XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Board Meeting Agenda

Virtual Meeting — Wednesday, 16 February 2022

Est Time	Item	Topic	Objective		Page
NON-PUBLIC SESSION					
10.40 am 15 min	Morning tea break				
PUBLIC SESSION					
10.55 am	**3**	**Tier 3 and Tier 4 Standards**	(JC/CB)		
75 min	3.1	Cover memo	Consider	Paper	
	3.2	Draft ITC – Tier 3 Reporting Standards	Consider	Paper	
	3.3	Draft ED – Tier 3 Reporting Standard (NFP)	Consider	Paper	
	3.4	Draft ED – Tier 3 Reporting Standard (PS)	Consider	Paper	
	3.5	Draft ITC – Tier 4 Reporting Standards	Consider	Paper	
	3.6	Draft ED – Tier 4 Reporting Standard (NFP)	Approve	Paper	
	3.7	Draft ED – Tier 4 Reporting Standard (PS)	Approve	Paper	
12.10 pm	**4**	**2022 Omnibus Amendments to PBE Standards**	(GS/CB)		
30 min	4.1	Cover memo	Consider	Paper	
	4.2	Draft ITC – 2022 Omnibus Amendments to PBE Standards	Approve	Paper	
	4.3	Draft ED – 2022 Omnibus Amendments to PBE Standards	Approve	Paper	
12.40 pm 30 min	Lunch break				
NON-PUBLIC SESSION					
PUBLIC SESSION					
2.20 pm	**7**	**Public Sector Insurance**	(VSF/AT)		
20 min	7.1	Cover memo	Consider	Paper	
	7.2	Report on field test of proposed indicators of activities within the scope of AASB 17/PBE IFRS 17	Consider	Paper	
	7.3	Draft ED– Public Sector Insurance	Approve	Paper	
	7.4	Draft ITC – Public Sector Insurance	Approve	Paper	

Est Time	Item	Topic	Objective		Page
2.40 pm	**8**	**Initial Application of PBE IFRS 17 and PBE IPSAS 41**	(VSF)		
10 min	8.1	Cover memo	Note	Paper	
	8.2	Draft ITC	Approve	Paper	
	8.3	Draft ED	Approve	Paper	
2.50 pm 15 mins	Afternoon tea break				
3.05 pm	**9**	**PBE Leases**	(VSF)		
30 min	9.1	Cover memo	Consider	Paper	
	9.2	IPSAS 43 Leases	Note	Paper	
3.35 pm	**10**	**Standards Approved**	(VSF)		
1 min	10.1	Approval 135 *Initial Application of NZ IFRS 17 and NZ IFRS 9*	Note	Paper	
NON-PUBLIC SESSION					
3.56 pm	*Finish*				

Next NZASB meeting: 5 April 2022 (location – TBC)

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Date:	4 February 2022
To:	NZASB Members
From:	Jamie Cattell, Carly Berry
Subject:	**Tier 3 and Tier 4 Standards**

Recommendations[1]

Tier 3 Standards

1. The Board is asked to:

   (a) PROVIDE FEEDBACK on the draft Invitation to Comment: *Proposed Amendments to the Tier 3 (NFP) Standard and Tier 3 (PS) Standard* (the "**Tier 3 ITC**") — Agenda Item 3.2; and

   (b) PROVIDE FEEDBACK on the draft Exposure Drafts: *Amendments to the Tier 3 (NFP) Standard and Tier 3 (PS) Standard* (the "**Tier 3 EDs**") — Agenda Items 3.3 and 3.4

Tier 4 Standards

2. The Board is asked to:

   (a) PROVIDE FEEDBACK on the draft Invitation to Comment: *Proposed Amendments to the Tier 4 (NFP) Standard and Tier 4 (PS) Standard* (the "**Tier 4 ITC**") — Agenda Items 3.5; and

   (b) REVIEW and APPROVE the draft Exposure Drafts: *Proposed Amendments to the Tier 4 (NFP) Standard and Tier 4 (PS) Standard* (the "**Tier 4 EDs**") — Agenda Items 3.6 and 3.7.

Background

3. The Board completed a post-implementation review (PIR) of the Tier 3 and Tier 4 Simple Format Reporting Standards over the 2021 year to assess whether the Standards were working as intended and achieving their original objectives.

2. At its August 2021 meeting, the Board agreed to publish the final Feedback Statement on the PIR based on the over 100 submissions received. The Feedback Statement set out the areas of the Tier 3 and Tier 4 Standards for which the Board would consider standard-setting activity (i.e. develop propose amendments to the Tier 3 and Tier 4 Standards).

[1] The Tier 3 Standards consist of:
- *Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)*
- *Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)*

The Tier 4 Standards consist of:
- *Public Benefit Entity Simple Format Reporting – Cash (Public Sector)*
- *Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit)*

Hereafter referred to as "the Tier 3 and Tier 4 Standards".

3. Between August and December 2021, the Board considered each of the key issues identified through the PIR process and provided direction on how they should be addressed in proposed amendments to the Tier 3 and Tier 4 Standards.

4. Staff have drafted exposure drafts (EDs) proposing to amend the Tier 3 and Tier 4 Standards —for both the not-for-profit (NFP) and public sector (PS) versions of the standards. These amendments have been drafted based on Board decisions and direction received on specific issues. Staff have also drafted two ITC documents – one to accompany the two Tier 3 EDs and another to accompany the two Tier 4 EDs.

5. The Board considered a first draft of the Tier 4 (NFP) ED at its September 2021 meeting and provided feedback to support further refinements.

Status of draft consultation documents

6. We are pleased to have a complete package of draft consultation documents for Board review at this meeting – 4 EDs and 2 ITCs. This is a significant step forward in progressing this project.

7. We welcome editorial comments from the Board members on the draft consultation documents outside of the Board meeting.

8. The current status of each draft consultation is summarised below.

Tier 3 EDs

9. This is the first time the Board has considered the drafting of proposed amendments to the Tier 3 Standards.

10. To date, we have only amended sections of the existing Tier 3 Standards in response to specific issues raised through PIR feedback.

11. At this meeting, we are seeking Board feedback on the draft Tier 3 EDs based on marked-up changes to the existing standards. We do not expect the Board to review the entire draft Tier 3 EDs. Instead, we are only requesting feedback on the changes shaded in grey — please refer to Agenda Items 3.3 and 3.4.

12. Post the February 2021 meeting, we plan to:
    - refine the proposed amendments further, based on Board feedback at this meeting;
    - consider other changes to simplify the content and language used across the entire Tier 3 Standard;
    - consider the extent of changes to the format, style, and structure of the amended Tier 3 Standard to maintain a consistent look and feel across both the Tier 3 and Tier 4 Standards; and
    - complete final editorial review – this will include ensuring consistency of terms and descriptions used across all Tier 3 and Tier 4 consultation documents.

Tier 4 EDs

13. This is the second time the Board has considered the Tier 4 (NFP) ED, after previously reviewing a simplified version of the Standard at its September 2021 meeting.

14. For this meeting, we have also drafted for Board review the PS version of the Tier 4 ED, which is substantially the same as the NFP version.

15. At this meeting, we are seeking Board approval of the two draft Tier 4 EDs — if possible we are keen to lock down these draft EDs.

16. Post the February 2021 meeting, we plan to:
    - complete a final editorial review – this will include ensuring consistency of terms and descriptions used across all Tier 3 and Tier 4 consultation documents; and
    - check the draft Tier 4 EDs meets all regulatory requirements as a document issued under the Legislation Act 2012 (we feel this additional check is required, due to the fact we are proposing not to follow the typical format/style used for accounting standards issued by the XRB).

ITCs

17. This is the first time the Board has reviewed the draft ITCs that will accompany the EDs. The ITCs are not yet in a final draft state, however, it will be useful to receive preliminary Board feedback at this time before we refine the ITCs further.

18. For now, we have used the XRB's template ITC format, presentation style, and structure. After this meeting, we will consider whether the presentation style of the ITC should be changed to encourage broader engagement with users of the Tier 3 Standard (especially NFP entities).[2]

19. We expect an updated draft will be considered by the Board at a future meeting before we seek final approval.

20. When drafting is further advanced we will complete a final editorial review – this will include ensuring consistency of terms and descriptions between the EDs and ITCs.

Next steps

21. We intend to bring the two Tier 3 EDs and the two ITCs back to the Board for final approval at the March 2022 contingency meeting.

[2] We note the different ITC style used in the recent XRB consultation documents on the development Climate Standards has received positive feedback.

Structure of this memo

22. The remaining sections in this memo are:

    (a) Issues requiring standard-setting activity (recap of previous Board decisions);

    (b) Applicability of the Tier 3 and Tier 4 Standards for Māori entities;

    (c) Update on development of Tier 4 EDs;

    (d) Reduced reporting requirements for 'small' Tier 4 (NFP) entities;

    (e) Specific issues related to the development of the Tier 3 EDs;

    - Service performance reporting;
    - Asset valuation;
    - Minimum categories;
    - Revenue recognition;
    - Accumulated funds;
    - Accumulated funds; and

    (f) Draft ITCs

Issues requiring standard-setting activity (recap of previous Board decisions)

23. **Table 1** below summarises the key issues for which the Board has previously agreed to consider standard-setting activity (i.e. develop amendments to improve the Tier 3 and Tier 4 Standards) and the in-principle decisions made.

24. All issues were identified from the analysis of feedback received from the PIR project competed over the 2020/2021 year. This included the issuance of a Request for Information (RFI) in September 2020 (which closed for comment 31 March 2021) and the publishing of the Feedback Statement in August 2021. [Review of Simple Format Reporting Standards » XRB]

Table 1 - Issues identified as requiring standard-setting activity	
Issues	**In-principle Board decisions**
Applicability of the standards for Māori entities Respondents considered that the Tier 3 and Tier 4 Standards are not currently working well for Māori entities. These respondents noted that the standards and guidance material: (a) do not currently include any Te Reo Māori or encourage its use in performance reports; (b) do not provide examples relevant to Māori entities; and (c) sometimes use terminology and concepts that are not appropriate for entities with a kaupapa Māori focus.	The Board agreed to amend Tier 3 and Tier 4 Standards where possible (and appropriate) to better reflect the Te Ao Māori perspective. This work will include: (a) exploring the extent to which Te Reo can be Incorporated into our Standards, guidance, and templates; (b) developing additional guidance material (including examples) on how to reflect Te Ao Māori concepts within performance reports; and

Table 1 - Issues identified as requiring standard-setting activity	
Issues	**In-principle Board decisions**
Respondents who raised concerns about terminology and concepts cited the specific examples of taonga and koha, which may conflict with the concepts of significance and donations in the standards. Difficulties with applying the concept of related parties in a marae context and determining the appropriate accounting treatment of Māori land were also raised.	(c) promoting other appropriate initiatives to support the use of Te Reo Māori in performance reports.
Simplification of the Tier 4 Standard Respondents commented that many smaller Tier 4 entities were finding it difficult to comply with the Tier 4 Standard. Reasons included the following. (a) The Tier 4 Standard and guidance is too long and complex for many Tier 4 NFP entities. (b) The language used in the Tier 4 Standard is too technical for non-accountants and the smallest Tier 4 entities. (c) Small NFP entities are often under resourced and find it difficult to attract and retain volunteers or staff who understand the reporting requirements. These respondents emphasised the need to reduce the length and complexity of the Tier 4 Standard and to simplify the language used to improve the application of the standard by smaller NFPs.	The Board agreed to undertake a holistic review of the Tier 4 standard to re-express the existing requirements in simpler language. At its September 2021 meeting, the Board considered simplifications to the Tier 4 (NFP) Standard.
Service performance reporting Many respondents commented that they find the objectives and requirements of the statement of service performance (SSP) difficult to understand. In particular, it was noted that the requirement to report on "outcomes" and "outputs" was confusing.	The Board agreed to simplify the service performance reporting requirements in the Tier 3 and Tier 4 Standards taking into consideration the principles-based requirements in PBE FRS 48 *Service Performance Reporting*.
Asset valuation In most cases, the Tier 3 Standard requires assets to be measured based on a cost measurement basis. If an entity wants to measure its assets at revalued amounts it is required to opt up to the relevant Tier 2 PBE Standard. Many respondents requested that we include an option to revalue certain classes of assets in the Tier 3 Standard rather than requiring entities to opt up to the Tier 2 PBE Standards.	Agreed to introduce simple revaluation requirements into the Tier 3 Standard for: (a) property, plant and equipment; (b) investment property; and (c) financial investments (which are publicly traded).

Table 1 - Issues identified as requiring standard-setting activity	
Issues	**In-principle Board decisions**
Minimum categories Many respondents noted that the required presentation of minimum categories of income and expenditure are difficult to apply in practice. Respondents also considered that aggregation of some items obscures important information. For example, some respondents considered that bequests, public donations, and government grants should be shown separately.	The Board agreed to amend the minimum categories in the Tier 3 and 4 Standards to better reflect the terminology used by entities and to ensure the minimum categories address the information needs of users. This involved disaggregating the minimum categories further based on a mixture of both the nature and source of the underlying transactions.
Revenue recognition Many respondents would like revenue deferral to be more widely permitted – allowing for the recognition of revenue in the same period as corresponding expenditure is incurred. Some of these respondents raised concerns that the current "use or return" condition requirement in the Tier 3 Standard is too restrictive. It was noted that, as a consequence of this requirement, some funders no longer offer multi-year funding arrangements.	The Board agreed to draft amendments allowing revenue to be deferred in a wider set of circumstances in the Tier 3 Standard. There were mixed views about the most appropriate solution. The Board agreed to seek feedback on two revenue recognition options in the Tier 3 EDs.
Accumulated funds Respondents requested additional guidance on equity reserves, particularly restricted reserves. Other respondents suggested a reserves policy should be included as a disclosure requirement in the Tier 3 Standard, to provide greater transparency over entities' reasons for accumulating resources, the purposes for which this is done and any restrictions on those reserves[3].	The Board agreed to propose additional narrative disclosures in the Tier 3 EDs about an entity's general approach to managing its accumulated funds.
Opting-up The Tier 3 Standards currently allow an entity to opt-up to a higher tier of reporting requirements for certain balances and transactions – e.g. if an entity chooses to revalue property or investments. Some respondents considered that the requirements for opting up in the Tier 3 Standard are unclear resulting in diversity in practice. These respondents suggested additional guidance should be provided which explains what is required in the common situations in which Tier 3 entities choose to opt up.	The Board agreed to propose additional guidance on opting up in the Tier 3 EDs.

[3] This matter has also been raised by the Policy Team at the Department of Internal Affairs as part of the review of the Charities Act 2005.

Table 1 - Issues identified as requiring standard-setting activity	
Issues	**In-principle Board decisions**
In particular, it was noted that guidance is needed on where to present any asset revaluation gains (or losses) in the Tier 3 performance report.	

Applicability of the Tier 3 and Tier 4 Standards for Māori entities

25. At its June 2021 meeting, the Board agreed that the Tier 3 and Tier 4 Standards should be amended to better reflect the Māori perspective.

26. At this time it was noted that this work would include:

    (a) exploring the extent to which Te Reo could be incorporated into our standards, guidance material, and performance report templates;

    (b) developing additional guidance material (including examples) on how to reflect Māori concepts and world view within annual performance reports; and

    (c) promoting other initiatives to support the use of Te Reo Māori in performance reports.

27. The XRB has subsequently commenced an initiative to develop a XRB framework for consulting and engaging with Māori constituents. This framework is expected to include a strategic XRB approach for incorporating the Māori worldview (and Te Reo Māori) into our standards and our due process consultation documents.

28. The Board in September 2021 agreed not to significantly advance its work on incorporating the Māori perspective and world view into the Tier 3 and Tier 4 Standards at this time. Instead, we would wait for the broader XRB Māori engagement framework to be further advanced at an XRB organisational level.

29. The development of XRB's Māori engagement framework is expected to have an initial focus on climate and integrated reporting. The development of this framework is ongoing and is an area of strategic importance for the XRB over 2022. Given the XRB initiative is in the early stages of development, no amendments related to this matter have been included in proposed amendments to the Tier 3 and Tier 4 Standards at this time.

30. The Māori world view acknowledges the interconnectedness and interrelationship of all living and non-living things. This holistic view seeks to understand the total system, not just parts of it to achieve the best outcomes for the land and its people. Reflecting on the Māori world view, it makes sense that the first step in the XRB building a sustainable partnership with Māori is to develop a fully integrated framework for external reporting across Aotearoa New Zealand. The establishment of this Framework is needed before we can seek to address parts of the issue (i.e. through amending individual standards).

31. After amendments to the Tier 3 and Tier 4 Standards are finalised[4] we intend to develop separate guidance material on how the reporting requirements and principles in these standards can better reflect the Māori worldview. We also intend to amend our non-mandatory guidance material and template performance reports to help improve the applicability of Tier 3 and Tier 4 Standards for application by Māori entities.

Question for the Board
Q1. Does the Board agree no further action on the matter discussed above is required at this time?

Update on development of Tier 4 EDs

32. One of the key areas of feedback received from the PIR was the ongoing difficulty faced by many Tier 4 NFP entities when applying the Tier 4 cash-based Standard. These respondents generally considered that our primary focus should be to reduce the length and complexity of the Tier 4 Standard and to simplify the language used. They considered this could be achieved without compromising transparency and accountability, provided that the Standard focuses on the key information required by users

33. At its September 2021 meeting, the Board considered and provided feedback on a draft ED for a simplified Tier 4 Standard. The ED included significant changes from the existing Tier 4 Standard.

34. In addition to a holistic simplification of the language used and improvements to the structure/format of the Standard, the Board agreed to the following changes.

    (a) Removal of optional disclosures, to reduce the length of the Tier 4 Standard and provide for a focus on the minimum information required to be reported by the Standard.

    (b) Removing the requirement in the Tier 4 Standard to prepare a separate Statement of Resources and Commitments. Instead, these entities would be required to disclose only significant assets (such as land, buildings, and vehicles) and significant liabilities (primarily borrowings from external parties) in the notes to the Performance Report.

    (c) Removing the requirement to disclose the following in the entity information section of the Performance Report on the basis that it is duplicated in other parts of the Tier 4 Standard.

