements make on the basis of those financial statements.

~~(a) the measurement basis (or bases) used in preparing the financial statements; and~~

~~(b) the other accounting policies used that are relevant to an understanding of the financial statements.~~

117A Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. Furthermore, not all accounting policies relating to material transactions, other events or conditions are themselves material.

117B An accounting policy is material if information about that accounting policy is needed to understand other material information in the financial statements. For example, an entity is likely to consider an accounting policy to be material to its financial statements if that accounting policy relates to material transactions, other events or conditions and:

(a) was changed during the reporting period because the entity was required to or chose to change its policy and this change resulted in a material change to the amounts included in the financial statements;

(b) was chosen from one or more alternatives in an IFRS Standard, for example, the option to measure investment property at either historical cost or fair value;

(c) was developed in accordance with IAS 8 in the absence of an IFRS Standard that specifically applies;

(d) relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy and discloses those judgements or assumptions in accordance with paragraphs 122 and 125 of IAS 1; or

(e) applies the requirements of an IFRS Standard in a way that reflects the entity's specific circumstances, for example, by explaining how the requirements of a Standard are applied to the facts and circumstances of a material class of transactions, other events or conditions.

117C Information about accounting policies that focuses on how an entity has applied the requirements in IFRS Standards to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised descriptions or information that only duplicates the recognition or measurement requirements of IFRS Standards.

117D If an entity concludes that an accounting policy is not material, the entity shall nevertheless disclose other information required by IFRS Standards if that information is material.

118 [Deleted]~~It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects~~

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~~users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.~~

119 [Deleted]~~In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*). Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.~~

...

121 [Deleted]~~An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but the entity selects and applies in accordance with IAS 8.~~

122 An entity shall disclose, along with its ~~significant~~ material accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), 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.

...

Transition and effective date

...

139U [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraphs 7, 10, 114, 117 and 122, added paragraphs 117A–117D and deleted paragraphs 118, 119 and 121. An entity shall apply the amendments to IAS 1 in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. The amendments shall be applied prospectively.

[Draft] Amendments to IFRS Practice Statement 2 *Making Materiality Judgements*

Paragraphs 88A–88D and their heading, and Examples S and T are added. Paragraphs 117, 117A and 117D of IAS 1 are added to the Appendix. New text is underlined.

Specific topics

...

Information about accounting policies

88A Paragraph 117 of IAS 1 requires an entity to disclose its material accounting policies.

88B Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. Accounting policies relating to material transactions, other events or conditions are disclosed if information provided by the accounting policies is material to the financial statements.

88C An entity assesses whether information about its accounting policies is material to its financial statements by considering whether that information, together with other information in the financial statements, could reasonably be expected to influence decisions that primary users make on the basis of those financial statements. This assessment is made in the same way as for other information—by considering qualitative and quantitative factors as described in paragraphs 44–55. The diagram below illustrates how an entity assesses whether an accounting policy is material and therefore should be disclosed.

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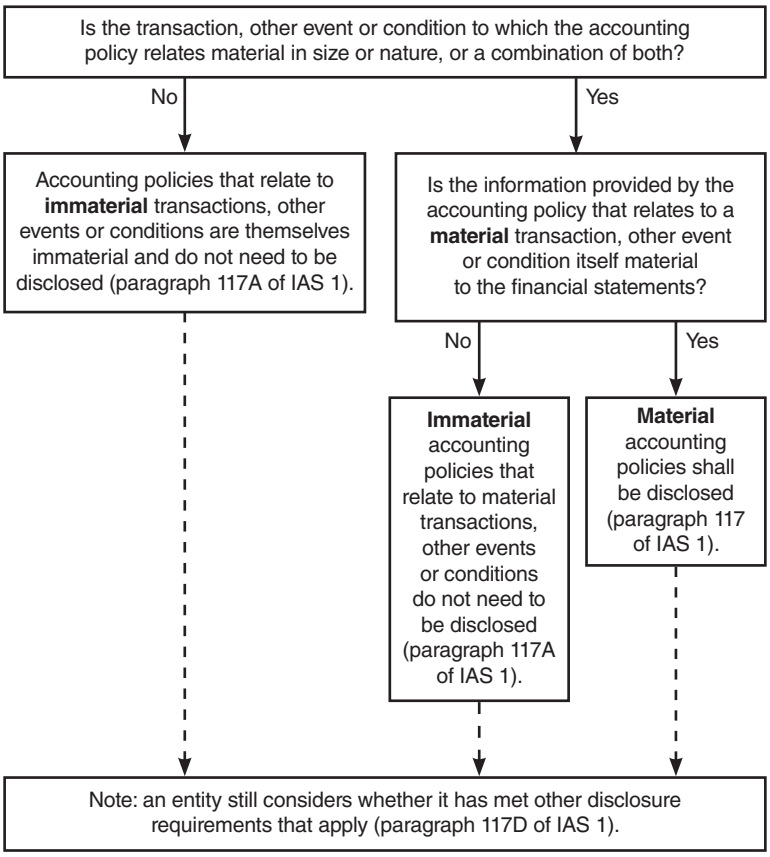
Diagram—determining whether an accounting policy is material



88D Paragraph 117B of IAS 1 includes examples of circumstances in which an entity is likely to consider an accounting policy to be material:

> …For example, an entity is likely to consider an accounting policy to be material to its financial statements if that accounting policy relates to material transactions, other events or conditions and:
>
> (a) was changed during the reporting period because the entity was required to or chose to change its policy and this change resulted in a material change to the amounts included in the financial statements;
>
> (b) was chosen from one or more alternatives in an IFRS Standard, for example, the option to measure investment property at either historical cost or fair value;
>
> (c) was developed in accordance with IAS 8 in the absence of an IFRS Standard that specifically applies;
>
> (d) relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy and discloses those judgements or assumptions in accordance with paragraphs 122 and 125 of IAS 1; or

(e) applies the requirements of an IFRS Standard in a way that reflects the entity's specific circumstances, for example, by explaining how the requirements of a Standard are applied to the facts and circumstances of a material class of transactions, other events or conditions.

Example S—making materiality judgements and focusing on entity-specific information while avoiding standardised ('boilerplate') accounting policy disclosures

Background

An entity operates within the telecommunications industry. It has entered into a number of contracts with retail customers to deliver both a mobile phone handset and data services. A typical contract is one in which the entity will provide a customer with a handset and data services over a three-year period. The entity applies IFRS 15 *Revenue from Contracts with Customers* and recognises revenue when, or as, it satisfies its performance obligations in line with the terms of the contract.

The entity has identified the following performance obligations and related considerations:

(a) handset—the customer makes monthly payments for the handset over three years; and

(b) data—the customer pays a fixed monthly charge to use a specified amount of data each month for a period of three years.

For the handset, the entity recognises revenue when it has satisfied the performance obligation (ie when it provides the handset to the customer). For the provision of data, the entity recognises revenue as it satisfies the performance obligation (ie as the entity provides data services to the customer over the three-year life of the contract).

The entity has concluded that revenue generated from these contracts is material to the reporting period.

continued...

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...continued

Application

The entity notes that for this type of contract there are two separate accounting policies for two distinct sources of revenue:

(a) revenue for the sale of handsets; and

(b) revenue for the provision of data services.

Having identified that revenue from contracts of this type is material to the financial statements, the entity assesses whether its accounting policies for revenue from these contracts are, in fact, material.

The entity evaluates the effect of disclosing the accounting policies by considering the presence of qualitative factors. The entity noted that its revenue recognition accounting policies:

(a) were not changed during the reporting period;

(b) were not chosen from alternatives in IFRS Standards; and

(c) were not developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies.

However, the entity's revenue recognition accounting policies relate to an area for which the entity:

(a) has made significant judgements in applying its accounting policies, for example, in deciding how to allocate the transaction price to the performance obligations; and

(b) has had to consider how the requirements of the Standard apply to its own circumstances.

Consequently, the entity concluded that disclosing the accounting policies for revenue recognition is likely to be necessary for the primary users of its financial statements to understand information in the financial statements and could reasonably be expected to influence those users' decisions. For example, understanding that some revenue is recognised at a point in time and some is recognised over time is likely to help users understand how reported cash flows relate to revenue. The entity therefore assessed information about the accounting policies for revenue recognition, including information about the timing of revenue recognition, as material.

Example T—materiality judgements on accounting policies that only duplicate requirements in IFRS Standards

Background

Intangible assets and property, plant and equipment are material to an entity's financial statements. In 20X1 the entity disclosed the following accounting policy relating to impairment of non-current assets:

> The carrying amounts of the group's intangible assets and property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangibles without a finite life, the recoverable amount is estimated at least annually.
>
> An impairment loss is recognised in the statement of profit or loss whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.
>
> The recoverable amount of assets is the greater of their fair value less costs to sell and their value in use. In measuring value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.
>
> Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to that CGU and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.
>
> An impairment loss in respect of goodwill is not subsequently reversed. For other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the new carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

continued...

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...continued

Application

Having identified that assets that are subject to impairment testing are material to the financial statements, the entity assesses whether its accounting policy for impairment is, in fact, material.

The entity's impairment accounting policy relates to an area for which the entity is required to make significant judgements or assumptions as described in paragraphs 122 and 125 of IAS 1.

However, the entity noted that it also makes disclosures about its impairment assessments and its significant judgements and assumptions (for example, the discount rate used to measure value in use) in meeting the disclosure requirements of IAS 36 *Impairment of Assets* and paragraphs 122 and 125 of IAS 1. The entity therefore concluded that there is no material information to include in a description of its impairment accounting policy that is not disclosed elsewhere in the financial statements.

The entity concluded that disclosing a separate accounting policy for impairment would not provide information that could reasonably be expected to influence decisions made by the primary users of the entity's financial statements based on those financial statements. This is because the accounting policy does not contain entity-specific information and only duplicates the requirements of IFRS Standards. However, the entity is still required to comply with the specific disclosure requirements of IAS 36 and paragraphs 122 and 125 of IAS 1, and provide information about how it has applied IAS 36 and those paragraphs of IAS 1 during the period, if that information is material.

...

Appendix
References to the *Conceptual Framework for Financial Reporting* and IFRS Standards

...

Extracts from IAS 1 *Presentation of Financial Statements*

...

Paragraph 117

Referred to in paragraphs 88A and 88C of the Practice Statement

An entity shall disclose its material accounting policies. Information about an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements.

Paragraph 117A

Referred to in paragraph 88C of the Practice Statement

> Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. Furthermore, not all accounting policies relating to material transactions, other events or conditions are themselves material.

Paragraph 117D

Referred to in paragraph 88C of the Practice Statement

> If an entity concludes that an accounting policy is not material, the entity shall nevertheless disclose other information required by IFRS Standards if that information is material.

...

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Approval by the Board of Exposure Draft *Disclosure of Accounting Policies* published in August 2019

The Exposure Draft *Disclosure of Accounting Policies* was approved for publication by 13 of 14 members of the International Accounting Standards Board. Mr Edelmann voted against its publication. His alternative view is set out after the Basis for Conclusions.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Martin Edelmann	
Françoise Flores	
Amaro Luiz de Oliveira Gomes	
Gary Kabureck	
Jianqiao Lu	
Takatsugu Ochi	
Darrel Scott	
Thomas Scott	
Chungwoo Suh	
Ann Tarca	
Mary Tokar	

Basis for Conclusions on the proposed amendments to IAS 1 and IFRS Practice Statement 2

This Basis for Conclusions accompanies, but is not part of, the proposed amendments. This Basis for Conclusions summarises the considerations of the International Accounting Standards Board (Board) when developing the proposed amendments. Individual Board members gave greater weight to some factors than to others.

Background

BC1 In March 2017 the Board issued the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (Discussion Paper) to help it identify and address issues related to the disclosure of information in financial statements prepared applying IFRS Standards. One issue related to the disclosure of accounting policies.

BC2 The Discussion Paper noted that:

(a) users of financial statements often express concerns about how accounting policies are disclosed in the financial statements;

(b) paragraph 117 of IAS 1 requires entities to disclose their significant accounting policies; and

(c) stakeholders' views differ about what constitutes a significant accounting policy.

BC3 The Discussion Paper explored an approach to address the concerns described in paragraph BC2 that would have introduced the following categories of accounting policy:

Category 1—accounting policies, disclosure of which are always necessary to understand information in an entity's financial statements, that relate to material transactions, other events or conditions;

Category 2—accounting policies that are not included in Category 1, but also relate to transactions, other events or conditions that are material to an entity's financial statements, either because of the amounts involved or because of their nature; and

Category 3—any other accounting policies used by an entity in preparing the financial statements (ie accounting policies not included in Categories 1 or 2).

The Board's preliminary view, described in the Discussion Paper, was that both Category 1 and Category 2 accounting policies should be disclosed.

BC4 Many respondents supported the Board's efforts to develop guidance for entities about which accounting policies they should disclose. However, they rejected the Board's categorisation of accounting policies as confusing and too prescriptive.

BC5 Feedback suggested that the ineffective disclosure of significant accounting policies is primarily due to difficulties in applying the concept of materiality. This feedback came from stakeholders, including users of financial statements, many of whom agreed that materiality should be the basis of any

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requirements about disclosure of accounting policies developed by the Board. Respondents thought it would be useful if the Board developed guidance on how to determine whether an accounting policy is material.

Proposed amendments

Replacing 'significant' with 'material'

BC6 The Board observed that one of the difficulties entities face is understanding the difference, if any, between 'significant' accounting policies and 'material' accounting policies. The Board considered developing a definition of 'significant' in the context of accounting policy disclosure. However, the Board concluded that this approach could have unintended consequences for other uses of the term 'significant' in IFRS Standards.

BC7 Consequently, the Board considered whether an entity should instead apply the concept of materiality to accounting policy disclosures. The Board observed that an accounting policy considered in isolation would rarely be assessed as material to the financial statements. This is because information about an accounting policy considered in isolation would be unlikely to affect the decisions of users of financial statements. However, an accounting policy may be considered material when information about it is considered in combination with other information in a complete set of financial statements. In the Board's view, an accounting policy would be material if its disclosure is needed for a user to understand information provided about a material transaction, other event or condition in the financial statements. This view is consistent with the application of materiality to other information. A single disclosure considered in isolation is unlikely to be judged material. However, when taken together with other information in the financial statements, that single disclosure may be assessed as material information. Thus, the Board concluded that the concept of materiality could be applied in making decisions about the disclosure of accounting policies.

BC8 The Board therefore proposes to amend paragraph 117 of IAS 1. As amended, paragraph 117 of the Standard would require an entity to disclose its 'material' accounting policies rather than those that are 'significant'.

Supporting paragraphs

BC9 The Board has received feedback that:

(a) accounting policy disclosures are useful to users of financial statements only when they:

  (i) relate to material transactions, other events or conditions; and

  (ii) provide insight into how an entity has exercised judgement in selecting and applying accounting policies; and

(b) users of financial statements do not find accounting policy disclosures useful when they:

(i) contain standardised information, sometimes referred to as 'boilerplate'; and

(ii) only duplicate or summarise the content of the recognition and measurement requirements of IFRS Standards.