        (i) The entity’s purpose or mission – as it should be captured by the statement of service performance.

        (ii) The main sources of the entity’s cash and resources.

        (iii) The main methods used by the entity to raise funds.

[4] At this time of issuing final prouncments on Tier 3 and Tier 4 amendments, we expect the XRB’s Māori engagement framework will be further advanced.

(d) Changing the usage of the terms "cash" and "receipts" in the Tier 4 Standard to clarify that they do not refer to physical currency and receipt documents. This also involved changing the name of the Statement of Receipts and Payments to the "Statement of Cash Received and Cash Paid".

(e) Removing the following sections from the Tier 4 Standard, this technical information will instead be provided via links to the XRB website in the Standard.

  (i) Transitional arrangements.

  (ii) Basis for Conclusions

  (iii) History of Amendments.

  (iv) Illustrative Examples.

  Before issuing any EDs for public consultation, we will double-check if this approach provides for any risk of unintended consequences or inconsistencies with standard-setting protocols.

(f) Rewording the requirements related to the disclosure of the correction of errors, to clarify that there is no requirement to adjust the prior period Performance Report to correct prior period errors and reinforce that note disclosure is sufficient to let readers know about the error.

35. These agreed changes have been reflected in the updated draft Tier 4 EDs – Agenda Items 3.6 and 3.7.

Targeted consultation in October 2021

36. In October 2021, staff conducted a targeted consultation to receive user feedback on the revised Tier 4 Standards. We met with key stakeholders including members of XRAP, TRG, Charities Services, and other representatives involved in supporting NFP reporting.

37. Overall, the proposed amendments to the Tier 4 Standard were positively received. The amended Standard was considered to be much easier to understand and use. As a result of this targeted consultation, no new issues or concerns were raised.

Reduced reporting requirements for 'small' Tier 4 (NFP) entities

38. In addition to concerns raised through the XRB's PIR of the Tier 3 and Tier 4 Standards, the following recent legislative reforms have also highlighted concerns that many small NFP entities are having difficulty applying the Tier 4 reporting requirements as established by the XRB.

    (a) Modernising the Charities Act 2005;[5] and

    (b) Review of the Incorporated Societies Act 1908.[6]

39. Public submissions to the Charities Act review have pointed to high levels of non-compliance with applicable reporting standards by Tier 4 charities.[7] Respondents to this consultation considered that this indicates the current reporting requirements are too burdensome and should be reduced for smaller NFP entities. Respondents highlighted that smaller NFP entities often:

    (a) have insufficient resources (time and money) to meet annual reporting requirements;

    (b) lack suitably experienced and qualified personnel or volunteers to apply the Standards; and

    (c) have high personnel turnover leading to ongoing training costs.

40. Respondents generally agreed that some form of minimum reporting requirements should be maintained for all entities who receive benefits from their NFP status and collect funding from the public, but considered that some form of reporting compliance relief should be provided for small NFP entities.

41. Public sector policymakers at DIA and MBIE have raised overarching concerns, that the difficulties small NFP entities are experiencing when applying the Tier 4 Standards, was resulting in a loss of resources that would otherwise go towards achieving an entity's NFP objectives.

42. These legislative reforms generally described 'small' NFP entities as those with annual operating expenditure less than $10,000.

43. The issue of establishing appropriating annual reporting requirements for small NFP entities is considered to mainly impact the reporting obligations of registered charities – approximately 20,000 of the 28,000 registered charities in New Zealand have annual operating expenditure of less than $10,000.

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[5] In February 2019, DIA issued a discussion paper, *Modernising the Charities Act 2005* for public comment, which closed for comment 31 May 2019. The issues considered by the discussion paper included seeking views on the reporting requirements for small charities. Policy proposals to amend the Charities Act 2005 are currently expected to be considered by Cabinet in early 2022.

[6] A draft Bill to replace the Incorporated Societies Act 1908 was introduced to Parliament on 17 March 2021. It had its first reading on 6 April 2021 and completed its second reading on 17 November 2021. New legislation for incorporated is currently expected to be enacted in early 2022.

[7] Charities Services data shows that in 2018, 100% of tier 1 charities, 91% of tier 2 charities, 81% of tier 3 charities, and 58% of tier 4 charities successfully met the minimum reporting requirements.

Staff response

44. The Director of Accounting Standards and Accounting Team Staff meet with representatives from Charities Services, DIA Policy Team, MBIE, and IRD in November and December 2021 to agree on a reporting solution in response to the 'small' Tier 4 (NFP) entity issue.

45. Originally the concept of introducing a 'Tier 5' into the XRB's Financial Reporting Framework was considered, but this approach was not supported by Charities Services staff who believed the introduction of a completely new Tier would only add further complexity and confusion amongst preparers of annual Performance Reports in accordance with XRB Standards.

46. All parties agreed that some form of reporting relief was required for small NFP entities to improve the adoption and consistent application of the Tier 4 Standard. To reduce the reporting burden for these smaller NFP entities, it was proposed that we introduce reduced reporting requirements within the Tier 4 Standard for 'small' NFP entities.

47. This approach was broadly supported by all DIA and Charities Services. The DIA Policy Team considered that this approach, if successfully introduced, would remove the need in the future to introduce reporting relief through legislation to exempt certain NFP entities from complying with XRB Standards.

48. The XRB Board was verbally briefed on this proposed solution at their December 2021 meeting, and they expressed support for taking this approach forward. The XRB Board considered this approach struck an appropriate balance between maintaining minimum reporting requirements for all publicly accountable entities[8] as established by an independent standard-setter (i.e XRB) and providing some form of reporting relief for small NFPs.

Draft Tier 4 EDs

49. Introducing the concept of *reduced reporting requirements for 'small' Tier 4 (NFP) entities* has been included in the updated draft Tier 4 (NFP) ED – refer to paragraphs 16 to 19 of the ED (Agenda Item 3.6) and paragraphs 25 to 35 of the draft ITC (Agenda Item 3.5).

50. The ED defines a 'small' Tier 4 NFP entity as an entity:
   (a) That is eligible to report using the Tier 4 Standard; and
   (b) Has total annual payments less than $10,000 for the current and previous financial year.

51. The Tier 4 (NFP) ED defines 'Total annual payments' as the total amount of cash outflows for the year. Total annual payments encompass all cash outflows for the year, including operating, capital (i.e. asset purchases), and financing activities (i.e. repayment of borrowings). It includes any amount paid directly from an entity's bank account or by cash on hand.

52. A small Tier 4 (NFP) entity that elects to apply the reduced reporting requirements would not be required to comply with the reporting requirements in the Tier 4 Standard that are marked with a square cross symbol ☒ .

[8] All registered charities, regardless of size, are considered to be public accountable because they collect donations from the public.

Reduced reporting requirements

53. The proposed reduced reporting requirements for small (NFP) Tier 4 entities include.

Paragraph reference	Description of concession
38 (b)	Information about entity structure
38 (c)	The names of any entities controlled by the reporting entity for financial reporting purposes
41 (b)	Requirement to quantify the significant activities undertaken by the entity during the financial year
73 (a) – (b)	Requirement to report either the amount paid to purchase each significant asset or an estimate of the current value
74	Requirement to disclose the source where an estimated value is reported for a significant asset.
84	Requirement to disclose the source where an estimated value is reported for a significant liability.
87 (a) – (b)	Requirement to disclose the unspent amount of any significant grants with expectations over their use and the nature of the expectation.
96 (b) – (c)	Requirement to estimate the financial impact of significant events after balance date and the likelihood of the event affecting the entity's ability to continue operating over the next 12 months.

54. Reduced reporting requirements have not been proposed for small Tier 4 public sector entities. We have not been made aware of any issues concerning public sector entities applying the existing public sector version of the Tier 4 Standard (except for specific issues addressed by other proposed amendments in the Tier 4 ED).

Questions for the Board

Q2. Are there any proposed reduced reporting requirements that you do not support – due to the usefulness of the information to readers of all Tier 4 Performance Reports?

Q3. Are there any additional disclosure concessions for small Tier 4 (NFP) entities that could be considered?

Question for the Board

Q4. Subject to final editorial review, does the Board approve for issue the Tier 4 (NFP) ED and Tier 4 (PS) ED?

The draft Tier 4 EDs are provided in Agenda Items 3.6 and 3.7.

Specific issues related to the development of the Tier 3 EDs

55. The Tier 3 EDs (Agenda Item 3.3 and 3.4) have been amended in response to the following specific issues as identified through the PIR.

<u>Service performance reporting</u>

56. At its October 2021 meeting, the Board considered the issue of service performance reporting requirements in the Tier 3 Standards. The Board agreed to draft amendments to remove the language around "outcomes" and "outputs" but retain the requirements for a Tier 3 entity to report on what it is seeking to achieve over the medium to long term (i.e. its 'objectives') and the significant activities undertaken during the reporting period to achieve these objectives.

Draft amendments

57. The draft amendments to the Tier 3 Standards which relate to service performance information can be found at:

    (a) paragraphs A39 – A44 of the draft ED for the NFP version of the Tier 3 Standard; and

    (b) paragraphs A41 – A48 of the draft ED for the PS version of the Tier 3 Standard.

58. The amendments to the service performance reporting requirements have also been reflected in Section 2 of the draft EDs for both versions of the Tier 4 Standard.

Question for the Board
Q5. Does the Board have any FEEDBACK on the draft amendments concerning service performance information in the Tier 3 EDs?

<u>Asset valuation</u>

59. At its August 2021 meeting, the Board considered the issue of asset valuation in the Tier 3 Standards. At this meeting, the Board agreed to develop amendments to include simple requirements within the Tier 3 Standard which provide entities with the option to revalue property, plant and equipment, investment property, and financial investments.

60. The Board also agreed to the following treatments for each of the above-mentioned classes of assets.

    (a) For property, plant and equipment assets to:

        (i) retain the current concession which allows property, plant and equipment to be revalued based on a readily available current value (such as rateable or government valuation) rather than fair value;

        (ii) recognise revaluation gains directly in accumulated funds through a revaluation reserve (unless they reverse an impairment charge recognised in a prior financial year); and

(iii) recognise revaluation losses as an expense in the statement of financial performance, unless these losses offset any previous revaluation gains (in which case they would be recognised directly in accumulated funds).

(b) When revaluing investment property, entities should account for it in the same manner as for property, plant and equipment.

(c) For financial investments to:

(i) allow financial investments to be measured at the current market value provided they are publicly traded;

(ii) recognise changes in current market value in revenue or expense in the statement of financial performance;

(iii) require disclosure of the accounting policy for investments, including the basis on which the current market value was determined (usually it will be the NZX quoted price at the balance date); and

(iv) Disclose a reconciliation of the opening and closing carrying amounts of each class of investment held, as well as an analysis of investments by class, with those classes held at current market values being separately displayed from those held at cost less impairment.

Draft amendments

61. The draft amendments to the Tier 3 Standards which relate to asset valuation can be found at:

(a) paragraphs A114 – A116.5 of the draft ED for the NFP version of the Tier 3 Standard[9]

(b) paragraphs A116 – A118.5 of the draft ED for the PS version of the Tier 3 Standard[10]

Question for the Board

Q6. Does the Board have any FEEDBACK on the draft amendments in the Tier 3 EDs concerning asset revaluations?

Minimum categories

62. At its December 2021 meeting, the Board considered the minimum categories of income and expenditure in the Tier 3 and Tier 4 Standards. It also considered the minimum categories of assets and liabilities in the Tier 3 Standards.

63. The Board agreed to propose amendments to the minimum categories to disaggregate and refine them based on a combination of both the nature and source of the underlying transactions. The minimum categories of income and expenditure previously considered and agreed by the Board are summarised in tables 2-5 below.

64. The proposed changes to the minimum categories were broadly supported when discussed at recently completed targeted consultations in December 2021.

[9] There are also amendments at paragraphs A143 – A148 which address the related revaluation reserve.

[10] There are also amendments at paragraphs A145 – A150 which address the related revaluation reserve.

Table 2 – Proposed minimum income categories (NFP)	
Current categories in the Tier 3 Standard (NFP)	**Proposed new categories in the Tier 3 Standard (NFP)**
Donations, fundraising, and other similar revenue/receipts.	Donations, koha, bequests, and other general fundraising activities
	Grants [Excluding service delivery grants/contracts]
Revenue/receipts from providing goods or services.	Funding from service delivery grants/contracts (Government)
	Funding from service delivery grants/contracts (Non-Government)
	Revenue from commercial activities [Sale of goods or services]
Fees, subscriptions, and other revenue/receipts from members.	Membership fees and subscriptions
Interest, dividends, and other investment revenue/receipts.	Interest, dividends, and other investment revenue
	Other revenue

Table 3– Proposed minimum expenditure categories (NFP)	
Current categories	**Proposed categories**
Expenses related to public fundraising	Costs related to fundraising
Volunteer and employee related costs	Employee remuneration
	Other employee and volunteer costs
Costs related to providing goods and services	Costs related to the delivery of NFP activities [Excluding expenses related to the categories above]
	Costs related to commercial activities
Grants and donations made	Grants and donations made
	Other costs

Table 4 – Proposed minimum income categories (public sector)	
Current categories	**Proposed categories**
Donations, fundraising, and other similar revenue	Donations, koha, bequests, and other similar revenue

Table 4 – Proposed minimum income categories (public sector)	
Current categories	**Proposed categories**
	Grants from non-governmental organisations
Funding from central or local government	General funding received from central or local government
	Funding from service delivery grants/contracts (central or local government)
Revenue from non-governmental sources for providing goods or services	Funding from service delivery grants/contracts (non- government)
	Revenue/Receipts from commercial activities
Interest, dividends, and other investment revenue receipts	Interest, dividends, and other investment revenue
	Other revenue

Table 5 – proposed minimum expenditure categories (public sector)	
Current Categories	**Staff recommendation**
Expenses related to fundraising	Costs related to fundraising
Employee related costs	Employee remuneration
	Other employee costs
Costs related to providing goods and services	Costs related to the delivery of PS objectives [Excluding expenses related to the categories above]
	Costs related to commercial activities
Grants paid	Grants and donations
	Other costs

65. The Board previously agreed to disaggregate and refine categories of assets and liabilities as summarised in tables 6 and 7 below – the categories are the same across the NFP and PS Tier 4 EDs.

Table 6 – Recommendations for minimum asset categories (note disclosure)	
Current category	**Suggested categories**
Bank accounts and cash	Bank accounts and cash (including term deposits)
Money owed to the entity	Significant amounts owed from external parties
	Land and buildings
	Investments (excluding term deposits)
Other resources	Other significant assets

Table 7 – Recommendations for minimum liability categories (note disclosure)	
Current category	**Suggested categories**
Money payable by the entity	
	Bank overdraft
	Loans
Other commitments	Other significant amounts owed to external parties
	Money held on behalf of others

Draft amendments

66. The draft amendments to the Tier 3 Standards which relate to the minimum categories of income and expenditure can be found at:

    (a) paragraphs A54 – A62 and A72 – A80 of the draft ED for the NFP version of the Tier 3 Standard;[11] and

    (b) paragraphs A56 – A63 and A74 – A82 of the draft ED for the PS version of the Tier 3 Standard.[12]

67. The amendments to the minimum categories of income and expenditure have also been reflected in section 3 of the draft EDs for both versions of the Tier 4 Standard.

68. In addition to disaggregating the specific minimum categories required, we have made the following key changes to the Tier 3 Standard.

    (a) Added further guidance on the difference between general grants and grants which are in substance a contract for the delivery of goods or services.

    (b) Added guidance on what constitutes a commercial activity for the purpose of classifying revenue and expenses.

    (c) Removed the optional revenue and expense categories and streamlined the guidance on further disaggregation of the categories to state that further disaggregation should only be used where doing so is necessary for users' understanding.

Question for the Board

Q7. Does the Board have any FEEDBACK on the draft amendments in the Tier 3 EDs concerning revenue, expense, asset, and liability minimum categories?

[11] There are also amendments to Table 1 and Table 2 in the ED to reflect the changes to the minimum categories.

[12] There are also amendments to Table 1 in the ED to reflect the changes to the minimum categories.

Revenue recognition

69. At its September and October meetings, the Board discussed the requirements which apply to revenue recognition in the Tier 3 Standard. While the Board agreed in principle to allow revenue to be deferred in a wider set of circumstances, there were mixed views on the extent of flexibility that should be provided by the Standard. Due to this, the Board decided to present the following two revenue recognition options in the Tier 3 EDs.
    (a) Option 1 - Where grant, donation, bequest, or pledge funding is received with specific expectations over its use, revenue is recognised as the reporting entity (the funding recipient) satisfies the associated expectations over use.
    (b) Option 2 - Regardless of the existence of any expectation over use, grant, donation, bequest of pledge funding received is recognised as revenue when spent by the reporting entity.
70. Option 1 is built around the principle of recognising revenue as associated expectations over use are satisfied. Option 2 is more akin to the old "matching principle" whereby revenue is recognised in the same period as corresponding expenditure is incurred.
71. Both Option 1 and Option 2 only apply to the recognition of revenue for donations, grants, bequests, and pledges – not other types of revenue, such as general fundraising activities (e.g. street appeals).
72. Table 1 in each Tier 3 ED provides guidance on how different types of revenue should be recognised.

Draft amendments

73. The draft amendments to the Tier 3 Standards which relate to revenue recognition can be found at:
    (a) paragraphs A62 – A68, A188 and illustrative example 2 of the draft ED for the NFP version of the Tier 3 Standard; and
    (b) paragraphs A64 – A69, and A190 of the draft ED for the PS version of the Tier 3 Standard.
74. The Tier 3 EDs have a version of the abovementioned paragraphs under each of the options. Paragraphs based on Option 1 are highlighted in blue and paragraphs based on option 2 are highlighted in green. The ITC includes a specific question seeking feedback on the preferred revenue recognition option.
75. When developing the two options, we considered the following factors:
    (a) Clarity – the Tier 3 requirements need to be clear and easy to understand and apply.
    (b) User needs – Tier 3 users expressed a desire to tell their performance story, which included recognising revenue in the same period as the related expenditure. Readers of the financial statements want to understand how grants and donations have been spent and whether these have been spent in line with expectations.

(c) Auditability – the Tier 3 requirements need to be verifiable. This is particularly important if new concepts are introduced.

Option 1 – Revenue recognised as expectations over use are satisfied

76. The concept of recognising revenue as "expectations" over use are satisfied is introduced in Option 1, and replaces the "use or return" condition approach. We are not proposing to define the term "expectations", but have instead proposed that the following guidance be added to the Tier 3 Standards to indicate when this revenue recognition approach would be appropriate.

    (a) An expectation about how the funds should be used must be one that the provider of the grant or donation has attached to the funds when funding is initially transferred.

    (b) The provider must communicate its expectations over the use of the grant or donation in writing. This could mean a formal letter, contract, email, or similar. Merely discussing an expectation with a provider (e.g. over the phone, in-person, or in an online meeting) would not be enough to allow an entity to defer revenue recognition (this condition is important from an assurance perspective).

    (c) An entity's history with a provider has no bearing on whether a new grant or donation has expectations attached. The terms of each grant or donation are considered on their own as to whether there is a documented expectations attached.

77. Under Option 1, when funding from grants, donations, bequests, or pledges are initially received (typically when cash is transferred) a liability is recognised. This is because the entity has an obligation to satisfy the resource provider's expectations, as documented in writing. As the expectations are satisfied, the liability is reduced and revenue is recognised.

78. Where there are no expectations attached to the funding, then revenue is recognised immediately upon receiving the funds.

Option 2 – Revenue recognised as corresponding expenditure is incurred

79. Option 2 would result in a reporting entity recognising funding from grants, donations, bequests, and pledges as revenue over the same period as the related expenditure is incurred, regardless of whether there are any specific external expectations over use.

80. When donations, grants, donations, bequests, or pledges are initially received (typically when cash is transferred), a deferred revenue balance is recognised separately on the Statement of Financial Position. This balance does not represent amounts owing to external parties and therefore does not meet the Tier 3 definition of a liability. Instead, the credit balance on the Statement of Financial Position represents deferred revenue which will be recognised in future periods as the related expenditure is incurred.

Option 1 vs Option 2 – similarities and differences

81. The table below sets out the main similarities and differences between the two options in the Tier 3 EDs.

	Option 1	**Option 2**
Resource provider expectations over use are considered	Yes – must be documented in writing	No
Recognition of a liability upon receipt of the funds	Yes – when funding is initially received, a liability is recognised until expectations over use ate satisfied	A "liability" balance is not recognised. However, a "deferred revenue balance" would be recognised separately on the Statement of Financial Position and treated as a credit balance – like liabilities.
Recognition of revenue (i.e. what is the "trigger" for recognition of revenue?)	Revenue is recognised as the reporting entity uses the funding received in accordance with expectations	Revenue is recognised as the reporting entity spends the funds on advancing its objectives.
Auditability?	Auditors would be able to request documentation to support provider expectations and assess the degree to which these expectations have been met. Assessing performance against expectations will require professional judgement to be exercised.	Auditors would be able to request evidence (i.e. from accounting records or bank statements) that funds have been spent in accordance with these expectations. Tracking the use of funding received is likely to require professional judgement to be exercised.
Clarity?	Recognising revenue as expectations are satisfied is not a complex principle to understand and apply. However, it may require increased recording keeping – to track the satisfaction of expectations over use for each major funding source.	The matching principle is not a complex principle to understand and apply. However, it may require increased recording keeping – to track how each major source of funding is being spent.
User needs are met?	Yes – User needs are met by broadening the ability to defer revenue.	Yes – User needs are met by broadening the ability to defer revenue.

	Option 1	**Option 2**
	Preparers would be able to apply the requirements easily, working with their funders and donors to ensure that expectations over the use of funds are documented and that revenue is recognised when these expectations have been met. This option would address readers' desire to better understand the financial position of the entity as well as any future obligations relating to the use of grants and donations.	Preparers would be able to apply the requirements relatively easily, working with their funders and donors to ensure that expenditure is coded appropriately to allow reporting of expenditure against each significant grant, donation, or fundraising event. This option would address readers' desire to better understand the financial position of the entity as well as an increased understanding of how funding received has been spent.

Question for the Board

Q8. Does the Board have any FEEDBACK on the draft amendments in the Tier 3 EDs concerning the two revenue recognition options?

<u>Accumulated funds</u>

82. At its October 2021 meeting, the Board discussed the requirements which apply to accumulated funds. At this meeting, the Board agreed to develop amendments to the Tier 3 Standards to require entities to disclose information that enables users of their Performance Reports to evaluate their objectives, policies, and processes for managing their accumulated surpluses (or deficits).

83. The Board also agreed to amend references in the NFP version of the Tier 3 Standard to reduce the prominence of the term "owners" to better reflect the circumstances of most NFP entities – instead terms such as "settlor/members/officers" has been used.

Draft amendments

84. The draft amendments to the Tier 3 Standards which relate to Accumulated Funds can be found at:

(a) paragraphs A138 – A148 and A196.1 of the draft ED for the NFP version of the Tier 3 Standard.

(b) paragraphs A140 – A147 and A198.1 of the draft ED for the PS version of the Tier 3 Standard.

85. The Tier 3 Standards currently recognise the following three main classes of accumulated funds.

    (a) Capital contributed from owners or members.

    (b) Accumulated surpluses or deficits.

    (c) Other reserves.

86. PIR Feedback highlighted a desire for increased transparency over a reporting entities' general approach and rationale for retaining accumulated funds.

87. The draft Tier 3 EDs have been amended to require a reporting entity to disclose information that explains the purpose for which accumulated funds are held, and when applicable when the accumulated funds are expected to be used.

Question for the Board

Q9. Does the Board have any FEEDBACK on the draft amendments in the Tier 3 EDs concerning Accumulated Funds?

Opting up

88. At its October 2021 meeting, the Board discussed the requirements which apply to opting up to the Tier 2 PBE Standards for a specific class of transactions or balance. The Board agreed to draft amendments to the Tier 3 Standards to:

    (a) provide further guidance on common situations in which an entity may want to opt up to the PBE Standards;

    (b) require transactions that are recognised in other comprehensive income in Tier 2 PBE Standards to instead be recognised directly in accumulated funds when reporting in accordance with Tier 3 Reporting Requirements.

89. The need for improved guidance on opting up to Tier 2 PBE Standards has been largely resolved by the proposed amendments to introduce simple requirements within the Tier 3 standard itself on how to account for classes of property, plant and equipment, investment property, and certain types of financial investments at revalued amounts.

Draft amendments

90. The draft amendments to the Tier 3 Standards which relate to opting up can be found at:

    (a) paragraphs 3 – 9 and Appendix C of the draft ED for the NFP version of the Tier 3 Standard; and

    (b) paragraphs 3 – 9 and Appendix C of the draft ED for the public sector version of the Tier 3 Standard.

Question for the Board

Q10. Does the Board have any FEEDBACK on the draft amendments in the Tier 3 EDs concerning Opting up?

Question for the Board
Q11. Does the Board have any other FEEDBACK on the draft amendments in the Tier 3 EDs?

Draft ITCs

91. The draft ITCs are included as Agenda Items 3.2 and 3.5 – one ITC for Tier 3 (NFP and PS ED) and one ITC for Tier 4 (NFP and PS ED).

92. At this meeting, we are seeking Board feedback on the first draft of the ITCs. For now, we have used the 'traditional' ITC document format, presentation style, and structure. After this meeting, we will consider how the presentation style of the ITC could be amended to encourage broader engagement with users of the Tier 3 and Tier 4 Standards (especially smaller NFP entities).

Questions for the Board
Q11. Does the Board have any preliminary FEEDBACK on the draft Tier 3 ITC?
Q12. Does the Board have any preliminary FEEDBACK on the draft Tier 4 ITC?

Next steps

93. We intend to bring both the Tier 3 EDs and the ITCs back to the Board for final approval at the March 2022 contingency meeting.

94. We suggest establishing a sub-Board to help review the updated draft consultation documents (i.e. the EDs and ITCs) before we seek final Board approval to issue these documents.

Questions for the Board
Q13. Does the Board AGREE to form a sub-Board to further review the draft Tier 3 and Tier 4 consultations documents (i.e. the EDs and ITCs) ahead of the 17 March contingency NZASB meeting?

Attachments

Agenda item 3.2:	Draft ITC – Tier 3 Reporting Standards
Agenda item 3.3:	Draft ED – Tier 3 Reporting Standard (NFP)
Agenda item 3.4:	Draft ED – Tier 3 Reporting Standard (PS)
Agenda item 3.5:	Draft ITC – Tier 4 Reporting Standards
Agenda item 3.6:	Draft ED – Tier 4 Reporting Standard (NFP)
Agenda item 3.7:	Draft ED – Tier 4 Reporting Standard (PS)

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Note for Board

At this meeting we are seeking Board feedback on the draft ITC. For now, we have used the 'traditional' ITC document format, presentation style, and structure. After this meeting we will consider whether the presentation style of the ITC should be amended to encourage broader engagement with users of the Tier 3 Standard (especially NFP entities).

We also note this is a first draft of the ITC for Board feedback. We expect an updated draft will be considered by the Board at a future meeting before we seek final approval to issue.

Tier 3 Simple Format Reporting Standards

(Proposed amendments to Tier 3 (NFP) Standard and Tier 3 (PS) Standard)

NZASB Exposure Draft 2022-4

NZASB Exposure Draft 2022-5

Invitation to Comment

April 2022

PO Box 11250
Manners St Central, Wellington 6142
New Zealand
http://www.xrb.govt.nz

Table of Contents [To be updated]

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 proposals for amendments to Tier 3 (NFP) Standard and Tier 3 (PS) Standard (collectively 'the Tier 3 Standards').

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

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale, and where applicable, provide a suggestion for an alternative. Feel free to 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 *ED Simple Format Reporting Standards for Tier 3 Entities* 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 **30 September 2022.**

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

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

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

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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
GPFS	General purpose financial statements
ITC	Invitation to Comment
NFP	Not-for-profit
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public benefit entity
PIR	Post-implementation Review
PS	Public Sector

Questions for respondents

Paragraphs

Service performance reporting

1. Do you agree with the proposed amendments relating to service performance reporting? If you disagree, please explain why?

Asset valuation

2. Do you agree with the proposal to allow revaluation of property, plant and equipment based on a readily available current value? If you disagree, please explain why.

3. Do you agree with the proposal to require revaluation gains and reversals of previously recognised revaluation gains to be recognised directly in accumulated funds through a revaluation reserve? If you disagree, please explain why.

4. Do you agree with the proposal that investment property should be accounted for in the same manner as property, plant and equipment? If you disagree, please explain why.

5. Do you agree with the proposal to allow financial investments which are publicly traded to be measured at market value? If you disagree, please explain why.

6. Do you agree with the proposal to require changes in the market value of investments to be recognised as revenue or expenses in the statement of financial performance? If you disagree, please explain why.

Minimum categories for presenting revenue and expenses

7. Do you agree with the proposals to amend the minimum revenue categories? If you disagree, please explain why.

8. Do you agree with the proposals to amend the minimum expense categories? If you disagree, please explain why.

Revenue recognition

9. Do you support the accounting treatment proposed by Option 1 – Revenue recognised as expectations over use are satisfied? If not, please explain why.

10. Do you support the accounting treatment proposed by Option 2 – Revenue recognised as corresponding expenditure is incurred? If not, please explain why.

11. If you support neither Option 1 nor Option 2, do you have an alternative option that you would like the NZASB to consider?

Paragraphs

Accumulated funds

12. Do you agree with the proposals to require an entity to provide enhanced note disclosure that explains the purpose for which accumulated funds are held?

Opting up

13. Do you agree with the proposed accounting treatment when opting up requires the accounting for other comprehensive revenue and expense? If you disagree, please explain why

14. Do you have any comments on the new Appendix C?

Other proposed amendments

15. Do you agree with the proposed amendments to Section 3 Entity Information? If you disagree, please explain why.

16. Do you agree with the proposed amendments to the statement of cash flows? If you disagree, please explain why.

17. Do you agree with the proposed amendments to the definition of cash? If you disagree, please explain why.

Effective date

18. Do you agree with the proposed effective date of 1 April 2023, with early adoption permitted? If you disagree, please explain why.

Final comments

19. Do you have any other comments on the Tier 3 EDs?

1. Introduction

1.1 Background

1. The Simple Format Reporting Standards were first issued by the External Reporting Board (XRB) in 2013. These reporting standards are applied by Tier 3 and Tier 4 public benefit entities (PBEs), including registered charities, and other not-for-profit (NFP) entities in both the public and NFP sectors.

2. The Simple Format Reporting Standards were developed to set out the minimum annual reporting requirements for Tier 3 and Tier 4 PBEs – and are commonly referred to as the Tier 3 and Tier 4 Standards. The Tier 3 and Tier 4 Standards are short and relatively simple standards when compared to accounting standards in Tiers 1 and 2.

3. The Tier 3 and Tier 4 Standards have now been used by many PBEs for over six years and in late 2020 the XRB commenced a post-implementation review of these standards to ensure they remained fit-for-purpose.

4. The purpose of developing standardised reporting requirements through accounting standards is to improve the quality and consistency of the information reported by PBEs. PBEs play a vital role in supporting people and communities throughout Aotearoa New Zealand. The sector relies heavily on maintaining the trust and confidence of its funders and the broader public for which they serve.

5. The Tier 3 and Tier 4 Standards set out the requirements for preparing annual Performance Reports (often referred to as financial statements) that are transparent and informative. These annual reporting requirements are critical in maintaining trust and confidence and holding PBEs accountable for how they are spending public funding and providing information about how they have advanced their entity objectives.

6. The XRB recognises that many smaller PBEs are often run by volunteers who may not have an accountancy background, therefore the Tier 3 and Tier 4 Standards must be simple to apply. We appreciate that PBEs are primarily focused on advancing their NFP objectives and serving those most in need in their communities and therefore the annual reporting requirements should not be overburdensome.

7. This ITC focuses on the proposed amendments to improve the Tier 3 Standards, which are simple format accruals-based standards.

1.2 2021 Post-implementation review

8. The XRB completed a post-implementation review (PIR) of the Tier 3 and Tier 4 Standards over the 2021 year to assess whether the Simple Format Standards were working as intended and achieving their original objectives.

9. Over 100 submissions[2] were received in response to the PIR which have been considered as the basis for developing proposed amendments to the Tier 3 in this ITC.

10. Many respondents to the PIR considered that, in general, the Standards are working well. However, there were some key issues raised in the feedback which highlighted areas where the Standards could be improved.

11. Through the proposed amendments to Tier 3 Standards the XRB is seeking to keep the standards as simple and as easy as possible for PBEs to apply while also expanding the requirements in certain areas in response to feedback received

12. A separate ITC has been issued which proposes amendments to the Tier 4 Standard for NFP and public sector entities.

1.3 Purpose of this Invitation to Comment

13. The purpose of this ITC and the associated Exposure Drafts (ED) is to seek comments on the proposed amendments to the Tier 3 Standards.

14. When finalised, the proposals will amend the requirements for PBEs applying Tier 3 Standards.

1.4 Timeline and next steps

15. Submissions on NZASB ED 2022-4 *Amendments to Tier 3 (NFP) Standard* and NZASB ED 2022-5 *Amendments to Tier 3 (PS) Standard* are due by **30 September 2022**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

16. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the amendments.

[2] In August 2021, the NZASB published a Feedback Statement on its *Post-Implementation Review of Simple Format Reporting Standards.*

2. Overview of Invitation to Comment and ED

2.1 Summary

8. This Invitation to Comment (ITC) is organised as follows.

   (a) Approach taken in developing the EDs.

   (b) Overview of the proposed amendments to Tier 3 Standards.

   (c) Effective date and other comments.

9. Unless otherwise stated, the proposed amendments are the same for both Tier 3 NFP entities and Tier 3 public sector entities.

2.2 Approach taken in developing the EDs

10. As noted in the Feedback Statement, the XRB received over 100 written submissions which have been considered as the basis for developing proposed amendments to the Tier 3 Standards.

11. Over the period from August to December 2021 the NZASB considered the feedback received on specific parts of the Tier 3 Standards. The specific topics discussed in this ITC are as follows.

   (a) Service performance reporting

   (b) Asset valuation

   (c) Minimum categories for presenting revenue and expenses

   (d) Revenue recognition

   (e) Accumulated funds

   (f) Opting up

12. This ITC also discusses other proposed amendments relating to:

   (a) Entity information; and

   (b) The statement of cash flows.

13. The EDs contain proposed amendments relating to each of the above topics. For the requirements relating to revenue, the NZASB has decided to seek feedback on two options for recognition of grant, donation, bequest, and pledge revenue.

2.3 Overview of the proposed amendments to Tier 3 Standards

Service performance reporting (Section 4 of EDs)

14. Many respondents to the PIR commented that they find the Tier 4 requirements concerning the reporting of service performance information (non-financial information about an entity's activities) difficult to apply and understand.

15. In particular, the NZASB notes that the requirement to report on "outputs" and "outcomes" in the Tier 3 Standard is causing confusion among PBEs, as the terms are not well understood by many preparers.

16. Taking into account this feedback, the NZASB is proposing to remove the language around "outcomes" and "outputs" but retain the requirement for a Tier 3 entity to report on what it is seeking to achieve over the medium to long term (i.e. its 'objectives') and the significant activities undertaken during the reporting period to achieve these objectives.

17. The NZAZB is also proposing to include examples of different formats that an entity can choose from to present its service performance information in a way that best supports an understanding of the entity's activities.

Public sector-specific amendments

18. Paragraph A42 of the Tier 3 (PS) Standard describes which Tier 3 public sector entities are required to provide a Statement of Service Performance (SSP). Paragraph A42 states that:

    "Public sector entities which are required by legislation to provide a statement of service performance … shall prepare a statement of service performance in accordance with this Standard."

19. A respondent to the PIR noted that the current wording in this paragraph could be amended to make it clear that the SSP requirements in the Tier 3 Standard only apply to entities that are required by legislation to provide an SSP <u>in accordance with generally accepted accounting practice (GAAP) or a non-GAAP standard.</u> This would align with practice and the scope of the Tier 1 and Tier 2 PBE Accounting Requirements.