BC10 To assist an entity in determining whether information about an accounting policy is material to its financial statements and to address the feedback from stakeholders described in paragraphs BC5 and BC9, the Board proposes adding explanatory paragraphs to accompany the proposed amendment described in paragraph BC8. The proposed explanatory paragraphs:

(a) clarify that not all accounting policies relating to material transactions, other events or conditions are themselves material (see proposed paragraph 117A of IAS 1). For example, feedback from users of financial statements suggests that accounting policies that only duplicate the requirements of an IFRS Standard, and those that describe situations which do not require the exercise of judgement, are unlikely to influence the decisions that primary users of financial statements make on the basis of those financial statements (see paragraph BC9(b)). The Board is proposing this amendment to help entities eliminate immaterial accounting policy disclosures from their financial statements.

(b) identify circumstances in which an entity normally would conclude that information about an accounting policy is material to its financial statements (see proposed paragraphs 117A–117D of IAS 1). The Board is proposing this amendment to help entities determine whether information about an accounting policy is material.

BC11 The Board also proposes deleting the description of what an accounting policy comprises from paragraph 117 of IAS 1. This deletion is to better enable preparers to apply judgement and disclose only that accounting policy information which is assessed as being material to the financial statements. For example, paragraph 117(a) of IAS 1 refers to the measurement basis (or bases) used in preparing the financial statements and might be interpreted to mean that an entity should always disclose this information. In many cases, information about the measurement basis (or bases) used in preparing the financial statements is material. However, in some circumstances the measurement basis (or bases) used for a particular asset or liability would not be material to the financial statements and therefore would not need to be disclosed. For example, a measurement basis might not be material if an IFRS Standard required entities to use it. Therefore entities would not apply choice or judgement in complying with the Standard.

BC12 In developing the proposed amendments to IAS 1, the Board noted that the definition of material states that 'materiality depends on the nature or magnitude of information, or both'. Consequently, the Board concluded it would be unnecessary to repeat such an explanation in the proposed amendments.

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BC13 The Board proposes to replace the concept of significance with the concept of materiality for determining whether an accounting policy should be disclosed. The Board does not propose to relieve an entity from meeting other disclosure requirements within IFRS Standards. For example, when applying the proposed amendments, if an entity decides that information about an accounting policy about intangible assets is not material to its financial statements, that entity would still need to consider all the disclosure requirements in IAS 38 *Intangible Assets* and determine whether the resulting information is material.

Amendments to IFRS Practice Statement 2 *Making Materiality Judgements*

BC14 To support the proposed amendments to IAS 1, the Board also proposes amending IFRS Practice Statement 2 *Making Materiality Judgements* to illustrate how an entity could judge whether information about an accounting policy is material to its financial statements.

BC15 In particular, the Board proposes adding guidance and examples to IFRS Practice Statement 2 to help entities apply its four-step materiality process to accounting policy disclosures. The guidance and examples support the proposed amendments to IAS 1 by:

(a) clarifying that an accounting policy may be material by nature, even if related amounts in the financial statements are not material by size (see proposed paragraph 88C of IFRS Practice Statement 2).

(b) linking the application of materiality to accounting policy disclosures with the four-step materiality process described in paragraph 33 of IFRS Practice Statement 2 (see proposed paragraph 88C of IFRS Practice Statement 2).

(c) highlighting the need to focus on useful information for users of financial statements. In particular, the guidance and examples highlight the importance of information that:

  (i) could reasonably be expected to influence users' decisions (see proposed paragraph 88C of IFRS Practice Statement 2); and

  (ii) is needed to understand material information in the financial statements (see proposed paragraph 88C of IFRS Practice Statement 2).

(d) demonstrating how the four-step materiality process can address:

  (i) standardised (or 'boilerplate') information disclosed about accounting policies material to the financial statements (see proposed Example S); and

  (ii) accounting policy disclosures that contain only information that duplicates the requirements of IFRS Standards (see proposed Example T).

Amendments to other Standards and publications

BC16 Other IFRS Standards sometimes require an entity to disclose an accounting policy. For example, paragraph 73 of IAS 16 *Property, Plant and Equipment* requires an entity to disclose the measurement bases used for determining the gross carrying amount of property, plant and equipment. Paragraph 31 of IAS 1 states that disclosure requirements in IFRS Standards are subject to the application of materiality—a disclosure that would otherwise be required by a Standard need not be provided if the information resulting from that disclosure is not material. Consequently, the Board concluded that existing requirements relating to accounting policy disclosures and the application of materiality in other IFRS Standards are consistent with the proposed amendments to IAS 1. In the Board's view, amendments to other requirements in IFRS Standards are therefore not necessary.

Transition

BC17 The Board's view is that retrospective application of the proposed amendments would not be possible because the proposed amendments affect only the disclosure of accounting policies. Consequently, the Board proposes that entities apply the proposed amendments prospectively.

Likely effects

BC18 The Board notes that the proposed amendments may have an initial cost to preparers as they change from applying the concept of significance to applying the concept of materiality to the disclosure of accounting policies. However, the Board believes the proposed amendments will help entities to identify and disclose all accounting policies that provide material information to users of financial statements and eliminate accounting policy disclosures that do not provide material information. The disclosure of material information and the removal of immaterial information should improve the relevance of the financial statements, and reduce the cost of preparing financial statements, by reducing the disclosure of large volumes of immaterial accounting policy information.

BC19 Furthermore, the Board suggests the proposed amendments will support entities in removing immaterial accounting policy information that may obscure material accounting policy information.

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Alternative view of Mr Martin Edelmann on the Exposure Draft *Disclosure of Accounting Policies*

AV1 Mr Edelmann voted against the publication of the Exposure Draft *Disclosure of Accounting Policies* which proposes to amend IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*.

AV2 In Mr Edelmann's view, accounting policies should be disclosed if management believes the disclosure would assist users of financial statements in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Not all primary users of financial statements are accounting experts (see paragraph 2.36 of the *Conceptual Framework of Financial Reporting*). Hence, the disclosure of accounting policies could help them to better understand an entity's reported financial performance and financial position even if such accounting policies are not important enough to be assessed as material because they would not be expected to influence the investment decisions of users.

AV3 Mr Edelmann suggests that, in some cases, accounting policies available from sources, such as IFRS Standards, should be disclosed because they may help users to better understand financial performance and financial position. Such disclosure may be useful when the accounting required by an IFRS Standard is particularly complex.

[Draft] Amendments to other IFRS Standards and publications

Proposed amendments to IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 21 and B5 are amended. Paragraph 44EE is added. New text is underlined and deleted text is struck through.

...

Other disclosures

Accounting policies

21 **In accordance with paragraph 117 of IAS 1 *Presentation of Financial Statements* (as revised in 2007), an entity discloses its ~~significant~~ material accounting policies ~~comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements~~. For the purpose of this Standard, material accounting policy information includes the measurement basis (or bases) used in preparing the financial statements that are relevant to an understanding of the financial statements.**

...

Effective date and transition

...

44EE [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraph 21. An entity shall apply that amendment in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact. The amendment shall be applied prospectively.

...

Appendix B
Application guidance

...

Other disclosure – accounting policies (paragraph 21)

B5 Paragraph 21 requires disclosure of an entity's material accounting policies, including the measurement basis (or bases) used in preparing the financial statements ~~and the other accounting policies used~~ that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

...

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Paragraph 122 of IAS 1 (as revised in 2007) also requires entities to disclose, along with its ~~significant~~ material accounting policies or other notes, the judgements, apart from those involving estimations, 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.

Proposed amendments to IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

Paragraph 34 is amended and paragraph 38 is added. New text is underlined and deleted text is struck through.

Disclosure

34 **The financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall also contain the following information:**

(a) **a statement of changes in net assets available for benefits;**

(b) **a summary of ~~significant~~ material accounting policies; and**

...

Effective Date

...

38 [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraph 34. An entity shall apply that amendment in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact. The amendment shall be applied prospectively.

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Proposed amendments to IAS 34 *Interim Financial Reporting*

Paragraph 5 is amended and paragraph 60 is added. New text is underlined and deleted text is struck through.

Content of an interim financial report

5 IAS 1 defines a complete set of financial statements as including the following components:

...

(e) notes, comprising ~~significant~~ material accounting policies and other explanatory information;

...

Effective date

...

60 [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraph 5. An entity shall apply that amendment in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact. The amendment shall be applied prospectively.

Proposed amendment to Guidance on implementing IFRS 8 *Operating Segments*

Paragraph IG2 is amended. New text is underlined and deleted text is struck through.

Descriptive information about an entity's reportable segments

IG2 The following illustrates the disclosure of descriptive information about an entity's reportable segments (the paragraph references are to the relevant requirements in the IFRS).

...

Measurement of operating segment profit or loss, assets and liabilities (paragraph 27)

...

The accounting policies of the operating segments are the same as those described in the ~~significant~~ material accounting policies except that pension expense for each operating segment is recognised and measured on the basis of cash payments to the pension plan. Diversified Company evaluates performance on the basis of profit or loss from operations before tax expense not including non-recurring gains and losses and foreign exchange gains and losses.

...

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Proposed amendment to Guidance on implementing IAS 1 *Presentation of Financial Statements*

Paragraph IG6 is amended. New text is underlined and deleted text is struck through.

Illustrative financial statement structure

...

IG6 The examples are not intended to illustrate all aspects of IFRSs, nor do they constitute a complete set of financial statements, which would also include a statement of cash flows, disclosures about ~~significant~~ material accounting policies and other explanatory information.

[Draft] Amendment to the Basis for Conclusions on IAS 1

IAS 1 *Presentation of Financial Statements*

A footnote is added to the words 'significant accounting policies' in paragraphs BC76C and BC76F.

* [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraphs 117–122 of IAS 1 which now refer to 'material accounting policies'.

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IAS®

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	30 August 2019
To:	NZASB Members
From:	Aimy Luu Huynh
Subject:	**Amendments to EG A1**

Recommendations[1]

1. We recommend that the Board:

   (a) REVIEWS the proposed amendments to Explanatory Guide A1: *Guide to Application of the Accounting Standards Framework*; and

   (b) ADVISES the XRB Board that the contents are technically correct.

Background

2. We received a query from a constituent who was assessing whether their entity has public accountability as defined under XRB A1 *Application of Accounting Standards Framework* and was referring to EG A1 *Guide to the Application of Accounting Standards Framework* for guidance. The queries were:

   (a) What does the "two legs" in paragraph 41 of EG A1 mean?

   (b) The entity is not an FMC reporting entity and satisfies paragraph 8(b) of XRB A1, does it also need to satisfy paragraph 9 of XRB A1 in order to have public accountability? The "and" between the second sub-point and the second main point in paragraph 41 of EG A1 seems to suggest that paragraph 9 of XRB A1 would need to be satisfied as well.

3. Relevant extracts from XRB A1 and EG A1 (the points in question are highlighted green) are shown below.

XRB A1

7 For the purpose of applying the Tier 1 criteria, an entity has public accountability if:

(a) it meets the IASB definition of public accountability as specified in paragraph 8 (subject to paragraph 10); or

(b) it is deemed to have public accountability in New Zealand in accordance with paragraph 9.

[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).

8 In accordance with the IASB definition, an entity has public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

9 An entity is deemed to have public accountability in New Zealand if:

(a) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 20132; or

(b) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013.

10 Notwithstanding paragraph 8(b), an FMC reporting entity is not considered to have public accountability unless it is considered to have a "higher level of public accountability" than other FMC reporting entities in accordance with paragraph 9(a) or 9(b).

[2] The terms "FMC reporting entity" and an FMC reporting entity with a "higher level of public accountability" are set out in the Financial Markets Conduct Act 2013. Under the Financial Markets Conduct Act 2013, certain FMC reporting entities are considered to have a "higher level of public accountability" for financial reporting purposes. These include issuers of equity securities or debt securities under a regulated offer; managers of registered schemes (in respect of financial statements of a scheme or fund); listed issuers; registered banks; licensed insurers; credit unions and building societies. In addition, the FMA may, by notice, specify that an entity (or a group of entities) is considered to have a "higher level of public accountability" or not to have a "higher level of public accountability" than other FMC reporting entities.

EG A1

41 Two groups of for-profit entities must report in accordance with Tier 1 requirements: entities that have "public accountability"; and public sector for-profit entities that have total expenses greater than $30 million. For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1. In general, the definition has two legs:[14]

- An entity has public accountability if it meets the International Accounting Standards Board (IASB) definition of public accountability, i.e.:
  - its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
  - it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion); and
- An entity has public accountability if it is deemed to be so under XRB A1, with the following being so deemed: a FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the FMA under that Act.

[14] XRB A1 *Application of the Accounting Standards Framework* sets out the definition of "public accountability" in detail.

Structure of this memo

4. The remaining sections in this memo are:

   (a) Proposed amendments;

   (b) Other changes; and

   (c) Next steps.

Proposed amendments

5. In responding to the query we found the following issues with EG A1.

   (a) Inconsistency between paragraphs 41 and 62[2] of EG A1 and paragraphs 7–9 of XRB A1.

   (b) Omission of part of the definition of public accountability.

6. Each of these issues is discussed below.

7. A clean version of the proposed EG A1 is attached as agenda item 7.2. A marked up copy of the proposed EG A1 showing the changes made is attached as agenda item 7.3.

Inconsistency between paragraphs 41 and 62 of EG A1 and paragraphs 7–9 of XRB A1

8. The phrase "In general, the definition has two legs:" is in paragraph 41 of EG A1 because it was meant to cover paragraphs 7(a) and 7(b) (the two legs) of XRB A1 and issuers. Issuers were deemed to have public accountability under the transitional provisions of the Financial Reporting Act 2013 (FRA 2013). These transitional provisions were repealed on 1 April 2019. The reference to issuers was included in earlier versions of XRB A1

9. The "and" between the second sub-point and second main point in paragraph 41 of EG A1 was to address the two legs in the lead in sentence i.e. if there is a reference to two legs then "and" is needed. The "and" seems to suggest that if an entity satisfies paragraph 8(b) of XRB A1 then it would also need to satisfy paragraph 9 of XRB A1. However, the interaction between paragraphs 8–9 of XRB A1 depends on whether the entity is an FMC reporting entity. This is discussed in the second issue below.

10. In August 2019 the XRB Board was informed of this issue and the proposed amendments to EG A1. However, an XRB Board member noted that the definition of public accountability in EG A1 has omitted part of the definition of public accountability in XRB A1. The XRB Board member also thought the proposed amendment was more than editorial and should be reviewed by the Board before it is brought back to the XRB Board for approval.

Omission of part of the definition of public accountability

11. An XRB Board member noted that paragraph 10 of XRB A1 is omitted from EG A1. Paragraph 10 of XRB A1 deals with FMC reporting entities and recognises that the FMA can override paragraph 8(b) of XRB A1 and determine that an FMC reporting entity does not have

[2] Paragraph 62 is the equivalent paragraph for PBEs and is broadly consistent with paragraph 41 of EG A1.

public accountability (and hence is eligible to report under Tier 2), even though it might meet the second part of the IASB definition in paragraph 8(b) of XRB A1.

12. The interaction between paragraphs 8(b) and 10 depends on whether the entity is an FMC reporting entity as noted in the following scenarios.