20. The NZASB is therefore proposing to clarify that the SSP requirements in the Tier 3 (PS) Standard only apply to public sector entities that are required by legislation to provide an SSP in accordance with <u>generally accepted accounting practice (GAAP).</u>

Question for respondents
Q1. Do you agree with the proposed amendments relating to service performance reporting? If you disagree, please explain why

Asset valuation (Section 6 of EDs)

21. To ensure the Tier 3 Standards are simple to apply, they currently require all assets to be measured on a cost basis. If an entity wants to measure any of their assets on a different basis (such as a revalued amount), they are required to opt up to Tier 2 PBE Standards.

22. Many respondents to the PIR considered that the Tier 3 Standards should include simple requirements for measuring some types of assets on an alternative basis to cost. Other respondents raised practical concerns with the current requirements when opting up to the Tier 2 PBE Standards to revalue assets.

23. PIR respondents generally raised these views in relation to the following three main types of assets.

    (a) Property, plant and equipment.

    (b) Investment property.

    (c) Financial Investments (such as shares, bonds, and units in managed funds).

24. Based on the feedback received, the NZASB considered that there is scope to improve and simplify the requirements in the Tier 3 Standards when an entity elects to measure these types of assets at revalued amounts.

Property, plant and equipment

25. The ED has been amended to include simple accounting requirements for when an entity chooses to measure a class of property, plant and equipment at a valued amount. This removes the need for a Tier 3 entity to apply the relevant requirements in the Tier 2 PBE Standards, instead all requirements are contained in the Tier 3 Standard itself.

26. Specifically, the NZASB is proposing to:

    (a) keep the current concession, which allows property, plant and equipment to be revalued based on a readily available current value (such as rateable or government valuation) rather than fair value;

    (b) recognise revaluation gains directly in accumulated funds through a revaluation reserve (unless they reverse an impairment charge recognised in a prior financial year); and

    (c) recognise revaluation losses as an expense in the statement of financial performance, unless these losses offset any previous revaluation gains (in which case they would be recognised directly in accumulated funds).

27. As a result of these proposed amendments, the NZASB has considered the need for additional disclosures in the notes to the performance report when a Tier 3 entity chooses to adopt a policy of revaluing a class of property, plant, and equipment. Disclosures about the basis and date of the valuation, the methods and significant assumptions used in determining the revalued amount, the amount of the revaluation surplus as well as whether an independent valuer was involved would provide useful information. The NZASB is therefore also proposing to include these disclosures in the Tier 3 Standards.

Investment property

28. There are currently no specific requirements in Tier 3 Standards for accounting for investment property. However, based on the feedback received, we understand it would be useful for the Tier 3 Standards to contain specific requirements for these types of assets.

29. In response, The NZASB is proposing to introduce the following simple requirements when accounting for investment property assets.

    (a) Introduce a definition of investment property that is similar to the definition in Tier 2 PBE Standards.

    (b) Require Tier 3 PBEs to account for investment property in the same manner as for property, plant and equipment as discussed above. The Tier 3 Standard will allow an entity to measure investment property assets on either a cost or revaluation basis.

Financial Investments

30. The NZASB noted that some respondents would like the ability to measure financial investments at current value amounts when applying the Tier 3 Standard. Respondents who wanted this option referred only to shares, bonds, units in managed funds, and other similar investments which are publicly traded (and therefore have a readily available and reliable market value).

31. In response, the NZASB is proposing the following amendments.

    (a) Include an option to measure a class of investments at market value, provided they are publicly traded; and

    (b) A requirement to record changes in market value in revenue or expense in the statement of financial performance.

32. The NZASB is also proposing to include additional note disclosures when a market value measurement is used, specifically:

    (a) Disclosure of the accounting policy for investments, including the basis on which market value was determined (i.e. quoted market prices); and

    (b) Reconciliation of the opening and closing carrying amounts of each class of investment held, as well as an analysis of investments by class, with those classes held at market value being separately displayed from those held at cost less impairment.

Question for respondents

Q2. Do you agree with the proposal to allow revaluation of property, plant and equipment based on a readily available current value? If you disagree, please explain why.

Q3. Do you agree with the proposal to require revaluation gains and reversals of previously recognised revaluation gains to be recognised directly in accumulated funds through a revaluation reserve? If you disagree, please explain why.

Q4. Do you agree with the proposal that investment property should be accounted for in the same manner as property, plant and equipment? If you disagree, please explain why.

Q5. Do you agree with the proposal to allow financial investments which are publicly traded to be measured at market value? If you disagree, please explain why.

Q6. Do you agree with the proposal to require changes in the market value of investments to be recognised as revenue or expenses in the statement of financial performance? If you disagree, please explain why.

The minimum categories for presenting revenue and expenses (Section 5 of EDs)

33. To improve the understandability, consistency and comparability of performance reports, the Tier 3 Standards require revenue and expenses to be aggregated and reported within a set of minimum categories. The required minimum categories and the general principles for applying them are similar across both the public sector and NFP versions of the Tier 3 Standards. However, there are some differences in the specific categories each version uses to reflect the public sector and NFP contexts.

34. While feedback received on the PIR was generally supportive of maintaining minimum categories in principle, many respondents raised concerns about application and interpretation challenges for the specific minimum categories currently required. These respondents considered that the minimum categories could be improved by introducing additional disaggregation and clarifying the application of existing categories.

35. There were mixed views among respondents about how the minimum categories should be amended. Some respondents considered that they should be amended based on the nature of the underlying transactions while others considered that they should be amended based on their source.

36. After considering the views of respondents the NZASB decided to propose amendments to the minimum categories by disaggregating the required minimum categories based on a mixture of both the nature and source of the underlying transactions. The increase in the number of the minimum categories is expected to assist preparers in identifying the appropriate category for different types of transactions by being more specific and more clearly defined.

37. It is important to emphasise that the requirements in the Tier 3 Standards only require a minimum category to be used when it is applicable and relevant to the entity. Therefore, while there will be a greater number of minimum categories required by the Tier 3 Standards it is not expected that all of them will be relevant for most entities.

Commercial Activities

38. The proposed minimum categories include separating revenue and expenses from commercial activities from other types of revenue and expenses. To make this distinction the NZASB has included in both Tier 3 Standards an explanation of what commercial activities mean – being "*activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated objectives*".

39. The distinction between commercial activities and non-commercial activities will not always be clear cut and will therefore require preparers to apply judgement. This is because some activities could be considered commercial activities depending on the intent of the entity and the approach it takes in conducting the activity.

40. For example, an entity may operate a baked goods stand at a gala event without intending to operate a commercial bakery. Although this type of activity involves the sale of goods or services, because the gala is not operating as a commercial business the associated income and expenses would be classified as fundraising activities.

Service delivery grants/contracts

41. The proposed minimum categories also involve separating revenue from grants that are in substance, a contract for the delivery of goods or services. This distinction already existed in the Tier 3 Standard, but the NZASB is now proposing that these should be separated from general grants where applicable.

42. Most grants made to PBEs are intended to support the advancement of their stated purpose, which may include the delivery of specific goods or services. A grant is considered to be in substance a contract for the delivery of goods or services where funding is received based on the transfer of specific goods or services to the funder or agreed third party beneficiaries.

43. For example, if a PBE has a funding arrangement under which it will receive an amount for each unit of a good delivered or each specific service provided this would likely be in substance a service delivery grant/contract. If the entity instead received a fixed amount of funding on the understanding that it would be used by the reporting entity to support the delivery of its NFP objectives, this would likely be classified as a general grant.

Proposed minimum categories – Not-for-profit PBEs

44. The minimum categories proposed for revenue in the NFP version of the Tier 3 Standard are set out in the table below.

Table 1 – Proposed minimum revenue categories (NFP)	
Current categories in the Tier 3 Standard (NFP)	**Proposed new categories in the Tier 3 Standard (NFP)**
Donations, fundraising, and other similar revenue.	Donations, koha, bequests, and other general fundraising activities
	Grants [Excluding service delivery grants/contracts]
Revenue from providing goods or services.	Funding from service delivery grants/contracts (Government)
	Funding from service delivery grants/contracts (non-Government)
	Revenue from commercial activities [Sale of goods or services]
Fees, subscriptions, and other revenue from members.	Membership fees and subscriptions
Interest, dividends, and other investment revenue.	Interest, dividends, and other investment revenue
	Other revenue

45. The minimum categories proposed for expenses in the NFP version of the Tier 3 Standard are set out in the table below.

Table 2– Proposed minimum expense categories in the Tier 3 Standard (NFP)	
Current categories	**Proposed categories**
Expenses related to public fundraising	Costs related to fundraising
Volunteer and employee related costs	Employee remuneration
	Other employee and volunteer costs
Costs related to providing goods and services	Costs related to the delivery of NFP activities (Excluding expenses related to the categories above)
	Costs related to commercial activities
Grants and donations made	Grants and donations made
	Other costs

Proposed minimum categories - Public sector PBEs

46. The minimum categories proposed for revenue in the public sector version of the Tier 3 Standard are set out in the table below.

Table 3 – Proposed minimum revenue categories in the Tier 3 Standard (public sector)	
Current categories	**Proposed categories**
Donations, fundraising, and other similar revenue	Donations, koha, bequests, and other fundraising revenue received from the public
	Grants from non-governmental organisations
Funding from central or local government	General funding received from central or local government
	Funding from service delivery grants/contracts (central or local government)
Revenue from non-governmental sources for providing goods or services	Funding from service delivery grants/contracts (non-government)
	Revenue from commercial activities
Interest, dividends, and other investment revenue receipts	Interest, dividends, and other investment revenue
	Other revenue

47. The minimum categories proposed for expenses in the public sector version of the Tier 3 Standard are set out in the table below.

Table 4 – proposed minimum expense categories (public sector)	
Current Categories	**Staff recommendation**
Expenses related to fundraising	Costs related to fundraising
Employee related costs	Employee remuneration
	Other employee costs
Costs related to providing goods and services	Costs related to providing goods and services
	Costs related to commercial activities
Grants paid	Grants and donations
	Other costs

Question for respondents

Q7. Do you agree with the proposals to amend the minimum revenue categories? If you disagree, please explain why.

Q8. Do you agree with the proposals to amend the minimum expense categories? If you disagree, please explain why.

Revenue recognition (Section 6 of EDs)

48. The public sector and NFP versions of the Tier 3 Standard are virtually identical in relation to revenue recognition, including recognition of donation and grant revenue.

49. Donations and grants received with “use or return” conditions are recognised as revenue as the conditions over use are satisfied. A “use or return” condition is one where the entity is required to either use the donation or grant as specified by the donor/grantor or return the donation or grant.

50. Donations and grants received with no “use or return” conditions are required to be recognised as revenue immediately when received. These principles are generally consistent with Tier 1 and Tier 2 PBE Standards.

51. Feedback from many respondents to the PIR, highlight concerns about the restrictive nature of the “use or return” revenue recognition approach in the Tier 3 Standard. This approach does not allow, in many circumstances, a reporting entity to recognise donation and grant revenue over time as the funding is spent on related expenditure.

52. Respondents noted that the use or return” did not provide for appropriate accounting outcomes in practice and was limiting their ability to explain how funding received from the public was being spent on advancing the reporting entity’s NFP objectives.

53. It was also noted that the restrictive nature of the Tier 3 revenue recognition approach was negatively impacting the ability of NFPs to secure multi-year funding arrangements.

54. Respondents suggested the following alternative revenue recognition approaches to replace the “use or return” approach:

    (a) Some respondents would like the flexibility to recognise revenue in the same period as the corresponding expenditure is incurred;

    (b) Other respondents would like the conditions for deferring revenue recognition to be relaxed (i.e. replacing the strict “use or return” condition with an ability to defer revenue recognition when there is a general “expectation” that the grant or donation received will be used in a particular way or to achieve a particular purpose).

55. In response, the NZASB agreed to explore possible alternative revenue recognition approaches for donations and grants.

56. Although feedback indicated a desire for increased flexibility over revenue recognition, there were mixed views on the extent of flexibility that should be provided by the Tier 3 Standard. To obtain further feedback on this issue, the NZASB decided to propose two revenue recognition options.

    (a) **Option 1:** Where grant or donation funding is received with specific expectations over its use, revenue is recognised as the reporting entity (the funding recipient) satisfies the associated expectations; and

(b) **Option 2:** Regardless of the existence of any expectation over use, funding from grants and donations is recognised as revenue when the funding received is spent by the reporting entity.

57. The Tier 3 EDs propose that Option 1 and Option 2 would only apply to the recognition of revenue for donations, grants, bequests, and pledges – not other types of revenue, such as general fundraising activities (e.g. street appeals).

58. Option 1 is built around the principle of recognising revenue as associated expectations over use are satisfied. Option 2 is more akin to the old "matching principle" whereby revenue is recognised in the same period as corresponding expenditure is incurred (i.e. grant and donation funding received is recognised as revenue in the same period as it is spent).

59. Throughout this ITC and the EDs, the different options are colour-coded – Option 1 is light blue and Option 2 is light green.

Option 1 – Revenue recognised as expectations over use are satisfied

60. The concept of recognising revenue as "expectations" over use are satisfied is introduced in Option 1, and replaces the existing "use or return" revenue recognition approach. We are not proposing to define the term "expectations", but has instead proposes that the following guidance be added to the Tier 3 Standard to indicate when this revenue recognition approach would be appropriate.

(a) An expectation about how the funds should be used must be one that the provider of the grant or donation has communicated to the reporting entity when funding is initially transferred.

(b) The provider must communicate its expectations over the use of the grant, donation, bequest, or pledge in writing. This could mean a formal letter, contract, email, or similar. Merely discussing an expectation with a provider (e.g. over the phone, in-person, or in an online meeting) would not be enough to allow an entity to defer revenue recognition (this condition is important from an assurance perspective).

(c) An entity's history with a provider has no bearing on whether a new grant or donation has expectations attached. The terms of each grant or donation are considered on their own as to whether there is a documented expectations attached.

61. Under Option 1, when funding from a grant, donations, bequests, or pledges are initially received (typically when cash is transferred) a liability is recognised. This is because the entity has an obligation to satisfy the resource provider's expectations, as documented in writing. As the expectations are satisfied, the liability is reduced and revenue is recognised.

62. Where there are no expectations attached to the funding, then revenue is recognised immediately upon receiving the funds.

Option 2 – Revenue recognised as corresponding expenditure is incurred

63. Option 2 provides a reporting entity with increased flexibility to recognise revenue over the same period as the related expenditure is incurred, regardless of whether there are any specific external expectations over use.

64. When donations, grants, bequests or pledges are initially received (typically when cash is transferred), a deferred revenue balance is recognised separately on the Statement of Financial Position. This balance does not represent amounts owing to external parties and therefore does not meet the Tier 3 definition of a liability. Instead, the credit balance on the Statement of Financial Position represents deferred revenue which will recognised in future periods as the related expenditure is incurred.

Option 1 vs Option 2 – similarities and differences

65. The table below sets out the main similarities and differences between the two options in the ED.

	Option 1	Option 2
Resource provider expectations over use are considered	Yes – must be documented in writing	No
Recognition of a liability upon receipt of the funds	Yes – when funding is initially received, a liability is recognised until expectations over use ate satisfied	A ”liability” balance is not recognised. However, a “deferred revenue balance” would be recognised separately on the Statement of Financial Position and treated as a credit balance – like liabilities.
Recognition of revenue (i.e. what is the “trigger” for recognition of revenue?)	Revenue is recognised as the reporting entity uses the funding received in accordance with expectations	Revenue is recognised as the reporting entity spends the funds on advancing its objectives.
Auditability?	Auditors would be able to request documentation to support provider expectations and assess the degree to which these expectations have been met. Assessing performance against expectations will require professional judgement to be exercised.	Auditors would be able to request evidence (i.e. from accounting records or bank statements) that funds have been spent in accordance with these expectations. Tracking the use of funding received is likely to require professional judgement to be exercised.

	Option 1	Option 2
Clarity?	Recognising revenue as expectations are satisfied is not a complex principle to understand and apply. However, it may require increased recording keeping – to track the satisfaction of expectations over use for each major funding source.	The matching principle is not a complex principle to understand and apply. However, it may require increased recording keeping – to track how each major source of funding is being spent.
User needs met?	Yes – User needs are met by broadening the ability to defer revenue. Preparers would be able to apply the requirements easily, working with their funders and donors to ensure that expectations over the use of funds are documented and that revenue is recognised when these expectations have been met. This option would address readers' desire to better understand the financial position of the entity as well as any future obligations relating to the use of grants and donations.	Yes – User needs are met by broadening the ability to defer revenue. Preparers would be able to apply the requirements relatively easily, working with their funders and donors to ensure that expenditure is coded appropriately to allow reporting of expenditure against each significant grant, donation, or fundraising event. This option would address readers' desire to better understand the financial position of the entity as well as an increased understanding of how funding received has been spent.

Question for respondents

Q9. Do you prefer the revenue recognition approach proposed by Option 1 – *Revenue recognised as expectations over use are satisfied*? If not, please explain why.

Q10. Do you prefer revenue recognition approach proposed by Option 2 – *Revenue recognised as corresponding expenditure is incurred*? If not, please explain why.

Q11. If you support neither Option 1 nor Option 2, do you have an alternative option that you would like the NZASB to consider?

Accumulated funds (Section 6 of EDs)

66. The public sector and not-for-profit versions of the Tier 3 Standard are virtually identical in relation to the requirements which apply to accounting for accumulated funds. In the Tier 3 Standard the term "accumulated funds" is used in place of the term "equity".

67. Accumulated Funds is the residual financial interest in a reporting after total assets are deducted from total liabilities. It represents the amount of the reporting entity's assets which may be directed by trustees/members/officers/owners in pursuit of the entity's future objectives. It also represents the balance of net assets that would require distribution if the entity was to wind up and cease existence.

68. The Tier 3 Standards currently recognise the following three main classes of accumulated funds.

    (a) Capital contributed from owners or members.

    (b) Accumulated surpluses or deficits.

    (c) Other reserves.

69. Both standards also further subdivide the reserves category above into:

    (a) restricted reserves, which may be used only for a particular purpose; and

    (b) discretionary reserves, that have been created based on a decision by the entity.

70. PIR Feedback highlighted a desire for increased transparency over a reporting entities' general approach and rationale for retaining accumulated funds.

71. The draft Tier 3 EDs include proposals to require a reporting entity to disclose information that explains the purpose for which accumulated funds are held by the reporting entity, and when applicable when the accumulated funds are expected to be used to advance its objectives.

Question for respondents
Q12. Do you agree with the proposals to require an entity to provide enhanced note disclosure that explains the purpose for which Accumulated Funds are held?

Opting up (Appendix C)

72. The Tier 3 Standards are intended to be single, short and relatively simple standards to apply, and therefore the requirements in Tier 3 Standards are simplified compared to requirements in higher tiers. However, under some circumstances, a Tier 3 entity may prefer not to apply certain simplifications or may want to use an option that is available in the Tier 2 PBE Standards.

73. Tier 3 Standards allow a Tier 3 entity to elect to apply the requirements of Tier 2 PBE Standards to a specific type of transaction, as long as it applies the requirements to all transactions of that type. This is also referred to as "opting up" to Tier 2 PBE Standards.

74. The NZASB noted the following two main points from the Feedback Statement.

    (a) Some respondents were in favour of retaining the ability for a Tier 3 to opt up to Tier 2 PBE Standards.

    (b) Responses noted many entities do not clearly understand the requirements for opting up and there is a need for more guidance on what this means in practice, particularly for the more common opting up situations.

75. The difficulties that entities face when opting up generally fall into one of two categories.

    (a) Uncertainty about which PBE Standard to apply. This was particularly relevant for financial instruments.

    (b) A lack of understanding about what to do if the relevant PBE Standard requires revaluation movements to be recognised in other comprehensive income.

76. The NZASB is proposing the following amendments to Tier 3 Standards to address these difficulties.

    (a) Including a table that lists some common transaction types where a Tier 3 entity may want to opt up to Tier 2 PBE Standards, along with a reference to the applicable PBE Standard.

    (b) Including a requirement to recognise the effects of transactions directly in accumulated funds where there is a requirement in PBE Standards to recognise the effects of those same transactions in other comprehensive revenue and expense. To clarify, the NZASB is not proposing to create an "other comprehensive revenue and expense" category in the statement of financial performance for Tier 3 entities.

77. The NZASB is also proposing to create a new appendix to the Tier 3 Standards which contains all the requirements relating to the application of Tier 2 PBE Standards when an entity chooses top opt up – Appendix C of the Tier 3 ED. Currently, the existing requirements sit at the front of the Tier 3 Standard.

Question for respondents

Q13. Do you agree with the proposed accounting treatment for items of other comprehensive revenue and expense? If you disagree, please explain why.

Q14. Do you have any comments on the new Appendix C?

Simplification of Tier 3 Standards

To be considered post-February Board meeting

Other proposed amendments

78. The NZASB is proposing several other amendments to Tier 3 Standards, as listed in the following sub-sections.

Entity information

79. As noted in the Feedback Statement, some respondents consider that the requirements for entity information in the performance report are unnecessary and should be removed or simplified.

80. A key proposal to address the above concern is to add a paragraph in Section 3 of the Tier 3 Standard, which would allow Tier 3 entities to incorporate the required information by cross-reference to another document (e.g. an annual report submitted to a regulator), as long as the document is available at the same time and on the same terms as the performance report.

81. The NZASB is also proposing amendments to:

    (a) remove those requirements from Section 3 that can be found in other sections of the performance report;

    (b) reword the existing requirements to make them clearer; and

    (c) add in useful information for users relating to consolidated performance reports (if applicable)

Question for respondents
Q15. Do you agree with the proposed amendments to Section 3 Entity Information? If you disagree, please explain why.

Statement of cash flows (Section 7)

82. As noted in the Feedback Statement, the NZASB received a comment regarding the layout of the statement of cash flows. Specifically, it was suggested that the Tier 3 requirements for a statement of cash flows be aligned with the Tier 4 requirements for a statement of receipts and payments.

83. The NZASB is proposing to align the minimum categories within the statement of cash flows with the minimum categories of revenue and expenditure in the statement of financial performance.

84. These proposed amendments will differ in each ED, as the minimum categories of revenue and expenditure are not the same across the NFP and public sector versions of the Tier 3 Standard.

Question for respondents
Q16. Do you agree with the proposed amendments to the statement of cash flows? If you disagree, please explain why.

Definition of "cash" (Section 6)

85. The Feedback Statement noted that the definition of "cash" in the Tier 3 Standard does not align with Tier 1 and Tier 2 PBE Standards. In particular, the definition of cash does not include short-term deposits, which is included in the definition of "cash and cash equivalents" in PBE Standards. The differences between the two definitions can make the consolidation of entities reporting under different tiers a bit more challenging.

86. The NZASB considered how best to align the two definitions without adding unnecessary complexity to the Tier 3 Standard. The NZASB is proposing to:

    (a) Include short-term deposits in the definition of cash, and define them as deposits "with a maturity of three months or less from the date purchased"; and

    (b) Not include the term "cash equivalents", nor the attendant guidance on what constitutes a cash equivalent, in Tier 3 Standards.

87. The effect of the above proposals is to expand the definition of cash (which will help the consolidation process) without incorporating unnecessary requirements and guidance from PBE Standards.

Question for respondents

Q17. Do you agree with the proposed amendment to the definition of cash? If you disagree, please explain why.

2.4 Effective date and other comments

88. The proposed effective date in the EDs is 1 April 2023, with early adoption permitted. This date is tentative and would be reviewed prior to issuing any amendments.

Question for respondents

Q18. Do you agree with the proposed effective date of 1 April 2023, with early adoption permitted? If you disagree, please explain why.

Q19. Do you have any other comments on the EDs?

~~PUBLIC BENEFIT ENTITY SIMPLE FORMAT~~ TIER 3 REPORTING STANDARD~~–ACCRUAL~~ (NOT-FOR-PROFIT) – ANNUAL REPORTING REQUIREMENTS (~~PBE SFR-A (NFP)~~ TIER 3 REPORTING STANDARD (NFP))

Issued November 2013 and incorporates amendments to xx ~~12 July 2018~~

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.

Notes for the Board

At this meeting the Board is asked to provide feedback only on the amended text in responses to specific issues raised through the Tier 3 and Tier 4 Post Implementation Review process.

1. Amended text is shaded in grey – this includes proposed text for removal shown by ~~strikethroughs~~ and proposed additions shown by underlined text.
2. The ED includes two revenue recognition options for donations, grants, bequests and pledges. Option 1 is shaded light blue and Option 2 is shaded light green.
3. The Basis for Conclusions section has not been updated for the proposed amendments. This will be done in the next stage of ED development and will be brought back to the Board at a future meeting.
4. Further amendments to existing text will be considered for the purposes of simplification and consistency across the entire suite of Tier 3 and Tier 4 Standards. An updated draft will be brought back to the Board at a future meeting.

~~PUBLIC BENEFIT ENTITY SIMPLE FORMAT~~ TIER 3 REPORTING STANDARD – ~~ACCRUAL~~ (NOT-FOR-PROFIT) – ANNUAL REPORTING REQUIREMENTS

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~~PUBLIC BENEFIT ENTITY SIMPLE FORMAT~~ TIER 3 REPORTING STANDARD – ~~ACCRUAL~~ (NOT-FOR-PROFIT) – ANNUAL REPORTING REQUIREMENTS

CONTENTS

Tier 3 ~~Public Benefit Entity Simple Format~~ Reporting Standard ~~– Accrual~~ (Not-for-Profit) – Annual Reporting Requirements (Tier 3 Reporting Standard ~~PBE SFR-A~~ (NFP)) is set out in paragraphs 1–15 and Appendices A~~,~~ ~~and~~ B and C. All the paragraphs in the Standard and Appendices have equal authority. Tier 3 Reporting

Standard ~~PBE SFR-A~~ (NFP) should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 *Application of the Accounting Standards Framework*.

Objective

1. The objective of this Standard is to facilitate financial reporting by not-for-profit public benefit entities that are eligible for and elect to apply the Tier 3 PBE Accounting Requirements for not-for-profit entities, by improving the quality and consistency of the information disclosed in performance reports, and to facilitate comparability between entities, and between years for the reporting entity.

Scope

2. This Standard applies to not-for-profit public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements. ~~XRB A1 *Application of the Accounting Standards Framework* prescribes the criteria that those entities must meet to be eligible to apply this Standard.~~ A not-for-profit public benefit entity is eligible to apply this Standard if it:

   (a) Has total expenses less than or equal to $2 million; and

   (b) Does not have public accountability for financial reporting purposes.

   Please refer to the Glossary for further information about how "not-for-profit public benefit entity", "total expenses" and "public accountability" are defined for financial reporting purposes.

Standard

3. Not-for-profit public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements shall prepare a performance report in accordance with the requirements set out in Appendix A and the transitional provisions in Appendix B of this Standard.

3.1. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements to a specific type of transaction, in accordance with the requirements set out in Appendix C of this Standard.

4. This Standard applies to an entity that is required to prepare a performance report. The Standard applies to the performance report of single entities and entities that have certain interests in other entities.

4.1 When preparing a performance report, an entity is required to identify its interests in other entities and assess whether, for the purposes of financial reporting, any of those interests result in the other entity meeting the definition of a controlled entity, an associate or a joint arrangement. Refer to Appendix C for further guidance on how to determine the nature of an entity's interest in another entity, as well as for the requirements that an entity must apply when accounting for an interest in a controlled entity, an associate or joint arrangement.

4.2 [Deleted] ~~If an entity controls another entity it shall prepare a consolidated performance report which combines the assets, liabilities, net assets/equity, revenue and expenses of the controlling entity with those of the controlled entity in accordance with the requirements in PBE IPSAS 35 *Consolidated Financial Statements* and PBE IPSAS 38 *Disclosure of Interests in Other Entities*. An entity that controls another entity but which is not required to prepare a consolidated performance report because it qualifies for the exemption in paragraph 5 of PBE IPSAS 35 not to present consolidated financial statements shall prepare a performance report in accordance with PBE IPSAS 34 *Separate Financial Statements*.~~

4.3 [Deleted] ~~If an entity has an interest in an associate or a joint venture it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 36 *Investments in Associates and Joint Ventures* and PBE IPSAS 38. An entity that qualifies for the exemption in paragraph 23 of PBE IPSAS 36 not to apply the equity method to its investment in an associate or a joint venture shall prepare a performance report in accordance with PBE IPSAS 34.~~

4.4 [Deleted] ~~If an entity has an interest in a joint arrangement it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 37 *Joint Arrangements* and PBE IPSAS 38.~~

4.5 [Deleted]~~When applying the requirements in PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 or PBE IPSAS 38 an entity is not required to comply with the disclosure requirements in those standards denoted with an asterisk (*). Where an entity elects to apply a disclosure concession, it shall comply with any RDR paragraphs associated with that concession.~~

4.6 If an entity has an interest in another entity that is not a controlled entity, an associate or a joint arrangement it accounts for that interest in accordance with the requirements on investments in Section 6 of this Standard.

5. Accompanying this Standard is an explanatory guide containing an optional template and associated guidance notes that illustrate the requirements of this Standard (Explanatory Guide A5 *Optional Template and Associated Guidance Notes for Applying Tier 3 ~~Public Benefit Entity Simple Format~~ Reporting Standard ~~– Accrual~~ (Not-For-Profit) – Annual Reporting Requirements*). It is not mandatory to apply the template or guidance notes and they have no legal status. However, when an entity applies the template in the specific circumstances of the entity, the performance report will comply with this Standard.

6. Where this Standard does not provide guidance on a specific type of transaction or event, the entity shall use its judgement to determine an appropriate method of accounting for that transaction type that results in the performance report providing relevant and faithfully representative information. The entity shall refer to, and consider the applicability of, the following in descending order:

(a) The principles and requirements in this Standard dealing with similar and related transactions or events; and

(b) The definitions and concepts in the PBE Conceptual Framework to the extent that they do not conflict with this Standard.

In making the judgement described above, the entity might also consider (but is not required to apply) the relevant requirements in the Tier 2 PBE Accounting Requirements dealing with the same, similar or related transactions or events.

~~Application of PBE Standards~~

7. [Deleted] ~~An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements to a specific type of transaction, as long as it applies that option to all transactions of that type. For example, an entity may decide to opt up to PBE IPSAS 17 *Property, Plant and Equipment* for a class of assets, such as buildings, so that it can revalue that class of assets, or an entity may decide to opt up to the financial instruments standards (PBE IPSAS 28 *Financial Instruments: Presentation*, PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* (in limited circumstances), PBE IPSAS 41 *Financial Instruments* and PBE IPSAS 30 *Financial Instruments: Disclosures*) for a class[1] of financial instruments, such as investments in shares, so that it can measure that class of financial instruments at fair value (in which case it must apply the whole standard to that class).~~

8. [Deleted] ~~If, for a specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity shall disclose this in the statement of accounting policies.~~

9. [Deleted] ~~If, for a specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity cannot then choose to return to applying this Standard for that type of transaction unless the entity complies with the requirements of this Standard for changes in accounting policies (see paragraphs A181 – A182).~~

Effective Date

10. A not-for-profit public benefit entity that is eligible to apply this Standard, and elects to do so, shall apply this Standard for periods beginning on or after 1 April 2015. Earlier application is permitted.

11. *Interests in Other Entities* (Amendments to PBE SFR-A (NFP)), issued in September 2014 amended paragraph 4 and the Glossary, and inserted paragraphs 4.1–4.6. A not-for-profit public benefit entity shall apply these amendments for periods beginning on or after 1 April 2015. Earlier application is permitted.

12. *Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1*, issued in December 2015, amended paragraphs 1–3, 4.5, 6-9, A1, A175(a) B2 and B9 and the headings preceding paragraphs 7, B8 and B9. It made no changes to the requirements contained in this Standard. A not-for-

~~[1] PBE IPSAS 30 (paragraphs 9, AG1 and AG2) provides guidance on determining classes of financial instruments.~~

profit public benefit entity shall apply those amendments for periods beginning on or after 1 January 2016. Earlier application is permitted.

13. PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36, PBE IPSAS 37 and PBE IPSAS 38, issued in January 2017, amended paragraphs 4.1–4.6 and the Glossary. A not-for-profit public benefit entity shall apply those amendments for periods beginning on or after 1 January 2019. Earlier application is permitted.

14. *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*, issued in July 2018, amended paragraphs 6, 7, 8, 9, A10, A113, A114, A115, A180, A182 and A202, Table 1: *Recording of Specific Types of Revenues* (follows paragraph A62), Table 2: *Recording of Specific Types of Expenses* (follows paragraph A80), Table 3: *Recording of Specific Types of Asset* (follows paragraph A107) and the Glossary, added paragraphs A107.1, A107.2, A148.1, A148.2 and deleted paragraph A12. An entity shall apply those amendments for periods beginning on or after 1 January 2019. Earlier application is permitted.

15. PBE IPSAS 41 *Financial Instruments*, issued in March 2019, amended paragraph 7. An entity shall apply those amendments if and when it applies PBE IPSAS 41.

Appendix A: Specific Requirements

This Appendix contains the requirements for Tier 3 Reporting Standard (NFP). ~~Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit).~~ It is an integral part of the Standard.

Section 1: Introduction

A1. This part of the Standard[2] sets out the requirements for the preparation of a simple format report known as the "Performance Report". The Standard may be applied by eligible not-for-profit (NFP) public benefit entities (PBEs) that elect to apply this Standard in accordance with the requirements of XRB A1 *Application of the Accounting Standards Framework*.

A2. This Standard comprises a number of sections (as shown in the Table of Contents). These refer to specific aspects of reporting. Within each section information is presented in numbered paragraphs to enable cross-referencing within this Standard.

A3. Terms are defined in the Glossary in section 11 to assist with the understanding of this Standard.

[2] This Appendix is part of the Standard and so the term "Standard" is used throughout. "Standard" refers to the Tier 3 ~~Public Benefit Entity Simple Format~~ Reporting Standard ~~– Accrual~~ (Not-For-Profit) – Annual Reporting Requirements abbreviated as ~~PBE SFR-A~~ Tier 3 Reporting Standard (NFP).

Section 2: Objective of Reporting and Overview of Reporting Requirements

Users and Their Needs

A4. The performance report for a NFP PBE is designed for those users who cannot require the entity to disclose the information needed for accountability and decision making. Most users fall into two groups:

(a) Providers of resources to the entity; and

(b) Recipients of services from the entity.

A5. Examples of these users are:

(a) Donors, who contribute to a shelter for the homeless which relies on grants and donations from the community (resource providers); and

(b) Service recipients who benefit from the meals and short-term accommodation provided at the shelter.

Objective of Reporting

A6. An entity should prepare a performance report that addresses the following questions:

(a) "Who are we?" – an overview of the entity;

(b) "Why do we exist?" – why the entity was established and what it seeks to achieve ~~(outcomes)~~;

(c) "What did we do?" – what the entity did during the year in providing goods or services ~~(outputs)~~;

(d) "What did it cost?" – what it cost to provide the goods or services, and to run the entity;

(e) "How was it funded?" – the sources of revenue used to pay for its activities in providing goods or services;

(f) "When did we do it?" – the period covered by the report, and a comparison of information with previous reporting periods;

(g) "How did we do our accounting?" – the accounting policies applied; and

(h) "What do we need to continue operating?" – the ability of the entity to continue achieving its objectives and operate in the foreseeable future. This question can be answered by looking at the performance report as a whole.

A7. The performance report is usually prepared for a financial year (which ends on its "balance date"). The performance report shall identify and reflect the period to which it refers, and contain only the revenue, expenses and cash flows for that period. It may be prepared for a part year, but this is unusual and occurs only when the entity is formed or ceases to exist during a year, or changes its balance date. If this is the case, the entity will need to check that the revenue, expenses and cash flows are only for that part year, for example, depreciation and rent.