    (a) If an entity is an FMC reporting entity, it will have public accountability only if it satisfies either paragraph 8(a) or paragraph 9 of XRB A1 – satisfying paragraph 8(b) alone is not sufficient to meet the definition, because paragraph 10 overrides paragraph 8(b) in the case of FMC reporting entities.

    (b) If an entity is not an FMC reporting entity, it will have public accountability if it satisfies paragraph 8(a) or paragraph 8(b) (with paragraph 9 of XRB A1 being irrelevant) – in this case, satisfying paragraph 8(a) or paragraph 8(b) alone is sufficient to meet the definition of public accountability.

13. We are proposing amendments to EG A1 to address the above issues, these are shown below. We also proposing to include a decision tree to demonstrate the interaction between paragraphs 8–10 of XRB A1. Two Board members have reviewed these proposed amendments.

Step 2: Identify Applicable Accounting Requirements: For-profit entities

...

38~~41~~ Two groups of for-profit entities must report in accordance with Tier 1 requirements: entities that have "public accountability"; and public sector for-profit entities that have total expenses greater than $30 million. For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1. In general, an entity has public accountability[16~~4~~] if it ~~the definition has two legs~~:

(a)~~•~~ ~~An entity has public accountability if it~~ M~~m~~eets the International Accounting Standards Board (IASB) definition of public accountability, i.e.:

(i)~~o~~ its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

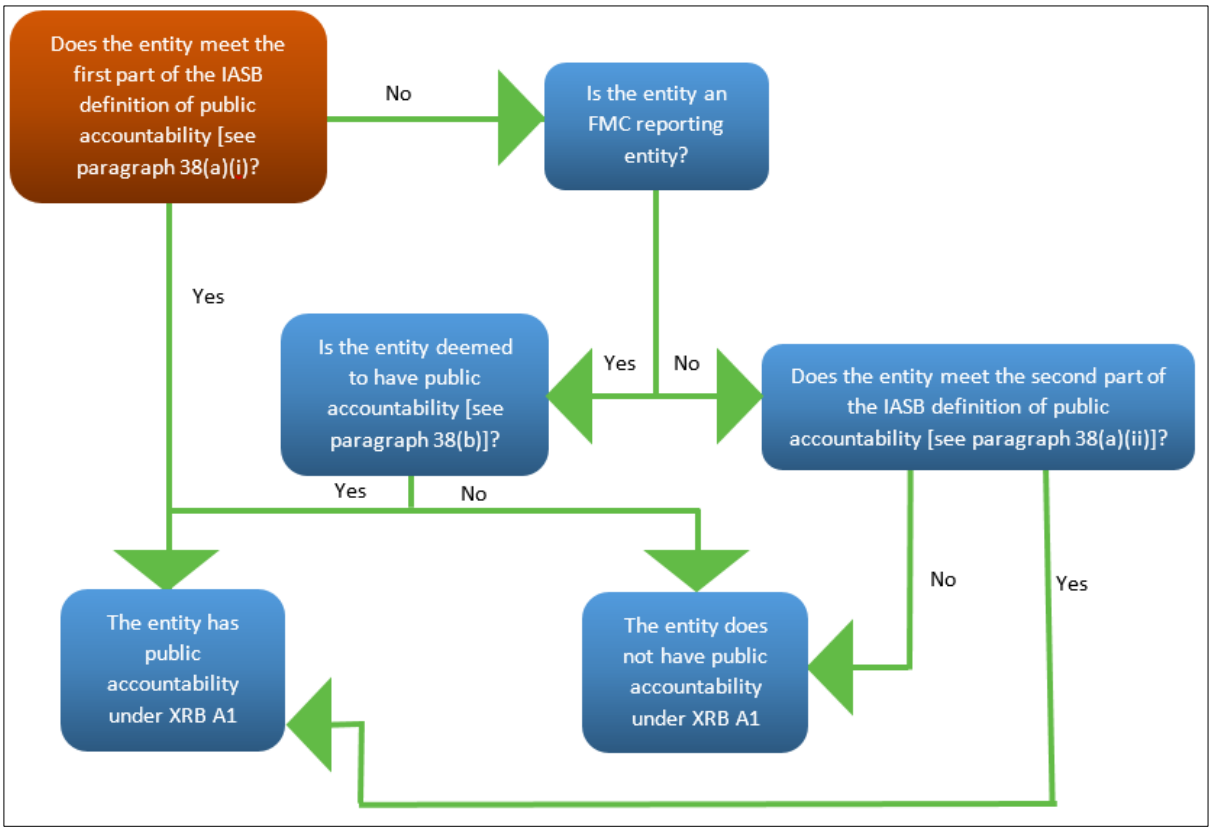
(ii)~~o~~ it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion); or~~and~~

(b)~~•~~ ~~An entity has public accountability if it~~ I~~i~~s deemed to be so under XRB A1, with the following being so deemed: an FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the Financial Markets Authority (FMA) under that Act.

39 However, XRB A1 also recognises that the FMA, under the Financial Markets Conduct Act 2013, has the ability to vary the level of public accountability of an FMC reporting entity. Therefore, an FMC reporting entity is not considered to have public accountability under the second part of the IASB definition (see paragraph 38(a)(ii)) unless it is deemed to have public accountability (see paragraph 38(b)). Figure 2 provides a decision tree to assist an entity identify whether it has public accountability.

[16~~4~~] XRB A1 *Application of the Accounting Standards Framework* ~~sets out the~~ define~~s~~ition ~~of~~ "public accountability" ~~in detail~~.

Figure 2: Identifying Public Accountability



Step 2: Identify Applicable Accounting Requirements: PBEs

...

602 For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1. Thea~~t~~ definition~~, which~~ is the same ~~definition~~ as that used for the for-profit tier structure.~~, has two legs:~~ In general, an entity has public accountability if it:

(a) ~~An entity has public accountability if it~~ M~~m~~eets the IASB definition of public accountability, i.e.:

(i) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(ii) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion); or~~and~~

(b) ~~An entity has public accountability if it~~ I~~i~~s deemed to be so under XRB A1, with the following being so deemed: an FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the FMA under that Act.

61 However, XRB A1 also recognises that the FMA, under the Financial Markets Conduct Act 2013, has the ability to vary the level of public accountability of an FMC reporting entity. Therefore, an FMC reporting entity is not considered to have public accountability under the second part of the IASB definition (see paragraph 60(a)(ii)) unless it is deemed to have public accountability (see paragraph 60(b)). Figure 2 provides a decision tree to assist an entity identify whether it has public accountability.

Question for Board

Q1. Does the Board agree with the proposed amendments to EG A1 on public accountability?

Other changes

14. We have also taken the opportunity to do a complete review of EG A1 and have made the following changes to the proposed EG.

    (a) Deleting some of the history on the Accounting Standards Framework (ASF). The history was helpful when the XRB was rolling out the different stages of the ASF. The full ASF has been place for some time now so we thought some of this history could be deleted.

    (b) Deleting text that we think are no longer relevant.

    (c) Editorials to improve/clarify the guidance.

    (d) Reformatting the figures to enhance the visual presentation.

15. The changes in points (a) and (b) are outlined in the table below.

Paragraph(s)	**Changes made**
2	We have deleted the list of previous versions of XRB A1. This is less relevant with the passage of time. We have provided a link to previous versions of XRB A1 and EG A1 so the history is available should constituents need to refer to this.
Previous 5 and 6	We have deleted these paragraphs. They are no longer relevant now that we have the full ASF in place. The history is available in the previous versions of EG A1 and a link is provided in the updated footnote 1.
Previous 7	We have deleted this paragraph as it is broadly covered in the updated paragraph 2.
32	We have added a footnote to the latest version of Appendix A *When is an Entity a Public Benefit Entity?* of XRB A1 so that entities can refer to this to determine whether they are a for-profit entity or a PBE.
Previous 35	We have deleted this paragraph as it was probably helpful at the time the new ASF was introduced but with the passage of time it is becoming less relevant.
41	We have deleted the reference to the ASRB because the suite of NZ IFRS was reissued by the NZASB.
47	We have deleted the footnote about the NZASB and AASB joint review of the RDR Framework. This project is on hold pending the Targeted Review of the ASF, the AASB's Australian financial reporting framework review and the IASB Subsidiaries that are SMEs project.
71	We have softened the first sentence because there could be fewer gaps in IPSAS in the future.
Previous 74	We have deleted this paragraph because when the ASF was introduced some PBEs were worried about no longer being IFRS Standards compliant if they applied PBE Standards. However, things have moved on, so this paragraph is no longer required.

16. A Board member has reviewed the proposed other changes.

Questions for Board

Q2. Does the Board agree with the proposed other changes to EG A1?

Q3. Does the Board agree to advise the XRB Board that the contents of EG A1 are technically correct?

Next steps

17. The proposed amendments to EG A1 will be presented to the XRB Board at its October meeting for approval.

Attachments

Agenda item 7.2: Draft EG A1

Agenda item 7.3: Draft EG A1 – marked up (in supporting papers)

Agenda Item 7.2

EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

EXPLANATORY GUIDE A1: GUIDE TO APPLICATION OF THE ACCOUNTING STANDARDS FRAMEWORK (EG A1)

Issued by the External Reporting Board

April 2016

Relevant to reporting periods beginning on or after 1 January 2016

This Explanatory Guide outlines the reporting requirements for entities that have a statutory obligation (or optionally elect under an enactment) to prepare general purpose financial reports in accordance with standards issued by the External Reporting Board (XRB). It also sets out the roles and functions of the XRB and its sub-Board, the New Zealand Accounting Standards Board (NZASB), in issuing accounting standards and authoritative notices.

XRB A1 Application of the Accounting Standards Framework (XRB A1), issued in December 2015, gives effect to the Accounting Standards Framework on completion of its staged implementation. XRB A1 is applicable by all reporting entities for reporting periods beginning on or after 1 January 2016, with early application permitted from 1 April 2015.

This Explanatory Guide is based on Standard XRB A1. It is an explanatory document and has no legal status. It was issued in April 2016 and updated in December 2017, June 2018, July 2019 and October 2019.

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1. Introduction

Purpose and Content of this Explanatory Guide

1 This Explanatory Guide (EG) provides an overview of the reporting requirements for entities that have a statutory obligation (or that optionally elect under an enactment) to prepare general purpose financial reports (GPFR) in accordance with XRB standards.

2 The contents of this Explanatory Guide reflect the requirements of Standard XRB A1 *Application of the Accounting Standards Framework* (XRB A1). XRB A1 is the overarching standard issued by the XRB Board to give effect to the Accounting Standards Framework.[1] It is relevant for reporting by entities for annual or interim reporting periods beginning on or after 1 January 2016, with early application permitted for all reporting entities for reporting periods beginning on or after 1 April 2015.

3 This Explanatory Guide has been issued for explanatory purposes only and has no legal status. It covers five main topics:

- The roles and responsibilities of the External Reporting Board (XRB Board), and its sub-Board the New Zealand Accounting Standards Board (NZASB);
- The legal requirement on certain entities to prepare financial reports that comply with generally accepted accounting practice (GAAP) and what GAAP consists of;
- The legal requirement that permits certain public sector public benefit entities and not-for-profit public benefit entities that are not "specified not-for-profit entities" to prepare financial reports that apply "non-GAAP standards"[2] issued by the XRB and what "non-GAAP standards" consist of;
- The standards and other documents issued by the XRB and the NZASB, and the legal standing of those documents; and
- The standards and other pronouncements that reporting entities are required to comply with, including the tiers and sets of standards that apply to particular reporting entities.

4 A separate Explanatory Guide (EG A2 *Overview of the Accounting Standard-Setting Process*) provides an overview of the process that the XRB Board expects the NZASB to follow in developing, or adopting, and issuing accounting standards.

The Accounting Standards Framework

5 In April 2012, the Minister of Commerce approved the Accounting Standards Framework[3] submitted by the XRB Board. The Accounting Standards Framework (which was updated in December 2015)[4] reflects the XRB Board's decision to adopt a multi-standards approach in New Zealand.[5] The Accounting Standards Framework comprises different sets of accounting standards for for-profit entities and for public benefit entities (PBEs), together with a formalised tier structure. The tier structure is designed to better balance the relative costs and benefits of reporting by entities of different sizes.

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1 Previous versions of EG A1 relate to previous versions of XRB A1 and apply to entities reporting for annual or interim reporting periods covered by those versions of XRB A1. They are available at https://www.xrb.govt.nz/accounting-standards/archived-accounting-standards/general-standards-and-explanatory-guides-current/

2 Under the Financial Reporting Act 2013, a financial reporting standard issued by the XRB is a "non-GAAP standard" if it is stated in the standard to be a non-GAAP standard.

3 The Accounting Standards Framework as approved by the Minister in April 2012 is available on the XRB website: http://www.xrb.govt.nz/why-report/history/

4 The updated version of the Accounting Standards Framework is available on the XRB website: http://www.xrb.govt.nz/why-report/accounting-standards-framework/

5 The decision to adopt a multi-standards approach followed an extensive consultation and deliberation process undertaken by the XRB Board and its predecessor, the Accounting Standards Review Board (ASRB). Further information about this process and the rationale for the multi-standards approach is available on the XRB website: http://www.xrb.govt.nz/why-report/history/

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2. Roles of the XRB Board and the NZASB

6 The XRB is an independent Crown Entity with continued existence under section 11 of the Financial Reporting Act 2013 and is subject to the provisions of the Crown Entities Act 2004. For the purposes of this Explanatory Guide, the organisation as a whole is referred to as the XRB while the Board itself is referred to as the XRB Board.

7 The functions of the XRB are specified in the Financial Reporting Act 2013. In relation to accounting standards they comprise:

- Developing and issuing accounting standards and amendments to accounting standards for application by entities that have a statutory obligation (or that optionally elect under an enactment) to prepare financial statements in accordance with generally accepted accounting practice (GAAP) or "non-GAAP standards" issued by the XRB (section 12(a));
- Developing and issuing authoritative notices for the purposes of the definition of GAAP (section 12(c));
- Developing and implementing strategies for the issue of accounting standards in order to provide a framework for the XRB's overall direction in the setting of standards (section 12(d)), including establishing a system for tiers of financial reporting that imposes different financial reporting requirements in respect of different classes of relevant entities in order to ensure that the requirements that apply in respect of those entities are appropriate (section 29);
- Liaising with international or national organisations that have responsibility for accounting standard setting (section 12(e)); and
- Consulting with persons or organisations (or their representatives) who, in the opinion of the XRB Board, would be affected by the issue or amendment of an accounting standard or authoritative notice (section 22).

8 Although all the functions and responsibilities of the XRB ultimately rest with the XRB Board, the XRB Board has delegated the responsibility for accounting standard setting to a committee (generally referred to as a sub-board), the NZASB. The NZASB has been established in accordance with the powers vested in the XRB Board under Schedule 5 of the Crown Entities Act 2004.

9 Accordingly, the role of the XRB Board under these arrangements is three-fold: organisational governance; financial reporting strategy setting; and appointing and monitoring the performance of the NZASB. The financial reporting strategy setting function (required by section 12(d) of the Financial Reporting Act 2013) includes the establishment (and, if necessary, the revision) of the Accounting Standards Framework.