Required Components of the Performance Report

A8. An entity shall prepare a performance report every financial year with, at a minimum, the following components:

(a) Entity information which explains what the entity is and why it exists (section 3);

(b) A statement of service performance which explains what the entity was seeking to achieve~~(outcomes)~~ and what it did~~(outputs)~~ (section 4);

(c) A statement of financial performance showing what the entity has generated (revenue) and the cost of running the entity (expenses), over the year, so that users and preparers know whether the entity has made a surplus or a deficit for that financial year (section 5);

(d) A statement of financial position showing what the entity owns (assets), what the entity owes (liabilities) and the difference (accumulated funds) at the balance date (section 6);

(e) A statement of cash flows showing the cash the entity received, and the cash the entity paid out during the year (section 7);

(f) A statement of accounting policies which explains the accounting rules used to prepare the performance report (section 8); and

(g) Notes to the performance report explaining some of the amounts shown in the statements in (b)–(e) above, as well as explaining relevant events affecting the financial year including commitments and contingencies (section 9).

A9. An entity may change the titles of these statements if the entity considers that an alternative title is more suitable for the entity and users of the performance report. For example, the statement of financial position is sometimes referred to as the balance sheet, and the statement of financial performance is sometimes referred to as the operating statement.

Presentation of the Entity's Performance

A10. The performance report shall present fairly (or "provide a true and fair view" of) the entity's service performance, financial performance and cash flows over the financial year, and its position at balance date, in accordance with this Standard. Fair presentation is achieved by compliance with this Standard, and also requires an entity to:

(a) Select and apply appropriate accounting policies (section 8);

(b) Present information in the best way to achieve the following goals:

(i) Relevance: the information can be used to assess the entity's performance.

(ii) Faithful representation: the information represents what has happened in a way that most users would see as a fair representation of the situation. Information is complete, neutral and free from material error.

(iii) Understandability: information is presented so that users can identify the main points of the entity's performance in that year and ask questions about that. Users should not have to be a qualified accountant to do this.

(iv) Timeliness: The performance report should be provided as soon as possible following the end of the financial year so that the information is useful and relatively current. For some not-for-profit PBEs legislation[3] defines the period by which the annual performance report must be completed.

(v) Comparability: users are able to compare what the entity did this year with what the entity did last year. Users might also want to see how the entity performed compared to similar entities in the same sector this year.

(vi) Verifiability: the information reported is capable of being supported by independent means. Verifiability helps assure users with different levels of knowledge that the information in the performance report is without material error or bias.

A11. Where the requirements of this Standard have been followed but more information about particular events during the year is needed in order to give users a full picture of what happened, additional relevant information shall be provided.

A12. [Deleted].

A13. It is important that the performance report is internally consistent. This is done by cross-referencing each line of a statement to any other information that relates to that line item in the rest of the performance report. For example, the total for property, plant and equipment would be referenced to the note containing the property, plant and equipment schedule. It is also important that any non-financial information, for example, information included within the statement of service performance, is consistent with financial information included elsewhere in the performance report.

General Information

A14. Each component in the performance report specified in paragraph A8 shall be clearly identified.

3 The Charities Act 2005 requires that the financial statements must accompany the annual return that must be filed within 6 months of the end of the financial year.

A15. An entity's performance report shall incorporate all the activities of the entity. The performance report shall include all branches or other operating units, if the entity is structured into more than one unit. This is done by collating and reporting information from all the branches or operating units and excluding all transactions between those units. Identifying the branches or other operating units within the entity is relatively straight forward where the entity has legal form. For unincorporated entities, the entity will need to look at factors such as whether those branches or other operating units are acting as part of the entity, for example, by using the entity's registration number on the Charities Register.

A16. The following information shall be displayed prominently, and repeated at the top of each page of the performance report:

(a) The name of the entity that is preparing the performance report;

(b) The date of the end of the financial year covered by the performance report, or the period to which the performance report applies, as appropriate; and

(c) The level of rounding used in the presentation of the performance report (as a general rule whole dollars – rather than dollars and cents – should be used; rounding to the nearest hundred or thousand may be appropriate for larger entities).

Comparative Information

A17. Although the performance report focuses on this year's information, comparative information for the previous year shall be included in the statement of service performance, statement of financial performance, statement of financial position, statement of cash flows and any associated notes to the performance report unless this Standard specifically allows otherwise. Comparative information shall also be provided for the disclosures about related parties in the notes to the performance report. The performance report may contain further comparative information where it is considered useful for users of the report.

A18. An entity may, but is not required to, report budgets or plans as an additional column alongside its actual results as further comparative information.

Consistency of Presentation

A19. An entity shall select and apply its accounting policies consistently for similar transactions and other events, unless this Standard specifically requires or permits categorisation of items for which different policies may be appropriate. If this Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

A20. An entity may prepare its performance report on either a GST-inclusive or a GST-exclusive basis, provided that GST is reported in a consistent way throughout the performance report.

A21. All amounts shall be presented in New Zealand dollars. If the entity has transactions or balances that are not in New Zealand dollars, it shall translate amounts to New Zealand dollars as follows:

(a) Transactions are to be translated using the exchange rate on the date the revenue, expense or cash flow occurs; and

(b) Monetary asset and liability balances are to be translated using the exchange rate at balance date.

A22. An entity shall not change the way the information is presented, or the categories of disclosure, from one period to the next unless:

(a) There has been a significant change in the entity's operations; or

(b) This Standard requires that the presentation or a category of disclosure is changed.

A23. Any changes to presentation or categories of disclosure due to the application of paragraph A22 also require similar changes to the comparative amounts, unless it is impracticable to do so.

No Offsetting of Amounts

A24. Users of the performance report should be given as much relevant information as possible about the entity. Therefore, the entity shall report gross amounts for transactions, and not offset (net-off) any associated transactions or balances. This means that:

(a) Assets and liabilities shall not be offset against each other; and

(b) Revenue and expenses shall not be offset against each other.

A25. Valuation adjustments such as write-downs of inventory or property, plant and equipment provide for the change in value of an entity's assets. Measuring assets net of valuation adjustments is not considered offsetting. Accounting for the net amount of GST owing to or from Inland Revenue is also not considered offsetting.

Significant Items

A26. Items are significant if their omission or misstatement could, individually or collectively, influence the decisions or assessment of users relying on the performance report. Significance is considered in relation to both the nature and size of the item, or a combination of both. For the purposes of this Standard, significance has the same meaning as materiality.

A27. Significance applies to both financial and non-financial information.

Correction of Errors

A28. Significant errors shall be corrected as soon as practicable. Errors arising during the reporting period shall be corrected before the performance report is finalised. Errors relating to past periods shall be corrected in the current performance report before the report is finalised by adjusting the opening balance of the relevant asset, liability or accumulated funds at the beginning of the financial year. No adjustments to past periods are required (see paragraph A212).

Changes in Accounting Estimates

A29. ~~Many items can only be estimated as a result of the uncertainties inherent in delivering services or conducting other activities.~~ The use of ~~reasonable~~ estimates is ~~therefore~~ an essential part of ~~the~~ preparing ~~preparation of~~ the performance report on an accrual basis. For example, estimates may be required of:

(a) Revenue earned to date under a contract;

(b) Bad debts arising from uncollected receivables;

(c) Out-of-date inventory; and

(d) The useful lives of items or categories of property, plant and equipment.

A30. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. The revision of an estimate does not relate to prior periods and is not the correction of an error.

A31. The effect of a change in an accounting estimate shall be recorded by including it in the statement of financial performance as part of the relevant revenue or expense item in the current period.

A32. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or accumulated funds, it shall be recorded by adjusting the amount of the related asset, liability, or accumulated funds for the current period.

Events After the Balance Date

A33. Events after the balance date are those events, both favourable and unfavourable, that occur between the balance date and the date when the performance report is finalised. The balance date is the last day of the financial year to which the statements relate. The date of finalisation is the date on which the statements have received approval from the individual or body with the authority to authorise those statements for issue.

A34. An entity shall adjust the amounts recorded in its performance report and update the related disclosures to reflect events after the balance date that provide evidence of conditions that existed at the balance date. The following are examples of events that require an entity to adjust the amounts recorded in its performance report, or to record items that were not previously recorded:

(a) The settlement after the balance date of a court case that confirms that the entity had a liability at the balance date.

(b) The receipt of information after the balance date indicating that an asset was impaired or damaged at the balance date. For example:

(i) The bankruptcy of a debtor that occurs after the balance date usually confirms that a loss already existed at the balance date on a receivable account, and that the entity needs to adjust the carrying amount of the receivable account; and

(ii) The disposal of damaged inventories after the balance date may provide evidence about their net realisable value at the balance date.

(c) The discovery of fraud or errors that show that the performance report is incorrect.

A35. An entity shall not adjust the amounts recorded in its performance report to reflect events after the balance date that are indicative of conditions that arose after the balance date. The following are examples of such events:

(a) The entity decides after the balance date, to make further grants to the community;

(b) Purchases and disposals of assets that occur after balance date;

(c) A decision by a lender made after balance date to forgive some amounts borrowed by the entity; and

(d) The entity enters into significant commitments after the balance date, for example issuing significant guarantees after balance date.

Section 3: Entity Information

Purpose and Value to Users

A36. The purpose of the entity information is to summarise for users what the entity does and how it is organised. This information will assist users in their understanding of the entity and help particularly with their interpretation of the performance report.

Required Information

A37. The entity information shall provide general descriptive information about the entity. ~~and its activities~~ This information shall comprise:

(a) The entity's name, type of entity and legal basis (if any);

(b) The entity's purpose or mission[4] (the key difference the entity is trying to make);

(c) ~~A description of the structure of the entity's operations (including governance arrangements)~~ The entity structure (i.e. whether it includes separate operating units, divisions or branches);

(d) [Deleted] ~~The main sources of the entity's cash and resources;~~

(e) [Deleted] ~~The main methods used by the entity to raise funds;~~

(f) The entity's reliance on volunteers and donated goods or services; ~~and~~

(g) [Deleted] ~~Any additional information that is considered essential to users' overall understanding of the entity~~

(h) The names of any entities controlled by the entity for financial reporting purposes; and

(i) The entity's governance arrangements (i.e. who makes the key decisions on behalf of the entity).

A37.1. The information required by paragraph A37 may be incorporated by cross-reference from the performance report to some other statement or report (e.g. an annual return submitted to a regulator) that is available to users of the performance report at the same time.

A38. The amount of detail will depend on the size of the entity and the complexity of its operations.

[4] Also called vision, strategic goals, or outcome goals.

Section 4: Statement of Service Performance

Purpose and Value to Users

A39. The purpose of the statement of service performance is to provide ~~mainly non-financial~~ information to help users understand what the entity did during the financial year to achieve its broader aims and objectives.

Required Information

A40. The statement of ~~s~~Service performance provides information about ~~reporting is based around two elements~~:

(a) ~~Outcomes:~~W~~w~~hat the entity is seeking to achieve over the medium to long term (i.e. its objectives) ~~in terms of its impact on society~~; and

(b) The significant activities the entity has undertaken during the financial year to achieve its objectives. ~~Outputs: the goods or services that the entity delivered during the year.~~

A41. The statement of service performance shall:

(a) Describe what ~~the outcome(s) that~~ the entity is seeking to achieve ~~or influence through the delivery of its goods or services~~over the medium to long term. ~~The outcomes are likely to be closely related to the mission/purpose reported in the entity information section of the performance report. The main difference is that the mission/purpose is usually stated in broad or general terms and applies over the life of the entity. By contrast, the description of the outcomes in the statement of service performance should be more specific and focused on what the entity is seeking to achieve over the short to medium-term;~~ and

(b) Describe, and quantify to the extent practicable, information about the significant activities the entity has undertaken during the financial year. This may include, for example: the delivery of goods or services; or making grants to individuals or entities. ~~the outputs (goods or services) the entity has delivered for the current year.~~

A41.1. The information required by paragraph A41(a) is likely to be closely related to the entity's mission or purpose. The main difference is that the mission or purpose is usually stated in broad or general terms and applies over the life of the entity. By contrast, the information required by paragraph A41(a) should be more specific and focused on what the entity is seeking to achieve over the medium to long term.

A42. The statement of service performance need include only information about the activities undertaken ~~the outputs~~ that are significant to the performance of the entity. It is not expected to include a detailed account of everything the entity ~~does~~ has done in the financial year.

A42.1. The entity should include additional information that is considered important for the user's overall understanding about what the entity is seeking to achieve and the significant activities undertaken during the financial year.

~~Optional Information~~

A43. [Deleted] ~~An entity may wish to report additional information such as:~~

(a) ~~Additional output measures:~~

~~(i) Appropriate quality measures of goods or services delivered;~~

~~(ii) A measure of the timeliness of delivery of the entity's goods or services if this is important to the recipient;~~

~~(iii) An allocation of revenue and expenses related to each category of the entity's outputs; and~~

~~(iv) A quantification of the contributions from volunteers in terms of hours or full-time staff equivalents (this figure may be estimated, and shall be noted as such if this is the case).~~

(b) ~~Comments on those factors which affect the achievement of the outcomes. This might include the working relationships between volunteers and employees, decisions to broaden or narrow the delivery of services, or the impact of factors external to the entity – such as economic, legal and geographical factors;~~

(c) ~~The entity's plans for the financial year being reported on, and an explanation of actual performance achieved against the plans set by the entity; and~~

(d) ~~Any additional information that is considered to be relevant to users' understanding of the entity's outcome goals, or the delivery of goods or services~~

A44. Entities can choose to present the information in the statement of service performance in whichever format is most helpful to users' understanding of the entity's activities. The Tier 3 template reports provide a generic simple example. For example, an entity may choose to present information using: ~~The way in which the statement of service performance is presented can enhance the user's understanding of the entity. Sometimes a pictorial representation of the entity's achievements during the financial year presents the story more clearly than words or numbers only.~~

(a) Graphs;

(b) Tables; or

(c) Images or infographics showing the entity's activities and achievements during the financial year.

Section 5: Statement of Financial Performance

Purpose and Value to Users

A45. The purpose of the statement of financial performance is to report all revenue and expenses of the entity for the financial year. The statement provides users with information about the entity's financial performance, including its revenue, expenses and the resulting surplus or deficit generated during the financial year.

Format of Statement of Financial Performance

Required Information

A46. The statement of financial performance shall be presented as follows:

Revenue (by category)	xx
Less expenses (by category)	xx
Surplus/(Deficit)	xx

A47. If the entity pays income tax, this shall be shown as a separate line item after surplus or deficit, with a further total called Surplus/(Deficit) after Tax also reported.

Optional Information

A48. Where the making of grants and donations is a major activity of the entity, the following format may be used:

Revenue (by category)	xx
Less expenses (by category)	xx
Surplus/(Deficit) before grants and donations made	xx
Less grants and donations made	xx
Surplus/(Deficit)	xx

A49. Additional line items, headings and subtotals may be presented in the statement of financial performance when such presentation will help users to understand the entity's financial performance.

Revenue

A50. Revenue is the cash and other resource inflows of the entity, other than inflows from borrowings, sale of assets, or contributions of capital from settlors/members/officers ~~owners~~ (see paragraph A53)[5].

A51. Revenue can come from various sources. Examples include public donations, grants from philanthropic trusts, donations and fees from members, funding for the provision of goods or services (including

[5] See the Glossary for a more detailed definition of revenue.

government contracts) and proceeds from the sales of goods or services (including trading revenue from commercial activities).

A52. Revenue includes only amounts received and receivable by the entity on its own account. Amounts collected on behalf of others (that is, as agent of another entity) are not revenue of the entity. However, if there is a commission involved in this collection arrangement the commission received would be recorded as revenue (see also paragraphs A83–A86).

A53. Some NFP entities have settlors/~~owners and/or~~ members/officers who contribute capital[6] (often occurring at start up). Contributions to the entity by these parties ~~owners and/or members~~(other than membership fees, donations and fees for services) are classified as funds contributed by settlors/members/officers ~~owners or members~~ in the statement of financial position, and not as revenue (see also paragraphs A140–A141).

Required Information

A54. In order to make information understandable to users, revenue shall be aggregated and separately presented in categories. As a **minimum**, the following aggregated categories shall be reported separately:

(a) Donations, koha, bequests and other general fundraising activities ~~and other similar revenue~~;

(b) ~~Fees, subscriptions and other revenue from members;~~ Membership fees and subscriptions;

(c) ~~Revenue from providing goods or services~~ Revenue from commercial activities (i.e. sale of goods or services);

(d) Interest, dividends and other investment revenue.;

(e) Grants (excluding service delivery grants/contracts);

(f) Funding from government service delivery grants/contracts;

(g) Funding from non-government service delivery grants/contracts; and

(h) Other revenue

A55. Category (a) above includes ~~grants and~~ donations,/koha and bequests received from the public ~~and~~ or other organisations, for example, central or local government, charitable trusts, foundations and other philanthropic agencies. It also includes any revenue from fundraising activities. ~~Grants received from the government or other agencies that are in substance a contract for delivery of goods or services would be included in category (c) above. Any revenue from members, including donations, would be included in category (b).~~

A55.1. Category (e) above includes any grants received which provide general funding for the entity. Grants received from the government or other agencies that are in substance a contract for delivery of goods or services would be included in category (f) or (g) above depending on their source. A grant which has an expectation over its final use but which is not in substance a contract for delivery of goods or services would be included in category (e)

A55.2. Category (c) includes any revenue received by the entity from the sale of goods or services in a commercial capacity. In this context commercial activities means activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis (for example, an entity may operate a baked goods stand at a gala event without intending to operate a commercial bakery).

6 This is analogous to a for-profit entity where the shareholders contribute share capital.

In such cases this revenue would instead be considered fundraising revenue and therefore be included in category (a).

A55.3. Any revenue from members received in exchange for their membership to the entity would be included in category (b).

A56. Entities need report only the minimum categories specified in paragraph A54 separately when the category is applicable and significant to the entity. If a category is not applicable, entities shall omit that category from their performance report.

A57. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A54, provided that the separate categories are still maintained.

A58. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

~~Optional Information~~

A59. The minimum categories specified in paragraph A54 may be disaggregated, or additional categories may be presented in the statement of financial performance, only when ~~such presentation~~ doing so ~~will~~ is necessary to provide ~~enhance~~ users with an ~~enhance users'~~ understanding of the entity's main revenue sources. ~~financial performance~~. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary. ~~Possible disaggregated or additional categories are listed below.~~

~~(a) Donations or koha from the public;~~

~~(b) Fundraising revenue;~~

~~(c) Grants not directly related to service delivery;~~

~~(d) Fees and subscriptions from members;~~

~~(e) Donations, koha or offerings from members;~~

~~(f) Revenue from grants or contracts for service with central or local government;~~

~~(g) Revenue from grants or contracts for service with non-governmental agencies;~~

~~(h) Revenue from sales to the public;~~

~~(i) Revenue from sales to members;~~

~~(j) Revenue from commercial activities;~~

~~(k) Lease or rental revenue;~~

~~(l) Interest or dividend revenue; and~~

~~(m) Other revenue.~~

A60. [Deleted] ~~Disaggregated or additional categories should be used only where doing so is necessary to provide users with an understanding of the main revenue sources of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.~~

A61. Further breakdowns ~~Breakdowns~~ of the minimum categories, or the disaggregated or additional categories, may be provided in the notes to the performance report. For example, fundraising from the public may be further disaggregated by fundraising campaign or type, such as by street collection, postal appeal, raffles or charity auction. The entity may also elect to include in the notes to the performance report a list of donors or grant providers, together with a summary of their contributions, if it considers that this is useful information. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Revenue

A62. Revenue shall be recorded on the occurrence of a recognition event. This is generally when there is a legal right to receive cash either now or sometime in the future. The timing of the recording of specific revenue types is provided in Table 1.

Table 1: Recording of Specific Types of Revenues

Source	**When to Record**	**Comments**
Donations, koha, bequests and other general fundraising activities ~~and other similar revenue~~		
Fundraising – cash	~~If no "use or return" condition attached (that is, no requirements to return the funds if they are not used as intended)~~ R~~r~~ecord as revenue when cash is received.	May be received in the form of donations or from the sale of goods or services. ~~It is rare that fundraising has a "use or return" condition attached. Funds may be raised for a specific purpose; this is not a condition but a restriction of use.~~
Fundraising – other	If the entity receives an asset refer to section on "donated assets" below. If the entity receives goods or services refer to section on "donated goods or services (other than donated assets)" below.	As part of a fundraising campaign the entity may receive donations of assets (other than cash) which it may keep, or the entity may receive donated goods which it may sell to raise funds.
Donations, bequests, and pledges received ~~and grants~~ with ~~no "use or return" condition attached~~ no specific expectations over use	Record as revenue when cash received.	~~Recording as~~ R~~r~~evenue recognition shall not be deferred even if the reporting entity ~~resources~~ expects to spend the funding received on related expenditures in future periods.~~are received in advance of any expense on the activity funded by the donation or grant.~~
Donations, bequests, and pledges received with specific expectations over use	On receipt of donation, bequest or pledge record asset for funding received (generally cash) and a matching liability. As the specific expectations over use are met the liability is reduced and revenue is recorded.	The liability as at balance date reflects the extent to which specific expectations (as established by the resource provider) have not been satisfied. Revenue is recognised over the period in which the agreed expectations over use are satisfied.
Donations, bequests, and pledges received	On receipt of donation, bequest or pledge record asset received (generally cash) and deferred revenue. The deferred revenue balance is reduced and revenue is recorded over the period in which the funds are spent.	The deferred revenue balance as at balance date reflects the extent to which the funds have not been spent. Revenue is recognised as the matching corresponding expenditure is incurred.
Donated assets	*Significant donated assets with useful lives of 12 months or more*: Record on receipt ~~at~~ based on the estimated replacement cost (for land and buildings, valuations used for rating purposes may be used) ~~readily obtainable values such as rateable value or government value.~~ *Significant donated assets that are difficult to value such as intangible assets, highly specialised assets, and heritage assets:* Do not record the asset or any revenue gain from the donation.	*Significant donated assets that are recorded*: Disclose in the notes to the performance report details of the assets in accordance with the disclosure requirements of this Standard in relation to the particular class of asset (see paragraphs A190–A191). *Significant donated asset not recorded*: Details are disclosed in the notes to the performance report (see paragraph A192).

Source	When to Record	Comments
	Other donated assets: Do not record the asset or any revenue gain from the donation.	
Donated goods or services (other than donated assets)	Do not record (for example cleaning services provide by members)	Significant donated goods or services (including services in kind) are to be disclosed in the notes to the performance report (see paragraph A68).
~~Pledges and bequests~~	~~Record as revenue on receipt of the cash or significant asset.~~	~~Disclosure of known pledges and bequests not yet received is optional.~~
~~Entrance fees and one-off fees~~	~~Record as revenue when the event takes place.~~	~~Any fees received for events that have not yet taken place are recorded as a liability.~~
~~Subscriptions to a series of events (including tuition fees)~~	~~Record as revenue as events occur, allocating to each event on a basis that reflects the extent to which services are performed at each event.~~	~~Any subscriptions received for events that have not yet taken place are recorded as a liability.~~
~~Fees, subscriptions and other revenue from members~~ Membership fees and subscriptions		
Fees and subscriptions in exchange for goods or services or to purchase goods or services at prices lower than those charged to non-members	*If the goods or services are of similar value in each time period (for example, a monthly magazine or monthly access to members' facilities):* Record as revenue evenly over the period in which the items are provided to the members. *If the goods or services vary in value from period to period:* Record as revenue proportionally on the basis of the value of each item in relation to the total estimated value of all items covered by the subscription.	Any fees or subscriptions received in advance of the period to which they relate should be recorded as a liability.
Other fees and subscriptions	Record as revenue when cash received.	Any fees or subscriptions received in advance of the period to which they relate should be recorded as a liability.
~~Donations from members with no "use or return" conditions attached~~	~~Record as revenue when cash received.~~	~~Recording as revenue shall not be deferred even if the resources are received in advance of any expense on the activity funded by the donation.~~
~~Donations from members that have "use or return" conditions attached to them.~~	~~On receipt of donation record asset received (generally cash) and a liability. As the conditions are met the liability is reduced and revenue is recorded.~~	~~The liability as at balance date reflects the extent to which conditions have not been satisfied.~~
Revenue from ~~providing goods or services~~ commercial activities		
Sale of goods	Record as revenue when the goods are sold (this is usually when the goods are received by the purchaser).	If the purchaser pays before they receive their goods, the entity records a liability. If the purchaser does not pay on receipt of the goods, the entity records a debtor.
Provision of services	Record as revenue by reference to the stage of completion of the service at balance date, based on the actual service provided as a percentage of the total service to be provided.	The stage of completion of a service may be determined in many ways including: (a) On an event by event basis if that is the basis for charging; or (b) Services performed to date as a percentage of total services.

Source	When to Record	Comments
Interest, dividends and other investment revenue		
Interest	Record as revenue as it is earned during the period.	If the borrower pays interest in advance, the entity records a liability being the amount of the advance payment. If the borrower pays interest in arrears (after the investment period has elapsed), the entity records as an asset, any amount owed to the entity as a receivable.
Dividends and similar revenue	Record as revenue when receivable, for example when the dividend is declared (which would usually be before it is paid).	Dividends declared after the end of the financial year of the entity are not recorded as revenue.
Grants		
Grants, received ~~and grants~~ with ~~no "use or return" condition attached~~ no specific expectations over use	Record as revenue when cash received.	~~Recording as~~ R~~r~~evenue recognition shall not be deferred even if the reporting entity ~~resources~~ expects to spend the funding received on related expenditures in future periods.~~are received in advance of any expense on the activity funded by the donation or grant.~~
Grants received with specific expectations over use	On receipt of grant, record asset for funding received (generally cash) and a matching liability. As the specific expectations over use are met the liability is reduced and revenue is recorded.	The liability as at balance date reflects the extent to which specific expectations (as established by the resource provider) have not been satisfied. Revenue is recognised over the period in which the agreed expectations over use are satisfied.
Grants received (with or without any specific expectations over use)	On receipt of grant, record asset received (generally cash) and a liability. The liability is reduced and revenue is recorded over the period in which the funds are spent.	The liability as at balance date reflects the extent to which the funds have not been spent. Revenue is recognised as the matching corresponding expenditure is incurred.
~~Grants received for current operations with no "use or return" condition attached no expectations about how the funds transferred will be used~~	~~Record as revenue on receipt.~~	~~A grant for current operations might be to help staff a drop-in centre for new mothers, cover administration or salaries costs of the reporting entity., whereas a grant for capital purposes might be to contribute to a new building.~~
~~Grants received for capital purposes with no expectations about how the funds transferred will be used with no "use or return" condition attached~~	~~On receipt of grant record asset received (generally cash) and a liability. Subsequently recognise revenue as costs associated with the capital purchase are incurred – i.e. recognise revenue over the asset construction period.Record as revenue on receipt.~~	~~A grant for capital purposes might be to contribute to a new building.~~

Source	When to Record	Comments
Funding from government service delivery grants/contracts		
~~Grants that are service contracts which have a "use or return" condition attached~~ Revenue from the provision of services (including fees and charges relating to services delivered across the year)	~~On receipt of grant record asset received (generally cash) and a liability. As the conditions are met (i.e. services provided) the liability is reduced and revenue is recorded.~~ Record as revenue by reference to the stage of completion of the services at balance date, based on the actual service provided as a percentage of the total service to be provided.	~~The liability as at balance date reflects the extent to which obligations under the service contract have not been satisfied.~~ The stage of completion of a service may be determined in many ways including: (a) On an event by event basis if that is the basis for charging; or (b) Services performed to date as a percentage of total services.
Funding from non-government service delivery grants/contracts		
Revenue from the p~~P~~rovision of services (including fees and charges relating to services delivered across the year)	Record as revenue by reference to the stage of completion of the service at balance date, based on the actual service provided as a percentage of the total service to be provided.	The stage of completion of a service may be determined in many ways including: (a) On an event by event basis if that is the basis for charging; or (b) Services performed to date as a percentage of total services.
Other revenue		
Lease or rental revenue	Record as revenue on a straight-line basis over the term of the agreement, unless another systematic basis is representative of the time pattern of the user's benefit.	If the lessee pays in advance, the entity (as lessor) records a liability being the amount of the advance payment. If the lessee pays after the leased asset is used, the entity (as lessor) records as an asset any amount owed to the entity.
Licence fees and royalties	Record as revenue as they are earned in accordance with the substance of the relevant agreement.	As a practical matter, this may be on a straight-line basis over the term of the agreement.
Commission for acting on behalf of another entity as the agent of that other entity (the principal)	Record as revenue when receivable, which would usually be defined in the agency agreement.	Revenue includes only amounts received and receivable by the entity on its own account, not the amounts collected for the principal.
Gain on sale of an asset	Record as revenue when control of the asset transfers to the new owner.	The gain is the proceeds from the sale less the amount recorded as the value of the asset prior to its sale.

Revenue recognition – Option 1

Donations, Grants, Bequests, or Pledges with Expectations over Use

A62.1 When accounting for donations, grants, bequests or pledges an expectation over how the funding will used by the reporting entity arises when the funder sets out expectations over use clearly in writing and communicate these expectations clearly to the reporting entity.

A63. Where there are no expectations communicated from the provider about how the funds will be used, r~~R~~evenue from donations~~,~~ grants, bequests or pledges ~~and fundraising~~ ~~without "use or return" conditions attached~~ is recorded when the funding is received.

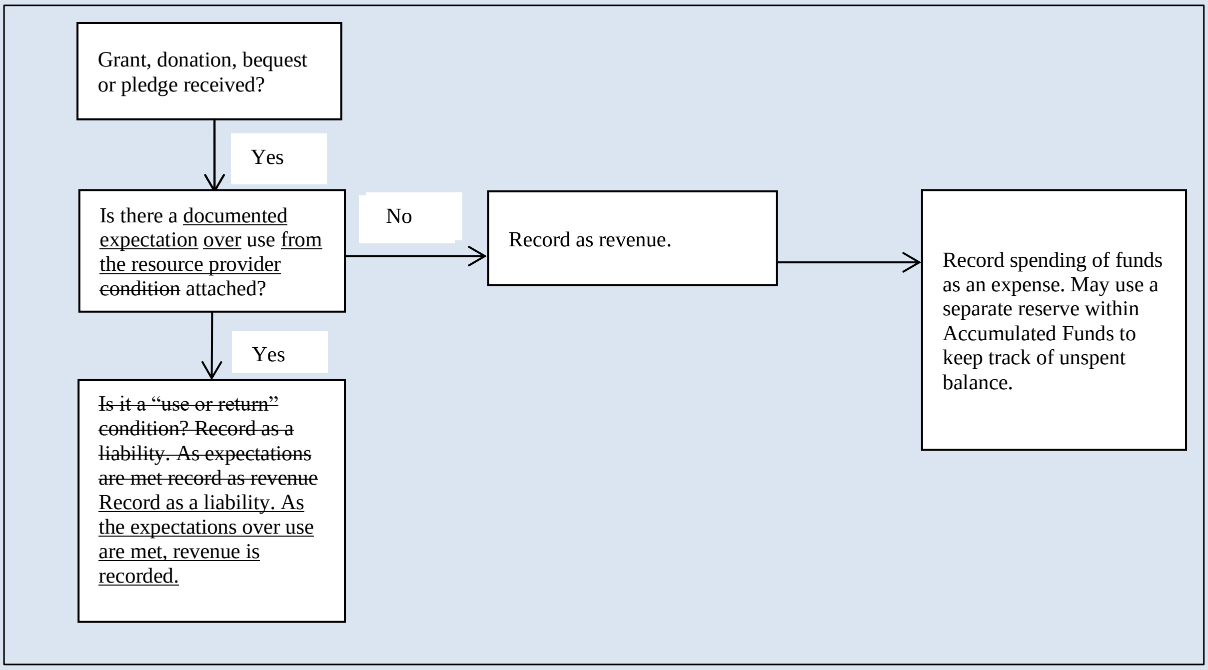
~~A64. Some donations and grants have conditions attached. Sometimes these can be of a general nature, for example to be used for specific purposes by the entity, and the entity is not legally required to return the money if it is not used for that purpose. Other donations and grants can be received on a "use or return" basis, for example when the entity is required to either use the donation/grant as specified by the donor/grantor or return the donation/grant to the donor/grantor.~~ Expectations about how donations or grants should be used include obligations to acquire or build assets (i.e. developing a capital asset such as a building), provision of goods or services to third-party beneficiaries, funding general operating costs, and funding the delivery of specific programmes or activities.

A65. ~~Where revenue has conditions attached, it is necessary to determine whether those conditions lead to a liability.~~ Where there are expectations about how the funds will be used, the funds ~~Revenue that has a "use or return" condition,~~ shall be initially recorded as a liability until the ~~condition~~ expectations ~~has~~ have been met, at which point the revenue shall then be recorded.

A66. [Deleted] ~~For the purposes of this Standard donations or grants with conditions attached, but which are not "use or return" conditions, shall be accounted for in the same way as revenue without conditions (see paragraph A63). In these circumstances entities may elect to keep track of these unconditional but "tagged" donations or grants by establishing a designated reserve within accumulated funds (see paragraph A143). Note, however, that under this approach the donation/grant received is still recorded as revenue and any subsequent spending is recorded as an expense of the entity; the reserve fund is just a vehicle to keep track of the amount of the unused donation/grant.~~

A67. Figure 1 illustrates the process an entity ~~should~~ undertakes to determine how to record revenue with or without ~~conditions~~ expectations attached.

Figure 1: Decision Tree: Accounting for Revenue with and without ~~Conditions~~ Expectations



Revenue recognition – Option 2

Donations, Grants, Bequests, or Pledges

A63. [Deleted] ~~Revenue from donations, grants and fundraising without "use or return" conditions attached is recorded when cash or significant assets are received~~.

A64. [Deleted] ~~Some donations and grants have conditions attached. Sometimes these can be of a general nature, for example to be used for specific purposes by the entity, and the entity is not legally required to return the money if it is not used for that purpose. Other donations and grants can be received on a "use or return" basis, for example when the entity is required to either use the donation/grant as specified by the donor/grantor or return the donation/grant to the donor/grantor.~~

A65. ~~Where revenue has conditions attached, it is necessary to determine whether those conditions lead to a liability. Revenue that has a "use or return" condition,~~ Donations, grants, bequests and pledges received shall initially be recorded as ~~a liability~~ deferred revenue on the statement of financial position. ~~until the conditions have been met, at which point the~~ The deferred revenue balance shall subsequently be reduced, and revenue shall ~~then~~ be recorded as the funds are spent. This means that revenue and the related expense are recorded in the same financial year.

A66. [Deleted] ~~For the purposes of this Standard donations or grants with conditions attached, but which are not "use or return" conditions, shall be accounted for in the same way as revenue without conditions (see paragraph A63). In these circumstances entities may elect to keep track of these unconditional but "tagged" donations or grants by establishing a designated reserve within accumulated funds (see paragraph A143). Note, however, that under this approach the donation/grant received is still recorded as revenue and any subsequent spending is recorded as an expense of the entity; the reserve fund is just a vehicle to keep track of the amount of the unused donation/grant.~~

A66.1. For multi-year funding (such as multi-year grants) revenue shall not be recognised on a straight-line basis over the period of the grant if this is not the pattern of actual spending. Instead, revenue shall be recorded in line with the requirements in paragraph A65.

A67. [Deleted] ~~Figure 1 illustrates the process an entity should undertake to determine how to record revenue with or without conditions attached.~~

Goods or Services in Kind

A68. Entities shall not ~~are not required (but may if they wish) to~~ record as revenue goods or services received in kind, unless they are significant donated assets (see paragraph A111). However, entities shall provide information about significant goods or services received in kind in the notes to the performance report (see paragraph A189).

Expenses

A69. Expenses are the cash and other resource outflows from the entity, other than outflows to settle liabilities or purchase assets, or which are distributions of capital to beneficiaries/members/officers ~~owners~~ (see paragraph A147)[7].

A70. Expenses do not include prepayments. Executory contracts are also excluded (an executory contract is one where neither party has performed their obligation under the contract, for example, inventory that has been ordered but not received and therefore not paid for).

A71. Expenses include only amounts paid and payable by the entity on its own account. Amounts paid on behalf of others (that is, as agent of another entity) are not expenses of the entity (see paragraphs A83-A86).