10 The NZASB is responsible for developing and issuing accounting standards and authoritative notices. In doing so the NZASB must:

- Operate within the Accounting Standards Framework established by the XRB Board;
- Liaise with the Australian Accounting Standards Board (AASB) with the objective of harmonising accounting standards in Australia and New Zealand for for-profit entities; and
- Ensure an appropriate consultation process (due process) is followed – see EG A2 for an explanation of these requirements.

11 The NZASB operates under delegated authority from the XRB Board.

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3. Legislative Framework

Requirement to Prepare

12 Various pieces of legislation require entities to prepare GPFR that comply with XRB standards. These "reporting entities"[6] are required to comply with XRB standards that are GAAP or "non-GAAP standards" issued by the XRB.

13 Entities required to comply with GAAP include:

- "FMC reporting entities"[7] as defined by the Financial Markets Conduct Act 2013;
- Large companies[8,9] (with total assets of over $60 million or total revenue of over $30 million in the two preceding reporting periods) under the Companies Act 1993;
- Large overseas companies,[9] large subsidiaries of overseas companies and large New Zealand businesses of large overseas companies (with total assets of over $20 million or total revenue of over $10 million in the two preceding reporting periods) under the Companies Act 1993;
- Local authorities and council controlled organisations under the Local Government Act 2002;
- State sector bodies under the Public Finance Act 1989 and the Crown Entities Act 2004;
- Other public entities under the Public Audit Act 2001;
- Registered charitable entities that are "specified not-for-profit entities" under the Charities Act 2005;[10] and
- Large registered friendly societies, large registered industrial and provident societies, large partnerships and large limited partnerships (with total assets of over $60 million or total revenue of over $30 million in the two preceding reporting periods) under their respective governing legislation.

14 Most small and medium sized for-profit entities have no obligation to prepare financial statements that comply with GAAP. However, entities may optionally elect under an enactment to prepare financial reports in accordance with GAAP, for example, a company that has fewer than 10 shareholders.

15 Certain public sector PBEs and not-for-profit PBEs that do not meet the criteria to be "specified not-for-profit entities" are permitted by legislation to prepare financial statements in accordance with "non-GAAP standards" issued by the XRB (i.e. cash-based standards). "Specified not-for-profit entities" are required to prepare financial statements that comply with GAAP.

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6 "Reporting entity" is defined in the Financial Reporting Act 2013 and means an entity whose financial statements or, group financial statements, reports, or other information are required by any enactment to comply, or be prepared in accordance, with generally accepted accounting practice or "non-GAAP standards".

7 "FMC reporting entity" is defined in the Financial Markets Conduct Act 2013 and includes:
- an issuer of a regulated product;
- a person who holds a licence to provide certain market services under Part 6 of the Act;
- a licensed supervisor;
- a listed issuer;
- an operator of a licensed market;
- a recipient of money from a conduit issuer;
- a registered bank;
- a licensed insurer;
- a credit union;
- a building society; and
- an FMC reporting entity under clause 27A of Schedule 1.

8 Companies, including not-for-profit companies that are not registered charitable entities under the Charities Act 2005.

9 Except for large companies or large overseas companies if they are a subsidiary of another New Zealand entity that is required to prepare group financial statements.

10 The reporting provisions relating to registered charities came into force on 1 April 2015.

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Definition of GAAP

16 GAAP is defined in section 8 of the Financial Reporting Act 2013 and means compliance with:

(a) Applicable accounting standards; and

(b) Authoritative notices.

17 In accordance with this definition, accounting standards issued by the XRB Board or the NZASB are the primary indicators of GAAP in New Zealand. They set out the recognition, measurement, presentation and disclosure requirements for transactions and events that are important in the preparation of GPFR, including those that may arise in specific industries.

Definition of "Non-GAAP Standard"

18 Some enactments permit certain entities that would otherwise be required to prepare financial statements in accordance with GAAP to apply a "non-GAAP standard" issued by the XRB. In order to do so, an entity must not be a "specified not-for-profit entity". Standard XRB A2 *Meaning of Specified Statutory Size Thresholds* defines a "specified not-for-profit entity" as an entity whose total operating payments for each of the two preceding accounting periods are $125,000 or more. For the purpose of applying the legislative size threshold, where an entity has controlled entities,[11] total operating payments means the combined operating payments of the entity and all its controlled entities.

19 "Non-GAAP standard" is defined in section 5 of the Financial Reporting Act 2013 and means a financial reporting standard issued by the XRB that is stated in the standard to be a "non-GAAP standard". All the "non-GAAP standards" issued by the XRB are cash-based standards.

20 Legislation that allows entities to apply "non-GAAP standards" issued by the XRB include:

- Certain public sector entities under the Burial and Cremation Act 1964, the Maori Purposes Fund Act 1934-35, the Patriotic and Canteen Funds Act 1947, the Reserves Act 1977 and the Reserves and Other Lands Disposal Act 1995; and
- Registered charitable entities, friendly societies and other entities under the Charities Act 2005, the Friendly Societies and Credit Unions Act 1982 and the Agricultural and Pastoral Societies Act 1908.

General Purpose Financial Reports

21 GPFR comprise financial statements accompanied by:

(a) Non-financial information, such as service performance information; and

(b) Explanatory material, including that required by legislation.

22 The objective of GPFR is to provide information to users for decision-making or accountability purposes where those users are generally unable to obtain the information they require. By definition therefore GPFR seeks to provide information to a range of general purpose users with different interests in that information. GAAP and "non-GAAP standards" issued by the XRB reflect this.[12]

23 By contrast where users have the power to specify the information to be included in financial reports, these financial reports are considered to be special purpose financial reports (SPFR). Users that can usually request SPFR include major suppliers of funds such as banks and financial institutions, government regulatory agencies such as Inland Revenue or Statistics New Zealand, and credit rating agencies. The standards issued by the XRB are not intended to apply to SPFR.

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[11] The combined operating payments of the entity and all its controlled entities excludes any payments between the entity and the controlled entities and/or between the controlled entities.

[12] The objective of GPFR, the users of GPFR and the information needs of such users are discussed in detail in the New Zealand equivalent to the IASB *Conceptual Framework for Financial Reporting* issued in 2018 (2018 *NZ Conceptual Framework)* and the *Public Benefit Entities' Conceptual Framework* (PBE Conceptual Framework).

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Types of Documents Issued by the XRB

24 As outlined above, under section 12 of the Financial Reporting Act 2013, the XRB is responsible for issuing accounting standards (including "non-GAAP standards") and authoritative notices.

25 Compliance with GAAP or "non-GAAP standards" issued by the XRB is a legal requirement for certain entities and XRB standards therefore have legal standing. Under section 25 of the Financial Reporting Act 2013, accounting standards and authoritative notices (including any amendments or revocations) issued under section 12 are classified as disallowable instruments for the purposes of the Legislation Act 2012.

26 However, not all the documents issued by the XRB have legal status. Between them, the XRB Board and the NZASB issue four types of documents:

- Accounting standards (including "non-GAAP standards") and related interpretations which are issued under section 12(a) of the Financial Reporting Act 2013;
- Documents or pronouncements, such as conceptual frameworks, that are issued as authoritative notices under section 12(c) of the Financial Reporting Act 2013;
- Consultation documents, such as consultation papers and exposure drafts, that have no legal status; and
- Explanatory documents (such as this Explanatory Guide) that have no legal status.

Only the documents issued under sections 12(a) and 12(c) of the Financial Reporting Act 2013 have legal standing and form part of GAAP or "non-GAAP standards".

27 While GAAP comprises applicable accounting standards and authoritative notices, the authoritative notices have a "lower" level of authority than accounting standards. For example, under the Financial Markets Conduct Act 2013, failure to comply with an authoritative notice does not subject an FMC reporting entity to pecuniary penalties.

28 The XRB Board considers it important that the legal status of each document issued by the XRB Board or the NZASB is clear. Accordingly, its policy is to indicate on the front page of each document the legal standing of that document. In addition, each "non-GAAP standard" issued by the XRB states that it is a "non-GAAP standard".

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4. Accounting Requirements to be Applied

29 There are multiple sets of accounting requirements that apply to New Zealand reporting entities preparing GPFR in accordance with GAAP or "non-GAAP standards" issued by the XRB for periods beginning on or after 1 January 2016. Establishing exactly which set of those accounting requirements is applicable to a particular reporting entity can be determined in two steps.

Step 1: Determine Whether a For-Profit Entity or a Public Benefit Entity (PBE)

30 The following are the different accounting requirements that apply under the Accounting Standards Framework: NZ IFRS, NZ IFRS RDR, PBE Standards, PBE Standards RDR, PBE SFR-A (PS), PBE SFR−C (PS), PBE SFR-A (NFP) and PBE SFR-C (NFP). Exactly which of these accounting requirements a particular reporting entity must, or may, apply is specified in XRB A1.[13]

31 XRB A1 establishes two broad groups of accounting standards: those to be applied by for-profit entities and those to be applied by public benefit entities (PBEs). Having determined that it is required (or chooses) to prepare financial statements in accordance with XRB standards, an entity's next step is to determine whether it is a for-profit entity or a PBE.

32 The definitions of "for-profit entities", "public benefit entities (PBEs)", "public sector PBE" and "not-for-profit PBE" are specified in XRB A1. XRB A1 also contains integral guidance relating to the definitions of for-profit entities and public benefit entities in an Appendix.[14] XRB A1 defines:

- For-profit entities as reporting entities that are not public benefit entities;
- Public benefit entities (PBEs) as reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders;
- Public sector PBEs as PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament; and
- Not-for-profit PBEs (NFP PBEs) as PBEs that are not public sector PBEs.

33 Although under the Accounting Standards Framework the term "public benefit entities (PBEs)" refers to both public sector PBEs and not-for-profit PBEs, a distinction has been made between these two categories of PBEs because XRB A1 specifies different accounting requirements for these two categories of PBEs in certain areas.

[13] Standard XRB A1 *Application of the Accounting Standards Framework* is available on the XRB website: http://www.xrb.govt.nz/accounting-standards/for-profit-entities/ or http://www.xrb.govt.nz/accounting-standards/not-for-profit/ or http://www.xrb.govt.nz/accounting-standards/public-sector/

[14] Appendix A *When is an Entity a Public Benefity Entity?* of XRB A1 was last updated in 2019.

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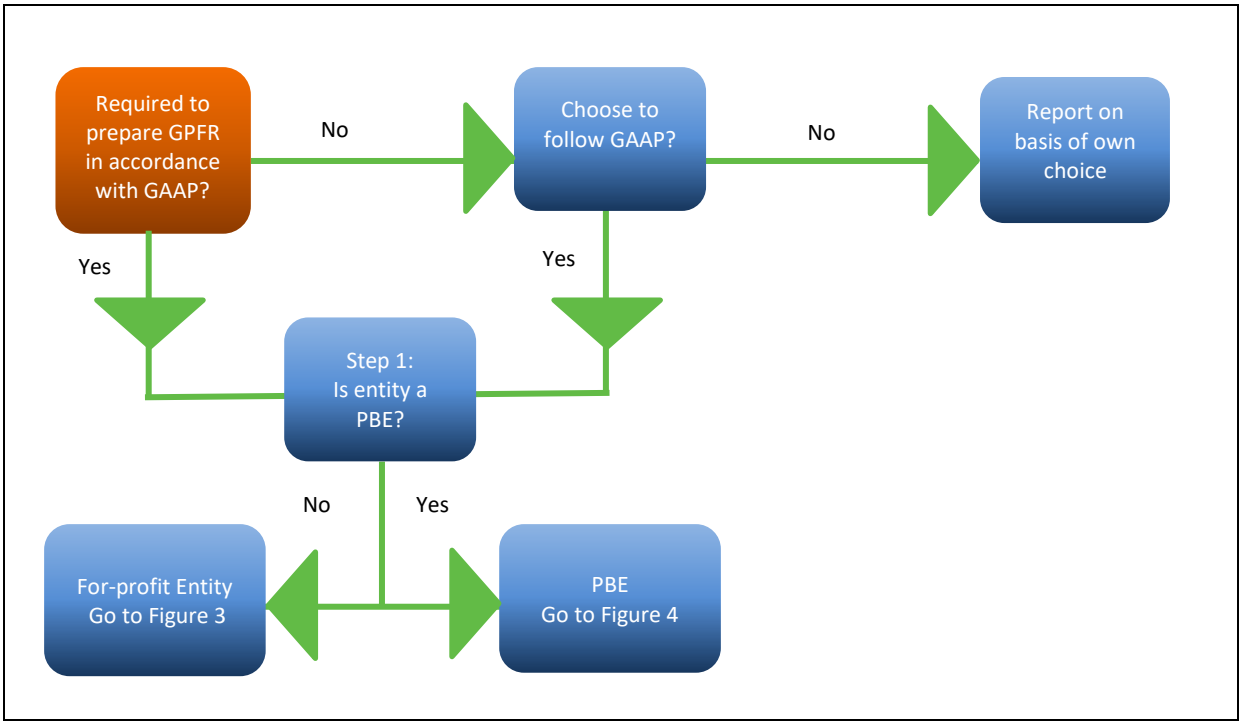
34 Step 1 is illustrated in Figure 1 below.

Figure 1: Identify the Entity Type – Step 1



Step 2: Identify Applicable Accounting Requirements: For-Profit Entities

35 Having determined whether it is a for-profit entity or a PBE, the second step is to determine which set of accounting requirements is applicable to the entity. The approach to identifying the applicable accounting requirements for a for-profit entity set out in XRB A1 is as follows.

Tier Structure

36 XRB A1 contains a two-tier structure for the for-profit sector. The requirements that an entity applies depends on the tier that it reports under. The tiers, criteria for the tiers, and the requirements applying to each tier are summarised in Table 1.

Table 1: For-Profit Entity Tiers and Requirements

Tier	Tier Criteria	Standards Set
Tier 1	• Has public accountability (as defined); or • Is a for-profit public sector entity that has total expenses >$30 million	NZ IFRS
Tier 2	• Has no public accountability (as defined); and • Is a for-profit public sector entity that has total expenses ≤$30 million *and elects to be in Tier 2.*	NZ IFRS RDR

37 The way the for-profit tier structure works under XRB A1 is that all entities are initially in Tier 1 as a default. However, if they meet the criteria to be in Tier 2, and elect to be in that tier, then they may report in accordance with the requirements of Tier 2.

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38 Two groups of for-profit entities must report in accordance with Tier 1 requirements: entities that have "public accountability"; and public sector for-profit entities that have total expenses greater than $30 million. For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1. In general, an entity has public accountability[15] if it:

(a) Meets the International Accounting Standards Board (IASB) definition of public accountability, i.e.:

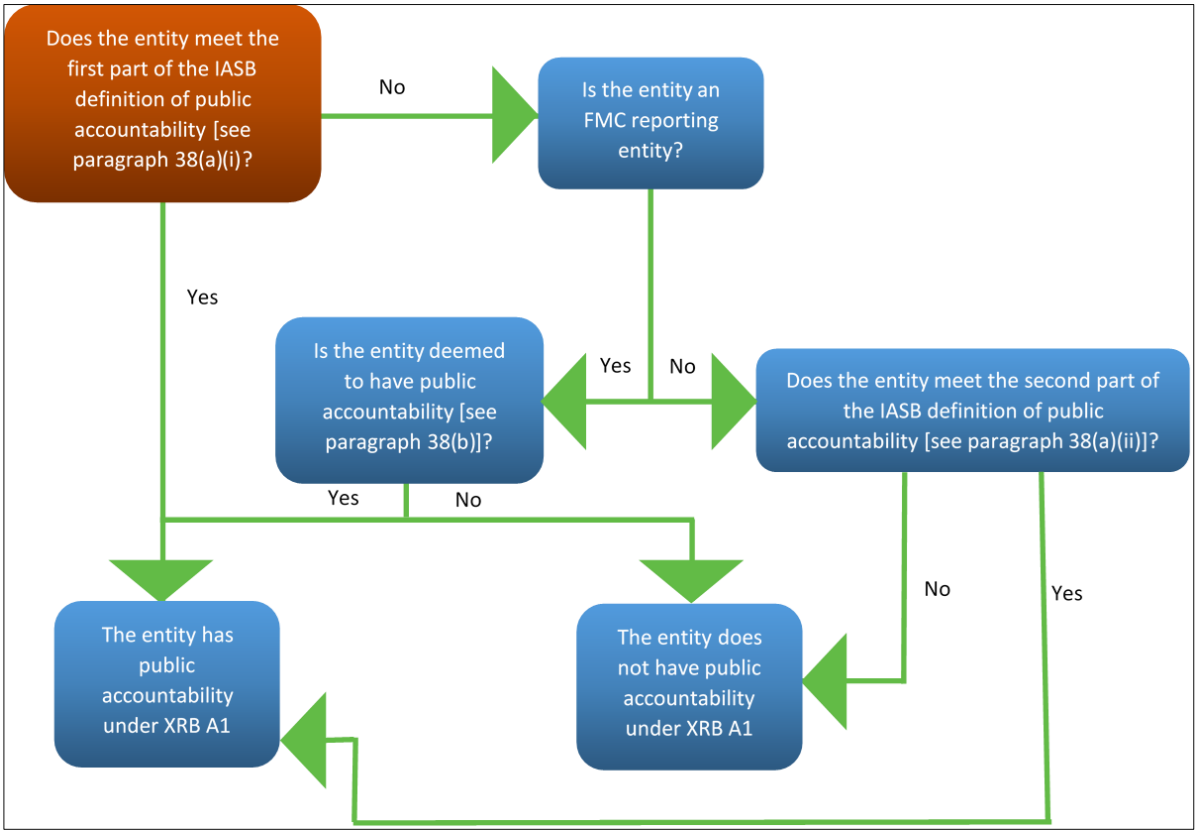
(i) ~~e~~its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(ii) ~~e~~it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion); or

(b) It is deemed to be so under XRB A1, with the following being so deemed: an FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the Financial Markets Authority (FMA) under that Act.

39 However, XRB A1 also recognises that the FMA, under the Financial Markets Conduct Act 2013, has the ability to vary the level of public accountability of an FMC reporting entity. Therefore, an FMC reporting entity is not considered to have public accountability under the second part of the IASB definition (see paragraph 38(a)(ii)) unless it is deemed to have public accountability (see paragraph 38(b)). Figure 2 provides a decision tree to assist an entity identify whether it has public accountability.

Figure 2: Identifying Public Accountability



[15] XRB A1 *Application of the Accounting Standards Framework* defines "public accountability".

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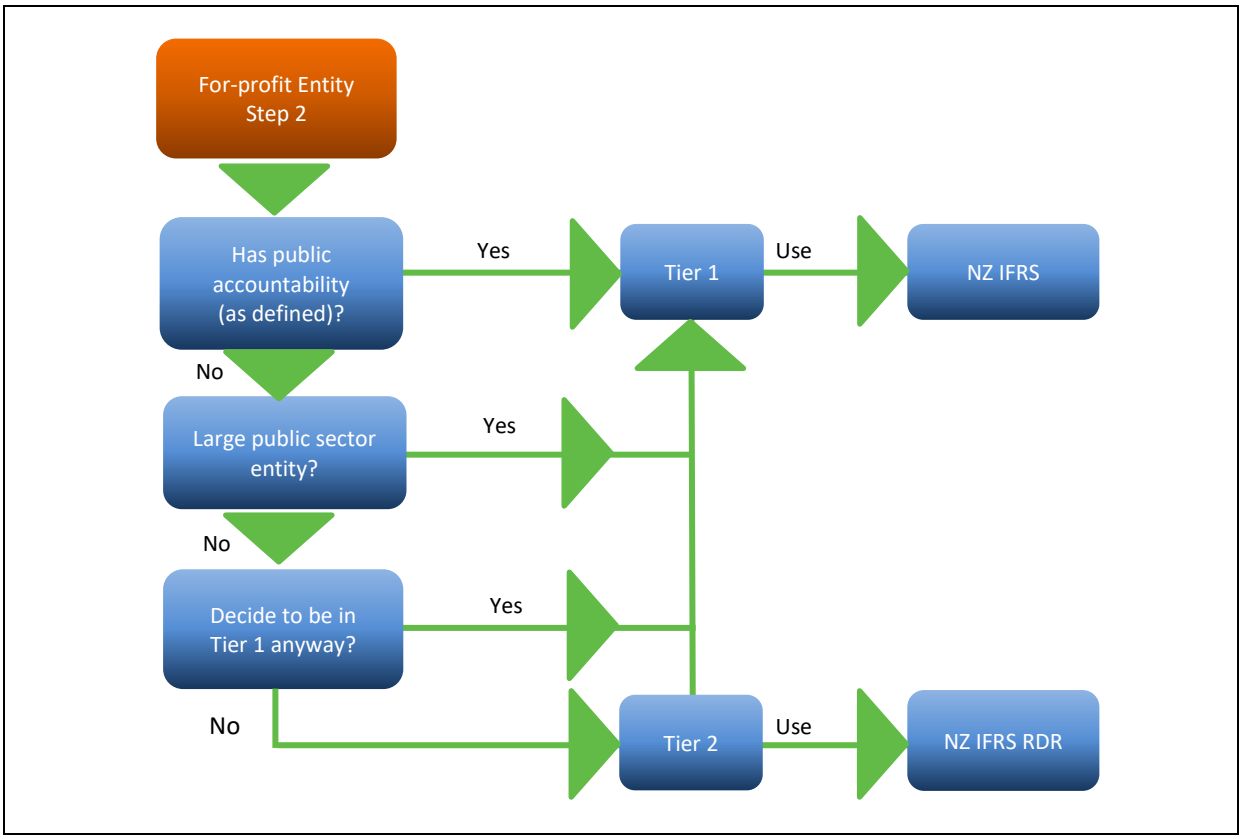
40 Any entity that does not meet the Tier 1 criteria may elect to be Tier 2 although it need not do so: it can report in accordance with Tier 1 requirements if it so wishes. There are no additional criteria for Tier 2. This means any entity that is not required to be in Tier 1 may be in Tier 2, including large non-public sector for-profit entities that do not have public accountability (as defined). Figure 3 provides a decision tree to assist in this tier selection process.

Figure 3: Identify the Applicable Standards – Step 2 (For-Profit Entities)



For-Profit Requirements

41 The requirements to be applied by for-profit entities are the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). NZ IFRS is the set of standards and interpretations issued by the NZASB. It comprises New Zealand equivalents to:

(a) International Financial Reporting Standards;

(b) International Accounting Standards;

(c) IFRIC Interpretations; and

(d) SIC Interpretations.

The NZ IFRS set of standards also includes a small number of (domestic) New Zealand Financial Reporting Standards (FRSs) and the 2018 *NZ Conceptual Framework*.[16]

42 NZ IFRS is substantively identical to the IFRS® Standards on which it is based and is generally harmonised with the Australian equivalent requirements. NZ IFRS follows the format of the pronouncements issued by the IASB and, since IFRS Standards were adopted in New Zealand, have the same effective dates as their corresponding IFRS Standards.

[16] The 2018 *NZ Conceptual Framework* (issued May 2018) is effective for annual periods beginning on or after 1 January 2020. From the point at which the 2018 *NZ Conceptual Framework* becomes effective, entities will refer to New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2010) (NZ *Framework*) in the limited circumstances that they are required to do so by the relevant NZ IFRS.

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NZ IFRS (Tier 1)

43 The requirements to be applied by Tier 1 for-profit entities are the requirements of NZ IFRS, excluding any requirements that apply only to Tier 2 entities (see paragraphs 47–50 below). In adapting an IFRS Standard for issue as a New Zealand pronouncement for Tier 1 for-profit entities, the NZASB has adopted the following protocols:

(a) Recognition and measurement requirements in an IFRS Standard cannot be amended;

(b) Disclosure requirements cannot be reduced; and

(c) Additional disclosure requirements can be added (these are included in a separate standard: FRS-44 *New Zealand Additional Disclosures*).

44 The topics addressed in the 2018 *NZ Conceptual Framework* are:

(a) Status and purpose of the 2018 *NZ Conceptual Framework*;

(b) Chapter 1—The Objective of General Purpose Financial Reporting;

(c) Chapter 2—Qualitative Characteristics of Useful Financial Information;

(d) Chapter 3—Financial Statements and the Reporting Entity;

(e) Chapter 4—The Elements of Financial Statements;

(f) Chapter 5—Recognition and Derecognition;

(g) Chapter 6—Measurement;

(h) Chapter 7—Presentation and Disclosure; and

(i) Chapter 8—Concepts of Capital and Capital Maintenance.

45 In the absence of an accounting standard, the 2018 *NZ Conceptual Framework* assists the NZASB in developing a New Zealand FRS or in its role in commenting on the development of an IFRS Standard by the IASB. The 2018 *NZ Conceptual Framework* also assists preparers of GPFR. For example, it may assist preparers in developing consistent accounting policies when dealing with topics that have yet to form the subject of a NZ IFRS or when a standard allows a choice of accounting policy.

46 Where a for-profit entity prepares its financial report in compliance with NZ IFRS, the entity will be able to assert compliance with IFRS.

NZ IFRS RDR (Tier 2)

47 The requirements to be applied by Tier 2 for-profit entities are the requirements of NZ IFRS with reduced disclosures (RDR concessions) (NZ IFRS RDR). NZ IFRS RDR has the same recognition and measurement requirements as NZ IFRS but with significantly reduced disclosure requirements. The reduced disclosures are consistent with and are substantially harmonised with the requirements in Australia for Tier 2 entities.

48 Tier 2 entities may apply whichever of the disclosure concessions they wish – either some or all.

49 The RDR concessions are incorporated in NZ IFRS by way of an asterisk (*) or by an additional RDR paragraph. Accordingly, NZ IFRS and NZ IFRS RDR form one physical set of standards.

50 For-profit entities applying NZ IFRS RDR are not able to assert compliance with IFRS.

Moving between Tiers

51 It is expected that for-profit entities will move between the two tiers over time either as a matter of choice, as their circumstances change or if they meet the criteria for Tier 1. XRB A1 therefore sets out the timing and other requirements for moving between tiers.

52 An entity moving from Tier 1 to Tier 2 because it no longer meets the public accountability criteria must continue to apply the Tier 1 accounting requirements in the period in which it ceases to meet the public accountability criteria. A for-profit public sector entity moving from Tier 1 to Tier 2 because it no longer meets the size criterion (i.e. it is no longer large) may do so in the annual or interim reporting period in which it is no longer large, and elects to do so.

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53 An entity moving from Tier 2 to Tier 1 as a result of the entity meeting the public accountability criteria must apply the Tier 1 accounting requirements in the annual or interim reporting period that this occurs. A for-profit public sector entity moving from Tier 2 to Tier 1 because it meets the size criterion (i.e. it becomes large) may continue to apply Tier 2 accounting requirements in the period in which it becomes large, unless it was applying Tier 1 accounting requirements in the period before it became large. Under those circumstances the entity continues to apply Tier 1 accounting requirements.

54 Entities moving between Tier 2 and Tier 1 must apply NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

55 A move between Tier 2 and Tier 1 is unlikely to result in changes to an entity's recognition or measurement accounting policies as the recognition and measurement requirements in NZ IFRS and NZ IFRS RDR are identical.

Step 2: Identify Applicable Accounting Requirements: PBEs

56 The approach to identifying the applicable accounting requirements for a PBE set out in XRB A1 is as follows.

Tier Structure

57 XRB A1 contains a four-tier structure for PBEs. The requirements an entity applies depends on the tier that it reports under. The tiers, criteria for the tiers, and the requirements applying to each PBE tier are summarised in Table 2 below.

Table 2: Public Benefit Entity Tiers and Requirements

Tier	Tier Criteria	Standards Set
Tier 1	• Has public accountability (as defined); or • Has total expenses (including grants) > $30 million	PBE Standards
Tier 2	• Has no public accountability (as defined); and • Has total expenses (including grants) ≤ $30 million *and elects to be in Tier 2.*	PBE Standards (RDR)
Tier 3	• Has no public accountability (as defined); and • Has expenses ≤$2 million *and elects to be in Tier 3.*	PBE SFR-A (PS) or PBE SFR-A (NFP)
Tier 4	• Has no public accountability (as defined); and • Has total operating payments of less than $125,000 in each of the previous two reporting periods (i.e. not a "specified not-for-profit entity"); and • Is permitted by an enactment to comply with a "non-GAAP Standard" *and elects to be in Tier 4.*	PBE SFR-C (PS) or PBE SFR-C (NFP)

58 The way the PBE tier structure works under XRB A1 is that all entities are initially in Tier 1 as the default. However, if they meet the criteria to be in another tier, and elect to be in that other tier, then they may report in accordance with the requirements of the lower tier.

59 Two groups of PBEs must report in accordance with Tier 1 requirements: entities that have "public accountability"; and entities that have total expenses greater than $30 million.

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60 For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1. The definition, is the same as that used for the for-profit tier structure. In general, an entity has public accountability if it:

(a) Meets the IASB definition of public accountability, i.e.:

(i) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(ii) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion); and

(b) Is deemed to be so under XRB A1, with the following being so deemed: an FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the FMA under that Act.

61 However, XRB A1 also recognises that the FMA, under the Financial Markets Conduct Act 2013, has the ability to vary the level of public accountability of an FMC reporting entity. Therefore, an FMC reporting entity is not considered to have public accountability under the second part of the IASB definition (see paragraph 60(a)(ii)) unless it is deemed to have public accountability (see paragraph 60(b)). Figure 2 provides a decision tree to assist an entity identify whether it has public accountability.

62 It is important to note that the term "public accountability" is used in the tier framework in a particular technical way. This technical meaning is quite different from the way in which the term "publicly accountable" is normally used in the PBE context and in which it was used prior to 2011 in the Accounting Standards Framework.

63 One element of the Tier 1 public accountability test is where entities hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Applying this test in a PBE context will require the application of judgement. In doing so it is important to consider the three aspects of the test: the assets must be held in a fiduciary capacity; they must be held for a broad group of persons or organisations that are external to the reporting entity (and who are not involved in its management); and the assets must be held as part of the entity's primary business. An example of a situation where these three aspects would typically be met is life insurance or superannuation schemes.

64 Some PBEs hold assets in a fiduciary capacity for a broad group of outsiders but do so in a way that is incidental to their primary business. In the public sector context, this is typically the case for central government entities that hold and/or manage trust money under the Public Finance Act 1989 (for example the Department of Corrections holds money for inmates). In the majority of cases the holding or management of money is not the entity's primary business (i.e. its primary function) and therefore would not result in the entity meeting the public accountability test.

65 In the not-for-profit PBE context, this is typically the case where an entity that holds and/or manages trust money entrusted to it by a client, customer or member who is not involved in the management of the entity (for example, welfare benefits held on behalf of beneficiaries as part of the entity providing welfare services to the beneficiaries). In the majority of cases the holding or management of money is not the entity's primary business (i.e. its primary function) and therefore would not result in the entity meeting the public accountability test.

66 Any entity that does not meet the Tier 1 criteria may elect to be in a lower tier (provided it meets the criteria for the lower tier) although it need not do so; it can report in accordance with Tier 1 requirements (the requirements of PBE Standards in full) if it so wishes. In fact an entity can elect to be in any of the four tiers provided that it meets the criteria for the tier under which it is electing to report. However, a PBE can only report under Tier 4 if it is not a "specified not-for-profit entity" (that is, its total operating payments[17] (excluding capital payments) for each of the two preceding accounting periods are $125,000 or less) and is permitted by its governing legislation to report in accordance with "non-GAAP standards" issued by the XRB.

67 For the purposes of the size criterion in the PBE tier structure, "total expenses" comprises all expenses reported by the entity including any losses incurred, any grants made by the entity, and any net expense

[17] For this purpose, total operating payments means the combined operating payments of the entity and all its controlled entities.

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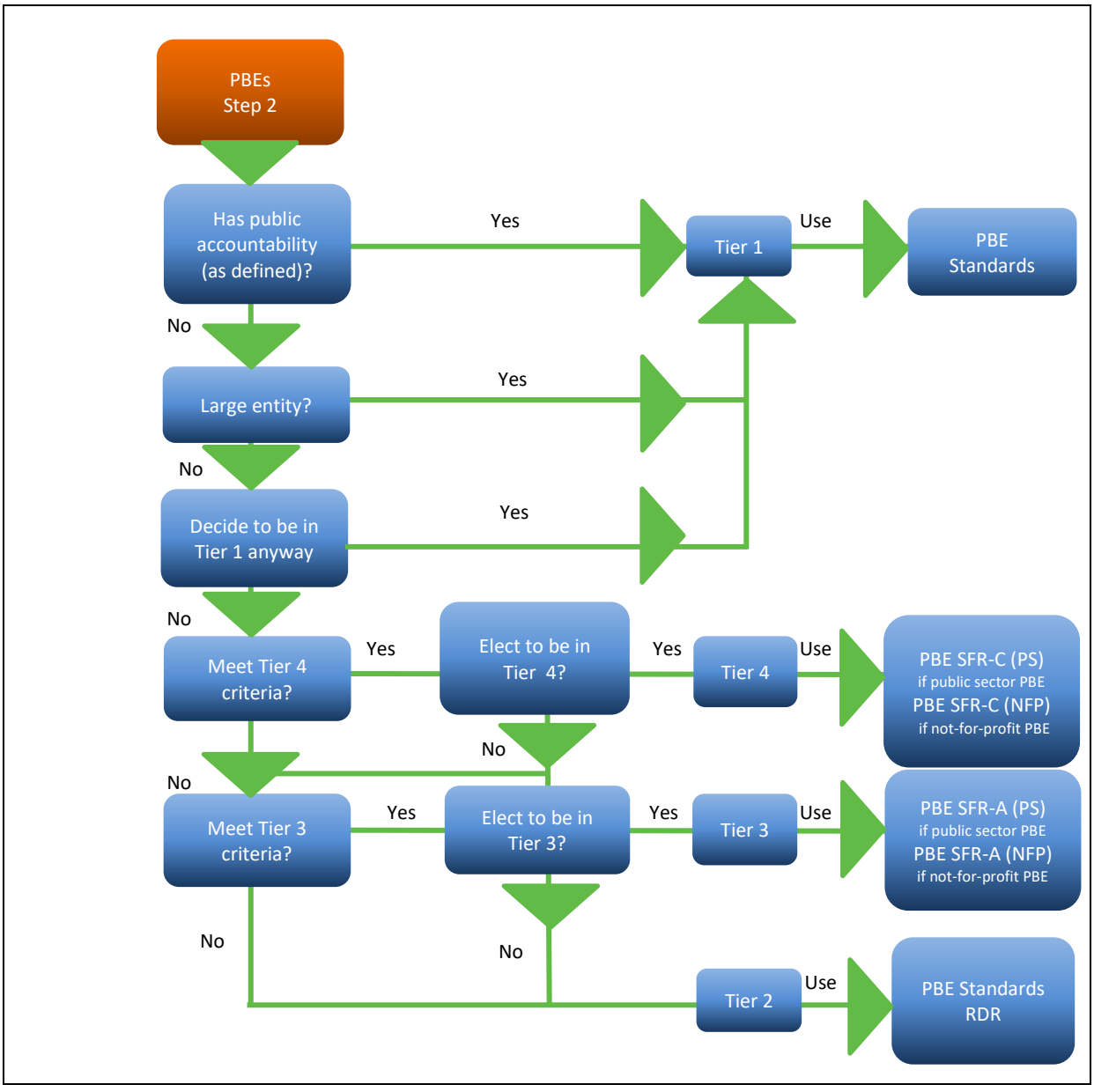
resulting from any offset of revenue and expenses allowed by a PBE Standard. However, it does not include an expense included in "other comprehensive revenue or expense" where this is reported (Tier 1 and Tier 2).

68 Figure 4 provides a decision tree to assist PBEs in the tier selection process.

Figure 4: Identify the Applicable Accounting Requirements – Step 2 (PBEs)



Accounting Requirements for PBEs

PBE Standards (Tier 1)

69 The requirements to be applied by Tier 1 PBEs are the PBE Standards, excluding any RDR concessions.

70 The bulk of the PBE Standards are based substantially on International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB). IPSAS are, in turn, based substantially on IFRS Standards.

71 However, PBE Standards also include certain standards based on NZ IFRS and some domestic FRSs (for example, to cover gaps in accounting requirements not covered by IPSAS). All the standards have the

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prefix "PBE" to identify them. The PBE Standards therefore comprise a combination of PBE IPSASs, PBE IFRSs, PBE IASs and PBE FRSs.

72 Accompanying the PBE Standards is the *Public Benefit Entities' Conceptual Framework* (PBE Conceptual Framework). The PBE Conceptual Framework establishes the concepts that underpin general purpose financial reporting by public benefit entities. The PBE Conceptual Framework sets out:

(a) The role and authority of the PBE Conceptual Framework;

(b) The objectives and users of GPFR;

(c) The qualitative characteristics of useful information;

(d) The key characteristic of a reporting entity;

(e) The elements in GPFR;

(f) The criteria for recognition of an element;

(g) The concepts for selection of measurement bases; and

(h) The concepts applicable to presentation of information in GPFR.

73 In the absence of an accounting standard, the PBE Conceptual Framework assists the NZASB in developing PBE Standards and in commenting on the development of IPSAS by the IPSASB. The PBE Conceptual Framework also assists preparers of GPFR. For example, it may assist preparers in developing consistent accounting policies when dealing with topics that have yet to form the subject of a PBE Standard or when a standard allows a choice of accounting policy.

PBE Standards RDR (Tier 2)

74 The requirements to be applied by a Tier 2 PBE are PBE Standards Reduced Disclosure Regime (PBE Standards RDR). PBE Standards RDR have the same recognition and measurement requirements as PBE Standards. However, they contain reduced disclosures which are substantially aligned with the reduced disclosures in NZ IFRS RDR.

75 Tier 2 entitities may apply whichever of the disclosure concessions they wish – either some or all.

76 The RDR concessions are incorporated in the PBE Standards by way of an asterisk (*) or by an additional RDR paragraph. Accordingly, PBE Standards and PBE Standards RDR form one physical set of standards.

PBE SFR-A (Tier 3)

77 Separate accounting requirements are to be applied by Tier 3 public sector PBEs and Tier 3 not-for-profit PBEs.

78 In the public sector, this is the Simple Format Reporting Standard – Accrual (Public Sector) (PBE SFR-A (PS)). In the not-for profit sector, this is the Simple Format Reporting Standard – Accrual (Not-for-profit) (PBE SFR-A (NFP)).

79 Although based on Tier 1 and Tier 2 PBE Standards, the requirements in PBE SFR-A (PS) and PBE SFR−A (NFP) are substantially reduced and simplified in nature. The Tier 3 requirements require the preparation of a "Performance Report" covering both financial and non-financial information.

80 The Tier 3 requirements are accompanied by Explanatory Guides containing optional templates and guidance notes to assist Tier 3 entities to apply their respective requirements.

PBE SFR-C (Tier 4)

81 Separate accounting requirements are to be applied by Tier 4 public sector PBEs and Tier 4 not-for-profit PBEs.

82 In the public sector, this is the Simple Format Reporting Standard – Cash (Public Sector) (PBE SFR-C (PS)). In the not-for profit sector, this is the Simple Format Reporting Standard – Cash (Not-for-profit) (PBE SFR-C (NFP)).

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83 The Tier 4 requirements also require the preparation of a "Performance Report" covering both financial and non-financial information, but with the financial information reported using the cash basis of accounting.

84 The Tier 4 requirements are also accompanied by Explanatory Guides containing optional templates and guidance notes to assist Tier 4 entities to apply their respective requirements.

Moving between Tiers

85 It is expected that PBEs will move between tiers over time either by choice, or as their circumstances change and they no longer meet the criteria for the tier under which they report. XRB A1 therefore sets out the timing and other criteria for moving between tiers:

- An entity that meets the criteria to report under a lower tier is generally permitted to move to the lower tier in the annual or interim reporting period in which it meets the lower tier's criteria, and elects to report under the lower tier. However, an entity that no longer meets the public accountability criteria must continue to apply Tier 1 accounting requirements in the period in which it fails to meet those criteria;
- An entity moving from a lower tier to a higher tier is generally permitted one or two annual reporting periods before it is required to apply the higher tier's accounting standards. One exception is where an entity fails to meet the lower tier's criteria because it now has public accountability (as defined). In that instance, the entity must apply the Tier 1 accounting requirements in the annual or interim reporting period in which it meets the public accountability criteria; and
- A Tier 2 PBE that becomes large may continue to report under Tier 2 accounting requirements in the annual and interim reporting periods in which it becomes large unless it was reporting under Tier 1 requirements in the annual period immediately before it became large.

86 XRB A1 also sets out the "first-time adoption" requirements that must be applied when an entity first moves into a particular tier: a Tier 3 or Tier 4 PBE that subsequently applies Tier 1 or Tier 2 PBE Accounting Requirements is required to apply PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*.

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NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	30 August 2019
To:	NZASB Members
From:	Vanessa Sealy-Fisher
Subject:	**2019 Omnibus Amendments to NZ IFRS**

Recommendations[1]

1. We recommend that the Board:

   (a) NOTES the submission received from Audit New Zealand on NZASB ED 2019-2 *2019 Omnibus Amendments to NZ IFRS* (agenda item 8.4);

   (b) AGREES with the staff recommendation to delete paragraphs 12.1–12.10 and Appendix A of FRS-44 *New Zealand Additional Disclosures* (which deal with elements in the statement of service performance) as proposed in NZASB ED 2019-2;

   (c) AGREES to include two additional New Zealand-specific editorial corrections in *2019 Omnibus Amendments to NZ IFRS*;

   (d) APPROVES for issue *2019 Omnibus Amendments to NZ IFRS* (agenda item 8.2); and

   (e) APPROVES the draft signing memorandum from the Chair of the NZASB to the Chair of the XRB Board (agenda item 8.3).

Structure of this memo

2. This memo has the following sections.

   (a) Background;

   (b) Service performance requirements in FRS-44;

   (c) Additional editorial corrections;

   (d) Due process; and

   (e) Draft signing memorandum.

Background

3. In May 2019, the NZASB issued for comment NZASB ED 2019-2 *2019 Omnibus Amendments to NZ IFRS* (the ED), with a comment date ending on 16 August 2019.

[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).

4. The ED proposed amendments to NZ IFRS to:

   (a) defer the effective date of the amendments in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) to annual periods beginning on or after 1 January 2025. The effective date of these amendments has already been deferred once. The ED proposed to extend the effective date for a further five years;[2]

   (b) require that, if an IFRS Standard has been issued by the IASB but the equivalent NZ IFRS has not yet been issued by the XRB, an entity must disclose the information specified in paragraphs 30 and 31 of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in relation to that IFRS.[3] The proposed new disclosure is identified as a disclosure concession for Tier 2 for-profit entities for consistency with the equivalent disclosure in NZ IAS 8;

   (c) delete paragraphs 12.1–12.10 of FRS-44 *New Zealand Additional Disclosures*, which deal with elements in the statement of service performance;

   (d) make editorial corrections to:

      (i) delete two RDR paragraphs that are no longer needed from NZ IFRS 7 *Financial Instruments: Disclosures*;

      (ii) update references to legislation in NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*; and

      (iii) incorporate editorial corrections issued by the IASB.

5. The NZASB received one submission, from Audit New Zealand. The respondent agreed with all the proposals except for the deletion of paragraphs 12.1–12.10 from FRS-44.

Service performance requirements in FRS-44

6. The respondent disagrees with the proposal to delete paragraphs 12.1–12.10 from FRS-44. The Appendix to this memo shows paragraphs 12.1–12.10 of FRS-44.

7. The respondent understands why the NZASB proposed the deletion of these paragraphs (as explained in paragraph BC4 of the ED) but is concerned that the removal of these paragraphs will leave a vacuum for the small number of for-profit entities in the public sector that are required to report performance information that complies with generally accepted accounting practice (GAAP). Such entities include some Crown entities and Crown-owned for-profit entities (e.g. New Zealand Lotteries Commission and Public Trust). An extract from the Crown Entities Act 2004 follows.

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[2] The IASB has deferred the effective date of the equivalent amendments to IFRS 10 and IAS 28 to "a date to be decided by the IASB". In New Zealand, we are required to have an effective date for application of standards issued by the XRB. As the IASB is still some time away from determining an effective date for these amendments, the NZASB has decided to defer the effective date of the equivalent amendments to NZ IFRS to avoid entities have to apply the amendments before the IASB has a specified effective date.

[3] So that Tier 1 for-profit entities in this situation will be able to simultaneous assert compliance with IFRSs and NZ IFRS.

> **153 Form and content of statement of performance**
>
> A statement of performance must, in relation to a Crown entity and a financial year,—
>
> (a) be prepared in accordance with generally accepted accounting practice; and
>
> (b) describe each reportable class of outputs for the financial year; and
>
> (c) include, for each reportable class of outputs identified in the entity's statement of performance expectations for the financial year,—
>
> (i) the standards of delivery performance achieved by the entity, as compared with the forecast standards included in the entity's statement of performance expectations for the financial year; and
>
> (ii) the actual revenue earned and output expenses incurred, as compared with the expected revenues and proposed output expenses included in the entity's statement of performance expectations for the financial year.

8. The respondent is of the view that there should be a steer for these entities on relevant GAAP expectations, and that this could be achieved by formally referring such entities to either the principles or specific requirements in PBE FRS 48 *Service Performance Reporting*.

9. The respondent also notes that there is a substantial number of for-profit entities in the public sector that have a requirement to produce performance information, but no legislative requirement for this information to comply with GAAP (e.g. council-controlled organisations and energy companies). However, these entities might choose to refer to GAAP for guidance on good practice in service performance reporting. An extract from the Energy Companies Act 1992 follows.

> **44 Reports and financial statements**
>
> (1) …
>
> (3) Within 3 months after the end of each financial year of an energy company, the directorate shall deliver to the shareholders—
>
> (a) a report of the operations of the energy company and those of its subsidiaries (if any) during the financial year; and
>
> (b) audited financial statements for that financial year prepared in accordance with generally accepted accounting practice; and
>
> (c) …
>
> (4) Every report under subsection (3)(a) shall—
>
> (a) contain such information as is necessary to enable an informed assessment of the operations of the energy company and its subsidiaries (if any), including a comparison of the performance of the energy company and its subsidiaries (if any) with any relevant statement of corporate intent; and
>
> (b) …

10. We have identified the following options in relation to this matter.

(a) Option 1: Proceed with the proposal in the ED (i.e. delete paragraphs 12.1–12.10 of FRS-44). Do not add any new requirements in FRS-44 for for-profit public sector entities.

(b) Option 2: Refer for-profit entities to PBE FRS 48, as suggested by the respondent.

(c) Option 3: Retain paragraphs 12.1–12.10 of FRS-44 unamended.

(d) Option 4: Add a project to the work plan to replace the requirements for for-profit entities that have a requirement to report performance information in accordance with GAAP.

11. Each of these options is discussed below. We recommend option 1.

Option 1: Proceed with the proposal in the ED – do not add any new requirements

12. We recommend proceeding with the proposal in the ED to delete paragraphs 12.1–12.10 of FRS-44 for the reasons outlined below.

    (a) Proposed paragraph BC4 to FRS-44 explains the reasons for the proposal to delete paragraphs 12.1–12.10 from the standard.

        (i) The requirements in FRS-44 are no longer consistent with some legislative requirements for some public sector entities to establish and report against targets and performance measures. While FRS-44 refers to inputs, outputs and outcomes, some legislation is now less prescriptive regarding the terminology to be used by an entity in reporting targets and performance measures.

        (ii) The requirements in FRS-44 are no longer consistent with the requirements in the PBE Standard dealing with service performance reporting. PBE FRS 48 *Service Performance Reporting* (issued in 2017) establishes principles and requirements for Tier 1 and 2 public benefit entities to present service performance information, but does not require that the terms inputs, outputs and outcomes be used.

    (b) There is no consistent requirement for for-profit entities in the public sector to report performance information *that complies with GAAP*. The respondent acknowledges that there is only a very small number of for-profit entities with such a legislative requirement.

    (c) Although deleting the paragraphs would leave a vacuum for the small number of for-profit entities that are required to report performance information that complies with GAAP, these entities would be able to apply judgement in referring to and considering the applicability of other guidance on reporting performance information (e.g. PBE FRS 48 or other extended external reporting (EER) frameworks).[4]

13. Appendix A of FRS-44 defines the terms inputs, outputs and outcomes. If the Board agrees that paragraphs 12.1–12.10 are to be deleted, we propose that Appendix A is also deleted.

Option 2: Refer for-profit entities to PBE FRS 48, as suggested by the respondent

14. We do not recommend this option for the reasons outlined below.

    (a) Although PBE FRS 48 (issued November 2017) is more up-to-date than FRS-44, it was developed specifically for Tier 1 and 2 public benefit entities (PBEs).[5]

    (b) There are no other instances of referring for-profit entities to PBE Standards or vice versa.

---

[4] Consistent with the requirements in paragraphs 10-12 of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* dealing with the absence of an NZ IFRS for transactions, other events or conditions.

[5] PBE FRS 48 applies to Tier 1 and Tier 2 not-for-profit PBEs and public sector PBEs required by legislation to provide information in respect of service performance in accordance with generally accepted accounting practice (GAAP).

(c) The Accounting Standards Framework requires Tier 1 and Tier 2 entities to apply either NZ IFRS (for-profit entities) or PBE Standards (PBEs).

(d) The conceptual frameworks that establish/describe the concepts for general purpose financial reporting applying PBE Standards/NZ IFRS are not identical. This could result in challenges for for-profit entities trying to report performance information that meets, for example, the qualitative characteristics of useful information.

Option 3: Retain paragraphs 12.1–12.10 of FRS-44 unamended

15. We do not recommend this option for the reasons outlined below.

(a) Although retaining these paragraphs would provide GAAP for for-profit entities that are required to report performance information, the requirements in FRS-44 are no longer consistent with the legislative requirements for some public sector entities to establish and report against targets and performance measures.

(b) Some legislation is now less prescriptive regarding the terminology to be used by an entity in reporting targets and performance measures.

(c) The Crown Entities Act 2004 already establishes minimum requirements (see above). The requirements in paragraphs 12.1–12.10 do not add much to the requirements already in the Crown Entities Act and could be inconsistent with the requirements in other legislation.

(d) The requirements in FRS-44 are no longer consistent with the requirements in the PBE Standard (PBE FRS 48) dealing with service performance reporting.

Option 4: Add a project to the work plan to replace the requirements for for-profit entities that have a requirement to report performance information in accordance with GAAP

16. We do not recommend this option for the reasons outlined below.

(a) Few for-profit entities have a requirement to report performance information that complies with GAAP. We do not generally establish requirements within a standard for a subset of entities, for example, for-profit entities in the public sector with legislative requirements to prepare performance information in accordance with GAAP.

(b) We are not sure how feasible it would be to establish new principle-based requirements in FRS-44, which is a general disclosure standard, nor whether new requirements would lead to improved reporting.

(c) This option would have no impact on the current inconsistency in the legislative requirements whereby some for-profit entities are required to report performance information that complies with GAAP while others are not.

(d) Developing a domestic for-profit standard based on FRS 48 would involve significant resource. We are also conscious that developments in the Living Standards framework may drive future changes to legislative requirements for reporting performance information.

(e) Developing GAAP requirements for for-profit entities with legislative requirements to prepare performance information could restrict an entity's ability to report such information under an appropriate EER framework that other for-profit entities apply, such as Integrated Reporting.

Questions for the Board

1. Does the Board AGREE to delete paragraphs 12.1–12.10 and Appendix A of FRS-44 as proposed in the ED (option 1)?
2. If the Board does not agree with option 1, which option does the Board prefer?

Additional editorial corrections

17. We have identified two New Zealand editorial corrections needed to NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

Paragraph RDR 5.7

18. We propose to delete the title of NZ IAS 8 as shown below because the first reference to NZ IAS 8 in the RDR paragraphs is in paragraph RDR 5.5.

> RDR 5.7 This Standard does not apply to changes in accounting policies made by a Tier 2 entity that already applies NZ IFRS RDR. Such changes are the subject of:
>
> (a) requirements on changes in accounting policies in NZ IAS 8 ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~; and
>
> (b) …

19. Although this editorial correction was not exposed for comment we doubt that any constituents would object. We normally explain that we are not seeking feedback on editorial corrections listed in an ED.

Paragraph 29A

20. While comparing the RDR concessions in PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* with the RDR concessions in NZ IFRS 1, we noticed that paragraph 29A of NZ IFRS 1 is not identified as a disclosure concession whereas the equivalent paragraph in PBE FRS 47 is identified as a concession (see agenda item 5).

21. When NZ IFRS RDR was introduced in 2011, paragraph 29A had not been compiled into NZ IFRS 1 and identifying a disclosure concession for this paragraph was overlooked.

22. We note that paragraph 29A of AASB 1 *First-time Adoption of Australian Accounting Standards* is shaded, which means that a disclosure concession is provided for this disclosure to Tier 2 entities in Australia.

23. For harmonisation with Australia, we are proposing to insert an asterisk next to paragraph 29A of NZ IFRS 1.

24. We are comfortable that this proposed concession has been subject to due process as paragraph 29A of NZ IFRS 1 was proposed as a disclosure concession in NZASB ED 2017-1

Amendments to RDR for Tier 2 For-profit Entities (ED 2017-1), issued for comment in January 2017. Respondents to ED 2017-1 did not express any concerns with the proposal that paragraph 29A should be identified as a disclosure concession.

25. Paragraphs 29 and 29A of NZ IFRS 1 are shown below.

Designation of financial assets or financial liabilities

*29 An entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. 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.

*29A An entity is permitted to designate a previously recognised financial liability as a financial liability at fair value through profit or loss in accordance with paragraph D19. 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.

Question for the Board

3. Does the Board AGREE with the additional editorial amendments to NZ IFRS 1?

Due process

26. 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.

27. 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 signing memorandum

28. A draft signing memorandum from the Chair of the NZASB to the Chair of the XRB Board is attached at agenda item 8.3.

Attachments

Agenda item 8.2: *2019 Omnibus Amendments to NZ IFRS*

Agenda item 8.3: Draft signing memorandum

Agenda item 8.4: Submission received – Audit New Zealand

Appendix

Extract from FRS-44

Elements in the statement of service performance

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

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

(a) narrative and statistics on the entity's performance in supplying goods and services; and

(b) information on the effects on the community of the entity's existence and operations.

12.3 An entity not required by legislation to prepare a statement of service performance is encouraged to include a statement of service performance in its financial statements where:

(a) the entity receives significant revenue intended to benefit third parties without giving reciprocal benefit or consideration to the party providing the revenue; or

(b) the entity has non-financial objectives of such importance that non-financial performance reporting is significant to users of the financial statements.

12.4 The elements of service performance are *inputs*, outputs and *outcomes*. Where relevant and appropriate for users of the entity's financial report, each output disclosed in the statement of service performance is to be described in terms of the output's:

(a) quantity;

(b) quality;

(c) time; and

(d) location.

The cost of each output is to be described and disclosed.

12.5 The information used to describe service performance is to be selected so as to provide a complete description of delivery of each output (or aggregation of outputs) reported, but without undue emphasis on easily measured dimensions, and without resulting in an overload of only partially relevant statistics.

12.6 For each output disclosed in a statement of service performance, where practical and appropriate, the outcome(s) to which the output is intended to contribute is to be disclosed.

12.7 The statement of service performance shall present both projected service performance and actual service performance.

12.8 Projected service performance is described by presenting projected outputs at the beginning of the period which an entity aimed to produce by the end of the period. These projected outputs will often be derived from the annual or corporate plan.

12.9 To report the degree of success in achieving objectives, it is necessary to present both projected and actual results together with full disclosures of any changes in objectives during the period.

12.10 Actual and projected service performance are to be reported consistently with one another. The information is to be sufficiently specific for performance to be assessed.

2019 Omnibus Amendments to NZ IFRS

This Standard was issued on 19 September 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 17 October 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 D.

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

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

2019 OMNIBUS AMENDMENTS TO NZ IFRS
[September 2019]

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Part A

Introduction

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

1. Amendments to NZ IFRS 10 *Consolidated Financial Statements* and NZ IAS 28 *Investments in Associates and Joint Ventures* to defer the effective date of the amendments in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) to annual periods beginning on or after 1 January 2025.

2. Amendments to FRS-44 *New Zealand Additional Disclosures* to:

   (a) require that, if an IFRS has been issued by the IASB but the equivalent NZ IFRS has not yet been issued by the XRB, an entity must disclose the information specified in paragraphs 30 and 31 of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in relation to that IFRS; and

   (b) delete paragraphs 12.1–12.10 and Appendix A, which deal with elements in the statement of service performance.

3. Editorial corrections to:

   (a) NZ IFRS 7 *Financial Instruments: Disclosures* to delete two RDR paragraphs that are no longer needed;

   (b) NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans* to update references to legislation;

   (c) NZ IAS 39 *Financial Instruments: Recognition and Measurement* to amend effective date paragraphs amended by the IASB as part of the editorial corrections issued in December 2018; and

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

      (i) delete the title of a standard (paragraph RDR 5.7);

      (ii) identify an additional disclosure concession for Tier 2 for-profit entities (paragraph 29A); and

      (iii) incorporate an editorial correction issued by the IASB in February 2019.

Part B: Amendments to NZ IFRS

Scope

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

NZ IFRS 10 *Consolidated Financial Statements*

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

Effective date

…

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

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

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

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

Effective date

…

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

…

NZ C1D.2 *2019 Omnibus Amendments to NZ IFRS*, issued in September 2019, amended paragraph C1C. An entity shall apply that amendment for annual periods beginning on or after 1 January 2020. Earlier application is permitted.

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

NZASB Basis for Conclusions on NZ IFRS 10

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

BC1 The New Zealand Accounting Standards Board (NZASB) issued ~~this amending standard~~ *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28* based on *Effective Date of Amendments to IFRS 10 and IAS 28* as issued by the IASB in December 2015. The IASB's amending standard deferred indefinitely the effective date of *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) issued in October 2014. The IASB deferred the effective date of these amendments pending the completion of its equity accounting project.

BC2 The Financial Reporting Act 2013 requires all accounting standards issued in New Zealand to have an effective date. The NZASB ~~has~~ therefore determined that the *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28* should be effective for annual periods beginning on or after 1 January 2020. The NZASB considered that this date would satisfy New Zealand's legislative requirements and provide~~d~~ an appropriate period for the IASB to complete its equity accounting project. If the IASB continues to defer the effective date of *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) beyond annual periods beginning on or after 1 January 2020, the NZASB will reassess the effective date of these amendments in New Zealand.

BC3 In all other respects *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28* is consistent with *Effective Date of Amendments to IFRS 10 and IAS 28.*

BC4 *2019 Omnibus Amendments to NZ IFRS* subsequently deferred the effective date of *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) to annual periods beginning on or after 1 January 2025.

NZ IAS 28 *Investments in Associates and Joint Ventures*

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

Effective date and transition

…

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

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

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

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

Effective date

…

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

…

NZ 45K.1 *2019 Omnibus Amendments to NZ IFRS*, issued in September 2019, amended paragraph 45C. An entity shall apply that amendment for annual periods beginning on or after1 January 2020. Earlier application is permitted.

FRS-44 *New Zealand Additional Disclosures*

Paragraph 6.1 and the related heading and paragraph 19 are added and paragraphs 12.1–12.10 and their related heading and Appendix A are deleted. New text is underlined and deleted text is struck through.

Disclosures

…

IFRS issued but not yet effective

…

***6.1 When an IFRS has been issued by the International Accounting Standards Board but the equivalent NZ IFRS has yet to be issued by the XRB, an entity must disclose the information specified in**

paragraphs 30 and 31 of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in relation to that IFRS.

…

~~Elements in the statement of service performance~~

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

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

~~(a) narrative and statistics on the entity's performance in supplying goods and services; and~~

~~(b) information on the effects on the community of the entity's existence and operations.~~

~~12.3 An entity not required by legislation to prepare a statement of service performance is encouraged to include a statement of service performance in its financial statements where:~~

~~(a) the entity receives significant revenue intended to benefit third parties without giving reciprocal benefit or consideration to the party providing the revenue; or~~

~~(b) the entity has non-financial objectives of such importance that non-financial performance reporting is significant to users of the financial statements.~~

~~12.4 The elements of service performance are *inputs*, outputs and *outcomes*. Where relevant and appropriate for users of the entity's financial report, each output disclosed in the statement of service performance is to be described in terms of the output's:~~

~~(a) quantity;~~

~~(b) quality;~~

~~(c) time; and~~

~~(d) location.~~

~~The cost of each output is to be described and disclosed.~~

~~12.5 The information used to describe service performance is to be selected so as to provide a complete description of delivery of each output (or aggregation of outputs) reported, but without undue emphasis on easily measured dimensions, and without resulting in an overload of only partially relevant statistics.~~

~~12.6 For each output disclosed in a statement of service performance, where practical and appropriate, the outcome(s) to which the output is intended to contribute is to be disclosed.~~

~~12.7 The statement of service performance shall present both projected service performance and actual service performance.~~

~~12.8 Projected service performance is described by presenting projected outputs at the beginning of the period which an entity aimed to produce by the end of the period. These projected outputs will often be derived from the annual or corporate plan.~~

~~12.9 To report the degree of success in achieving objectives, it is necessary to present both projected and actual results together with full disclosures of any changes in objectives during the period.~~

~~12.10 Actual and projected service performance are to be reported consistently with one another. The information is to be sufficiently specific for performance to be assessed.~~

Effective date

…

19 *2019 Omnibus Amendments to NZ IFRS*, issued in September 2019, added paragraph 6.1 and the related heading and deleted paragraphs 12.1–12.10. An entity shall apply those amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted.

Appendix A
Defined terms

[Deleted by NZASB]

~~*This appendix is an integral part of the Standard.*~~

~~**inputs**~~	~~The resources used to produce the goods and services which are the outputs of the entity.~~
~~**outcomes**~~	~~The impacts on, or consequences for, the community resulting from the existence and operations of the entity.~~
~~**outputs**~~	~~The goods and services produced by the entity.~~

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

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

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

Introduction

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

2019 Omnibus amendments to NZ IFRS

IFRS issued but not yet effective

BC2 Although the NZASB considers and issues the New Zealand equivalent to a new IFRS as soon as possible after the IASB issues the standard, the NZASB acknowledged that there may be times when an entity's reporting date falls between the date of the IASB issuing the IFRS and the NZASB issuing the equivalent NZ IFRS. Under these circumstances, a Tier 1 for-profit entity applying NZ IFRS would not be able to assert compliance with IFRSs unless it made the disclosures required by paragraphs 30 and 31 of IAS 8 in addition to the disclosures required by NZ IAS 8.

BC3 To ensure that Tier 1 for-profit entities applying NZ IFRS are able to simultaneously assert compliance with IFRSs, *2019 Omnibus Amendments to NZ IFRS* added paragraph 6.1 to require that, if an IFRS has been issued by the IASB but the equivalent NZ IFRS has not yet been issued by the XRB, an entity is required to disclose the information in paragraphs 30 and 31 of NZ IAS 8 in relation to that IFRS.

Elements of service performance

BC4 When FRS-44 was first issued in 2011 it specified the elements of a statement of service performance and required that a for-profit entity presenting a statement of service performance describe and disclose its outputs. In 2019 the NZASB deleted this section of FRS-44 (paragraphs 12.1–12.10 and Appendix A) for the following reasons.

(a) The requirements in FRS-44 are no longer consistent with some legislative requirements for some public sector entities to establish and report against targets and performance measures. Some legislation is now less prescriptive regarding the terminology to be used by an entity in reporting targets and performance measures.

(b) In addition, the requirements in FRS-44 are no longer consistent with the requirements in the PBE Standard dealing with service performance reporting. PBE FRS 48 *Service Performance Reporting* (issued in 2017) establishes principles and requirements for Tier 1 and 2 public benefit entities to present service performance information, but does not require that the terms inputs, outputs and outcomes be used.

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

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

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

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

Part C: Editorial corrections

NZ IFRS 7 *Financial Instruments: Disclosures*

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

Statement of financial position

Categories of financial assets and financial liabilities

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

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

(b)–(d) [deleted by IASB]

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

(f) financial assets measured at amortised cost.

(g) financial liabilities measured at amortised cost.

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

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

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

…

The amount, timing and uncertainty of future cash flows

23 [Deleted by IASB]

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

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

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

Frequency of actuarial valuations

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

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

...

Defined Benefit Plans – Summary of Actuarial Report

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

(a) …

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

Paragraphs RDR 5.7 and 29A are amended, paragraph NZ 39AF.1 is added and in Appendix D, paragraph D1(o) is deleted. New text is underlined and deleted text is struck through. Paragraph 29 is not amended but is shown for context.

…

RDR 5.7 This Standard does not apply to changes in accounting policies made by a Tier 2 entity that already applies NZ IFRS RDR. Such changes are the subject of:

(a) requirements on changes in accounting policies in NZ IAS 8 ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~; and

(b) specific transitional requirements in other NZ IFRSs.

…

Designation of financial assets or financial liabilities

*29 An entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. 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.

*29A An entity is permitted to designate a previously recognised financial liability as a financial liability at fair value through profit or loss in accordance with paragraph D19. 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.

…

Effective date

…

NZ 39AF.1 *2019 Omnibus Amendments to NZ IFRS*, issued in September 2019, amended paragraph 29A. A Tier 2 entity may elect to apply that disclosure concession for annual periods beginning on or after 1 January 2020. Early application is permitted.

Appendix D

Exemptions from other NZ IFRSs

This appendix is an integral part of the Standard.

D1 An entity may elect to use one or more of the following exemptions:

…

(o) [deleted by IASB] ~~transfers of assets from customers (paragraph D24)~~;

…

NZ IAS 39 *Financial Instruments: Recognition and Measurement*

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

Effective date and transition

103 …

103A [Deleted by IASB] ~~An entity shall apply the amendment in paragraph 2(j) for annual periods beginning on or after 1 January 2006. If an entity applies NZ IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* for an earlier period, this amendment shall be applied for that earlier period.~~

…

103U NZ IFRS 9, as issued in September 2014, amended …and deleted paragraphs 1, 4–7, 10–70, 79, 103A, 103B, 103D, …

…

Part D: Effective date

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

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	11 September 2019
To:	Michele Embling, Chair External Reporting Board
From:	Kimberley Crook, Chair NZASB
Subject:	***2019 Omnibus Amendments to NZ IFRS***

Introduction[1]

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *2019 Omnibus Amendments to NZ IFRS*.

2. During the normal course of business, matters come to the attention of the NZASB that are not urgent but that do require amendments to accounting standards. Rather than issuing an exposure draft for each amendment, it is more efficient to propose the amendments to accounting standards in an Omnibus Exposure Draft.

Due process

3. In May 2019, the NZASB issued for comment NZASB ED 2019-2 *2019 Omnibus Amendments to NZ IFRS* (the ED), with a comment date ending on 16 August 2019.

4. The ED contained proposals to amend the accounting standards applicable to Tier 1 and Tier 2 for-profit entities.

5. The ED proposed amendments to NZ IFRS to:

   (a) defer the effective date of the amendments in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) from to annual periods beginning on or after 1 January 2020 to annual periods beginning on or after 1 January 2025;[2]

   (b) require in FRS-44 *New Zealand Additional Disclosures* that, if an IFRS has been issued by the IASB but the equivalent NZ IFRS has not yet been issued by the XRB, an entity must

[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 IASB has deferred the effective date of the equivalent amendments to IFRS 10 and IAS 28 to "a date to be decided by the IASB". In New Zealand, we are required to have an effective date for application of standards issued by the XRB. As the IASB is still some time away from determining an effective date for these amendments, the NZASB has decided to defer the effective date of the equivalent amendments to NZ IFRS to avoid entities have to apply the amendments before the IASB has a specified effective date.

disclose the information specified in paragraphs 30 and 31 of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in relation to that IFRS;[3]

(c) delete from FRS-44 paragraphs 12.1–12.10, which deal with elements in the statement of service performance; and

(d) make editorial corrections.

6. The NZASB received one submission. The respondent agreed with all the proposals except for the deletion from FRS-44 *New Zealand Additional Disclosures* of paragraphs 12.1–12.10 dealing with elements in the statement of service performance. The respondent was concerned that removing these paragraphs would leave a vacuum for those for-profit entities in the public sector that are required to report performance information that complies with GAAP.

7. The NZASB decided to delete these paragraphs (as proposed in the ED) and Appendix A for the following reasons.

(a) The requirements in FRS-44 are no longer consistent with some legislative requirements for some public sector entities to establish and report against targets and performance measures. While FRS-44 refers to inputs, outputs and outcomes (and defines these terms in Appendix A), some legislation is now less prescriptive regarding the terminology to be used by an entity in reporting targets and performance measures.

(b) The requirements in FRS-44 are no longer consistent with the requirements in the PBE Standard dealing with service performance reporting. PBE FRS 48 *Service Performance Reporting* (issued in 2017) establishes principles and requirements for Tier 1 and 2 public benefit entities to present service performance information, but does not require that the terms inputs, outputs and outcomes be used.

(c) There is no consistent requirement for for-profit entities in the public sector to report performance information *that complies with GAAP*. The respondent acknowledges that there is only a very small number of for-profit entities with such a legislative requirement.

(d) Although deleting the paragraphs would leave a vacuum for the small number of for-profit entities that are required to report performance information that complies with GAAP, these entities would be able to apply judgement in referring to and considering the applicability of other guidance on reporting performance information (e.g. PBE FRS 48 or other extended external reporting (EER) frameworks).

(e) Developing GAAP requirements for for-profit entities with legislative requirements to prepare performance information could restrict an entity's ability to report such information under an appropriate EER framework that other for-profit entities apply, such as Integrated Reporting.[4]

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[3] So that Tier 1 for profit-entities in this situation will be able to simultaneously assert compliance with IFRSs and NZ IFRS.

[4] Consistent with the requirements in paragraphs 10-12 of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* dealing with the absence of an NZ IFRS for transactions, other events or conditions.

8. The NZASB has approved *2019 Omnibus Amendments to NZ IFRS*. 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.

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

Consistency with XRB Financial Reporting Strategy

10. *2019 Omnibus Amendments to NZ IFRS* is a domestic standard to make necessary, but insignificant, changes to the for-profit accounting standards.

11. The issue of *2019 Omnibus Amendments to NZ IFRS* is consistent with two of the three elements of the Financial Reporting Strategy: it retains consistency with IFRS Standards and is consistent with the Accounting Standards Framework.

RDR

12. The additional disclosure in FRS-44 is identified as an RDR concession because the equivalent paragraphs in NZ IAS 8 (paragraphs 30 and 31) are RDR concessions.

Harmonisation with Australia

Deferral of the effective date of amendments

13. The deferral to the effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) to annual reporting periods beginning on or after 1 January 2025 means that these amendments to NZ IFRS 10 and NZ IAS 28 are not aligned with the mandatory effective dates in the equivalent amendments to Australian Accounting Standards. The amendments to AASB 10 and AASB 128 have an effective date of annual reporting periods beginning on or after 1 January 2022.

14. Unless the IASB provides more certainty about the effective date of these amendments in the near future the AASB is also likely to further defer the effective date of these amendments.

Additional New Zealand disclosure

15. The additional disclosure in FRS-44 addresses an issue that was raised with the NZASB by a constituent.

16. The issue has been discussed with AASB staff. However, AASB staff are not aware of this issue arising in practice in Australia and consider that this issue is only likely to arise in extremely rare situations. Therefore, AASB staff have not proposed equivalent amendments to AASB Standards.

17. Although this would result in a trans-Tasman harmonisation difference, in practice we don't think that this will result in a difference as we would typically expect Tier 1 for-profit entities

in New Zealand and Australia to make the disclosures necessary to be able to assert compliance with IFRSs. There is no impact on trans-Tasman harmonisation as a result of the other amendments proposed in NZASB ED 2019-2.

Effective date

18. The amending standard will be applicable for annual reporting periods beginning on or after 1 January 2020, with early application permitted.

Other matters

19. There are no other matters relating to the issue of *2019 Omnibus Amendments to NZ IFRS* that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

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

Attachments

2019 Omnibus Amendments to NZ IFRS

Certificate of Determination *2019 Omnibus Amendments to NZ IFRS*

Kimberley Crook
Chair NZASB

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

14 August 2019

Level 2, 100 Molesworth Street
Thorndon
PO Box 99, Wellington 6140

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

Dear Warren

NZASB Exposure Draft 2019-2 – *2019 Omnibus Amendments to NZ IFRS*

We appreciate the opportunity to provide comments to the New Zealand Accounting Standards Board on ED 2019-2.

The only aspect of the proposals on which we have detailed comments is the proposed deletion of the paragraphs in FRS-44 *New Zealand Additional Disclosures* that deal with the elements in the statement of service performance. We provide these comments and our responses to the specific questions asked by the NZASB in the attached document.

If you would like to discuss our comments, please phone me on 021 222 6107 or email me at robert.cox@auditnz.govt.nz.

Yours sincerely

Robert Cox
Director and Head of Accounting

Our responses to the questions in the Invitation to Comment accompanying NZASB ED 2019-2: *2019 Omnibus Amendments to NZ IFRS*

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

Yes we agree with the proposal.

2. Do you agree with the proposed amendment to FRS-44 *New Zealand Additional Disclosures* that, if an IFRS has been issued by the IASB but the equivalent NZ IFRS has not yet been issued by the XRB, an entity is required to disclose the information in paragraphs 30 and 31 of NZ IAS 8 in relation to that IFRS? If you disagree, please explain why.

Yes we agree with the proposal.

3. Do you agree that paragraph 6.1 of FRS-44 should be identified as a disclosure concession for Tier 2 for-profit entities? If you disagree, please explain why.

Yes we agree with the proposal.

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

Although we understand the reasons for the proposal (as set out in new paragraph BC4), we have some concerns that the removal of these paragraphs will leave a vacuum for those for-profit entities that are required to report performance information that complies with GAAP. They will have a legislative requirement for their performance information to comply with GAAP, but no applicable GAAP.

We believe that there are only a very small number of for-profit entities in the public sector that are required to report performance information that complies with GAAP. This includes some for-profit Crown entities and Crown-owned companies, such as the New Zealand Lotteries Commission, the Public Trust and Southern Response Earthquake Services Limited. Nevertheless we consider that there should be a steer for such entities on relevant GAAP expectations. One way to achieve this could be to formally refer such entities to either the principles or specific requirements in PBE FRS 48.

We also note that there are a substantial number of for-profit entities in the public sector that have a requirement to produce performance information, but no legislative requirement for this performance information to comply with GAAP. The main examples are council controlled trading organisations and energy companies. Although these entities have no legislative requirement to comply with GAAP, these entities might choose to refer to GAAP for guidance on good practice in service performance reporting.

5. Do you agree with the proposed effective date of annual reporting periods beginning on or after 1 January 2020, with early adoption permitted? If you disagree, please explain why.

Yes we agree with the proposal.

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

No.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 110

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

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 *Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12)*;* 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 *Uncertainty over Income Tax Treatments* (Amendments to PBE IAS 12) pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 9th day of August 2019

……

Michele Embling
Chair
External Reporting Board