Required Information

A72. In order to make information understandable to users, expenses shall be aggregated and separately presented in categories. As a **minimum**, the following aggregated categories shall be reported separately:

(a) ~~Expenses~~Costs related to public fundraising;

(b) ~~Volunteer and employee related costs~~ Employee remuneration;

(c) Other employee and volunteer costs

(d) Costs related to the entity's main activities;

(e) Costs related ~~to providing goods or services~~ to commercial trading activities (sale of goods or services); ~~and~~

(f) Grants and donations made; and

(g) Other costs.

A73. Entities need report only the minimum categories specified in paragraph A72 separately when the category is applicable and significant to the entity.

A74. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A72, provided that the separate categories are still maintained.

[7] See the Glossary for a more detailed definition of expenses.

A75. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A76. Reimbursements for expenses incurred by employees on behalf of the organisation are not classified as employee ~~expenses~~ costs. For example, reimbursing an airfare for an employee to attend a conference. This is recorded in the appropriate category of expenses (for example, ~~expenses relating~~ costs related to ~~providing goods or services~~ the entity's main activities if that was the reason the travel took place).

A76.1. Category (b) above includes all remuneration paid to employees of the entity.

A76.2. Category (d) above includes all costs attributable to the activities carried out by the entity in pursuit of their stated purposes (excluding employee remuneration).

A76.3. Category (e) above includes all costs attributable to commercial activities carried out the entity (excluding employee remuneration). In this context commercial activities means activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis (for example, an entity may operate a baked goods stand at a gala event without intending to operate a commercial bakery). In such cases these costs would instead be considered fundraising costs and therefore be included in category (a).

~~Optional Information~~

A77. The minimum categories specified in paragraph A72 may be disaggregated, or additional categories may be presented in the statement of financial performance only when ~~such presentation~~ doing so ~~will~~ is ~~enhance~~ necessary to provide users with an understanding of the ~~entity's financial performance~~ main expenses of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary. ~~Possible disaggregated or additional categories are listed below.~~

(a) ~~Administration and overhead costs;~~

(b) ~~Lease and rental expense;~~

(c) ~~Affiliation fees;~~

(d) ~~Interest expense;~~

(e) ~~Bad debts;~~

(f) ~~Depreciation;~~

(g) ~~Impairment charges; and~~

~~Other expenses.~~

A78. [Deleted]~~Disaggregated or additional categories should be used only where doing so is necessary to provide users with an understanding of the main expenses of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.~~

A79. Further breakdowns ~~Breakdowns~~ of the minimum categories or the disaggregated or additional categories may be provided in the notes to the performance report. For example, employee ~~related~~ remuneration and other employee and volunteer related costs ~~payments~~ could be disaggregated into salaries and wages, employer superannuation contributions (for example, KiwiSaver) and other costs relating to employees (for example, ACC levies). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Expenses

A80. Expenses shall be recorded on the occurrence of a recognition event. This is where there is a legal obligation to pay cash either now or sometime in the future (this is normally referred to as the point at which an expense is "incurred"). The timing of the recording of specific expense types is provided in Table 2.

Table 2: Recording of Specific Types of Expenses

Source	**When to Record**	**Comments**
~~Expenses~~ Costs related to public fundraising[8]		
Advertising costs, printing of fundraising materials, staff training	Record the expense when the advertising service is received or the other expense is incurred.	This category would include expenses associated with seeking gifts or public donations.
Amounts paid to third party fundraisers	Record the expense when it is incurred.	
Employee remuneration		
Wages and salaries and annual leave~~, performance related bonuses, and any benefits such as medical care, housing, and free or subsidised goods or services for current employees for operating activities~~	Record the expense as staff provide services and become entitled to wages and salaries and leave entitlements.	Amounts for leave entitlements are recorded as liabilities. Amounts deducted from staff wages and salaries and held to pay to a third party (for example, Inland Revenue, KiwiSaver) are recorded as liabilities.
~~Wages and salaries related to the production of inventory or other assets~~	~~Do not record as an expense – include in cost of asset.~~	
Wages and salaries paid in advance	Record the expense when the staff provide services.	Record as an asset (prepayment) until the relevant services are provided.
Performance related b~~B~~onuses	Record the expense when the employee is notified that the bonus has been granted.	
Costs related to the entity's main activities		
Administration and overhead costs	Record the expense when the cost is incurred.	Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.
Other costs associated with the delivery of services	Record the expense when the cost is incurred.	
Purchase of i~~I~~nventory for sale ~~sold~~ or distribution~~ed~~	Record the expense when the goods are sold or distributed.	Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.
Inventory written down or written off	Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution).	Inventory may lose value as: (a) It ages (for example, fresh food); (b) Future customers would not pay as much for the inventory; (c) Stock becomes obsolete; and The inventory is less valuable to service recipients.
Costs related ~~to providing goods or services~~ commercial trading activities		
Inventory sold or distributed	Record the expense when the goods are sold or distributed.	Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.

~~8 If expenses are classified under a separate category in this Standard then exclude them from this category. For example, a full-time staff member spends a small proportion of their time involved with the annual appeal, so their salary is still classified under employee costs. However, if a person is employed on contract solely to arrange part of the annual appeal this would be included under expenses related to public fundraising.~~

Source	When to Record	Comments
Inventory written down or written off	Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution).	Inventory may lose value as: (a) It ages (for example, fresh food); (b) Future customers would not pay as much for the inventory; (c) Stock becomes obsolete; and (d) The inventory is less valuable to service recipients.
Administration and overhead costs	Record the expense when the cost is incurred.	Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.
Other costs associated with the delivery of services	Record the expense when the cost is incurred.	
Grants and donations made		
Grants and donations made	Record the expense when the grant or donation has been approved and the recipient advised.	
Other ~~Volunteer and~~ employee and volunteer ~~related~~ costs		
Honoraria	Record the expense when the honoraria are paid.	The payment of honoraria is usually discretionary so there is no obligation on the entity prior to payment.
Superannuation contributions	Record the expense as staff provide services.	This category comprises the entity's contribution to KiwiSaver or other superannuation schemes on behalf of staff. Amounts not yet paid over are recorded as liabilities.
Vouchers provided to volunteers (such as petrol vouchers)	Record the expense when the voucher is purchased.	
Other (including ACC levies)	Record the expense in accordance with the relevant agreement.	Often recorded as an expense evenly over the period of the agreement.
Other expenses		
Affiliation fees	Record the expense when the fees are due to be paid.	
Interest expense	Record the expense as it is incurred during the period.	This category is the amount paid during the period which relates to borrowings. Includes any interest amount owing but not yet paid.
Impairment charges (changes in the value of assets) Reversal of an impairment charge recorded in a prior period	Record the expense when it is apparent that an asset is recorded at an amount that is greater than its net realisable value. Reverse the expense when there is an indication that an impairment charge recorded in a prior period may no longer exist or may have decreased. (see paragraphs A107.1 and A107.2)	The impairment expense is the amount by which the asset's recorded amount is reduced. Impairment charges relate mostly to property, plant and equipment, inventory, and receivables (which become bad debts). See also Table 3 for further discussion on impairment.
Depreciation	Record the expense at year end based on the established depreciation rate.	See also Table 3 for further discussion on depreciation.

Source	When to Record	Comments
Tax expense	Record the expense in the financial year to which the tax payable relates.	If a tax return is filed, record the tax payable at the amount in the tax return. Otherwise, record at an estimated amount.
Loss on sale of an asset	Record the expense when control of the asset transfers to the new owner.	The loss is the amount recorded as the value of the asset prior to its sale, less the proceeds from the sale.
Other expenses	Record the expense when it is incurred.	It may be useful to consider the above principles.

Other Information

Required Information

A81. The statement of financial performance shall include any additional information that the entity considers necessary for users to understand the financial performance of the entity.

Optional Information

A82. An entity may include the entity's budgets or plans for the current financial year if they are available.

Amounts Payable or Receivable on Behalf of Others

A83. Revenue and expenses include only the amounts relating to the entity on its own account, that is, where it is the "principal". Where the entity is acting as an "agent" for another party (for example, the Government[9], another entity, or some other third party), the amounts collected or paid belong to that other party rather than the entity.

A84. An entity is a principal (that is, acting on its own behalf) when:

(a) The entity has the primary responsibility for providing the goods or services to the beneficiary or customer;

(b) The entity establishes the prices, either directly or indirectly, for those goods or services; and

(c) The entity bears the customer's credit risk for any amount receivable from the customer.

A85. An example of the entity as principal is when the entity organises a conference for a group of NFP entities, receives the conference fees, and is responsible for all the conference-related payments such as advertising and catering.

A86. An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the transactions. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

[9] For the purposes of this Standard, the collection and payment of GST or PAYE are not considered to be transactions undertaken by the entity as an agent.

Section 6: Statement of Financial Position

Purpose and Value to Users

A87. The purpose of the statement of financial position is to provide a snapshot of the entity's assets (what the entity owns), liabilities (what the entity owes) and accumulated funds (the difference between assets and liabilities) at a certain point in time (being the balance date). ~~This is what the entity owns, what the entity owes, and the value of the members' financial interests in the entity.~~ The statement provides users with information about the financial sustainability of the entity, including the assets that can be used to run the entity in the future, and the liabilities that will have to be settled ~~met~~ in ~~the~~ future periods ~~from cash balances and other assets~~.

Format of Statement of Financial Position

Required Information

A88. The statement of financial position shall be presented as follows:

Assets (by category)	xx
Less Liabilities (by category)	xx
Assets less Liabilities	xx
Accumulated Funds (by category)	xx

A89. [Deleted] ~~Alternatively if the entity considers it more relevant to users of the performance report, the entity may use the following format:~~

~~Assets (by category)~~	~~xx~~
~~Liabilities (by category)~~	~~xx~~
~~Plus Accumulated Funds (by category)~~	~~xx~~
~~Total Liabilities and Accumulated Funds~~	~~xx~~

A90. Additional line items, headings and subtotals may be presented in the statement of financial position when such presentation will help users to understand the entity's financial performance and position.

Assets

A91. Assets are resources of the entity that are expected to provide benefits to the entity in the future[10].

Required Information

A92. In order to make information understandable to users, assets shall be aggregated and presented separately in categories. As a **minimum**, the following aggregated categories shall be reported separately and split between current and non-current (see paragraph A102):

(a) Bank accounts, ~~and~~ cash and short-term deposits;

(b) Debtors and prepayments;

(c) Inventory;

(d) Property, plant and equipment; and

(e) Investments.

A93. Bank Accounts, ~~and~~ cash and short-term deposits comprise petty cash, cheque or savings accounts, and deposits held at call ~~with banks~~ or with a maturity of three months or less from the date purchased.

A94. Debtors (sometimes called accounts receivable) comprise amounts owed to the entity by customers or others. This includes any GST receivable from Inland Revenue.

10 See the Glossary for a more detailed definition of assets.

A95. Prepayments are expenses paid in advance of a good or service being received by the entity (such as rent, insurance or salaries and wages).

A96. Inventories are materials or supplies that are to be consumed in producing goods or services, held for sale or distribution in the ordinary course of operations, or are in the process of production for sale or distribution. Inventories may include food, clothing or goods held for distribution, stocks held in ~~opportunity and~~ charity shops, information brochures printed for the entity but not yet distributed, goods purchased for resale, consumable stores, maintenance materials, spare parts for plant and equipment, and work-in-progress, such as educational/training course materials under development.

A97. Property, plant, and equipment (sometimes called fixed assets) are tangible items that are used in the production or supply of goods or services, or for administrative purposes, and are expected to be used during more than one financial year.

A98. Investments are shares, term deposits (with a maturity of more than three months from the date purchased), fixed interest bonds, units in unit trusts, or similar instruments held by the entity.

A99. Entities need report only the minimum categories specified in paragraph A92 separately when the category is applicable and significant to the entity.

A100. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A92, provided that the separate categories are still maintained.

A101. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A102. In presenting the statement of financial position the entity shall identify those assets which are intended to be converted to cash within 12 months of the balance date, for example, debtors that are expected to be collected within a few months of balance date, or inventories that are expected to be sold or used within the next year. These shall then be classified as “current assets”. The remaining assets shall then be classified as “non-current assets”.

Optional Information

A103. The minimum categories specified in paragraph A92 may be disaggregated, or additional categories may be presented in the statement of financial position, when such presentation will enhance users’ understanding of the entity’s financial position.

A104. The main asset category where this is likely to be useful is property, plant, and equipment. A class of property, plant, and equipment is a grouping of assets of a similar nature or function in an entity’s operations. Possible classes of property, plant and equipment that could be reported separately (either in the statement of financial position or in the notes to the performance report) are:

(a) Land;

(b) Buildings;

(c) Motor vehicles;

(d) Furniture and fixtures;

(e) Office equipment;

(f) Computers (including software); and

(g) Machinery.

A105. Disaggregated or additional categories should be used only where doing so is necessary to provide users with an understanding of the main assets of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.

A106. Breakdowns of the minimum categories, or the disaggregated or additional categories, may be provided in the notes to the performance report, for example, classes of property, plant and equipment, or different types of inventory (such as inventories held for consumption versus inventories held for sale). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Assets

A107. Assets shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the asset type. Details for recording and measuring specific asset types are provided in Table 3.

Table 3: Recording of Specific Types of Asset

Bank Accounts~~, and~~ Cash and Short-term Deposits (note: bank overdrafts should be separately recorded as a liability)	
When to record	When the cash is received (either in hand or in the bank account).
Measurement	At the amount held.
Debtors	
When to record	When action is taken (such as goods or services sold) to give the entity the right to collect cash in the future. Compensation due from third parties (such as insurers) for assets that were impaired, lost, or given up should also be recorded as a debtor (and included as revenue in the statement of financial performance).
Initial measurement	At the amount owed.
When to record impairment	When it is likely that the amount owed (or some portion) will not be collected. Record the loss as a bad debt expense.
Change measurement at balance date	Consider whether any amounts are impaired (see paragraph A108). If the entity charges interest on overdue amounts, add this to the amount of the debtor and record revenue.
When to no longer record	When amount is collected or written off.
Prepayments	
When to record	When payment made.
Initial measurement	At the amount relating to the future goods or services to be received.
When to record impairment	If the entity is unlikely to get the service it has paid for.
Change measurement at balance date	Re-measure at the amount relating to the future services still to be received at that date.
When to no longer record (when to expense)	Once the entity receives the benefit for which it has paid, the prepayment (or portion thereof), is transferred from prepayments and is recorded as an expense.
Inventories	
When to record	When acquired.
Measurement	Purchased inventories: At cost.
When to record impairment	*Goods for sale:* Write-down to lower of cost and selling price. *Goods for use or distribution:* Write-down if the value to the entity decreases (for example, materials to be distributed are out of date or damaged).
Change measurement at balance date	Only if impaired.
When to no longer record (when to expense)	When sold, distributed or written off.

Property, Plant and Equipment (including Heritage Assets)	
When to record	When purchased or donated.
Initial measurement	*Purchased*: Cost (cash price equivalent). *Donated*: Current value (such as rateable value or government value).
When to record impairment	*Asset to be sold:* If the market price for an equivalent asset falls below the carrying amount of the asset. *Asset to be used:* If the value to the entity in using the asset falls below the carrying amount of the asset (for example, the entity no longer provides the service supported by the asset).
Change measurement at balance date	*Record depreciation* – spread the cost of the asset over the expected useful life of the asset, using a structured method such as straight line or diminishing value. Note that land is not depreciated.
When to no longer record	When sold, otherwise disposed of or written off.
Investments	
When to record	When purchased.
Initial measurement	At the amount paid.
When to record impairment	If it appears that the carrying amount of the investment will not be recovered, it shall be written down to the current market price.
Change measurement at balance date	If the current market price falls below cost.
When to no longer record	When sold, otherwise disposed of, or written off.
Other Assets	
When to record	When: (a) The asset is acquired; and (b) The asset has a cost or value that can be measured reliably[(a)].
Initial measurement	At the amount paid or other value that can be measured reliably.
When to record impairment	If it appears that the carrying amount of the asset will not be recovered, that is, it is more than the current market value (if it can be determined).
When to no longer record	When the asset is sold or otherwise disposed of.
(a) Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.	

Reversal of Impairment Charges

A107.1 If there is any indication that an impairment charge recorded in prior periods for an asset:

(a) May no longer exist; or

(b) May have decreased (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value);

an entity shall reverse all or part of that impairment charge.

A107.2 The reversal of the impairment charge shall:

(a) In the case of inventories, be limited to the amount of the original write-down;

(b) In the case of investments, not result in the carrying amount of the asset being recorded at more than its original cost; and

(c) In the case of property, plant and equipment, not result in the carrying amount of the asset (net of depreciation) being recorded at more than it would have been had the impairment not been recorded.

Calculating Debtors

A108. In calculating the value of debtors at the end of each financial year, the entity shall assess whether there is evidence that a receivable may not be collected. The factors to consider are:

(a) Financial difficulty of the other party;

(b) A breach of contract by the other party, such as a default in interest or principal payments;

(c) The entity granting to the other party a concession relating to debt payment; or

(d) Other information indicating that the receivable may not be collected.

Heritage Assets

A109. Some classes of property, plant and equipment may be described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

A110. Heritage assets shall be accounted for in the same manner as other property, plant and equipment (that is, at cost or if donated then at readily obtainable current values). Heritage assets for which current values are not readily obtainable, do not need to be recorded in the statement of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

Donated Assets

A111. Significant donated assets, such as significant items of property, plant and equipment, shall be recorded at readily obtainable current values, such as rateable or government valuation, where it is practicable to obtain such current values.

A112. Significant donated assets for which values are not readily obtainable, do not need to be recorded in the statement of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

Revaluation of Property, Plant and Equipment

A113. As specified in Table 3, purchased property, plant and equipment is to be measured on the cost basis. However, an entity may elect to revalue a type ~~class~~ of property, plant and equipment. Entities are more likely to make such an election when the value of an asset has increased significantly over that asset's life (such as land or a building).

A114. If an entity wishes to revalue a type ~~class~~ of assets, it shall ~~apply the relevant requirements of PBE IPSAS 17 *Property, Plant and Equipment*, except that the~~ measure an item of property, plant and equipment at ~~entity may use the~~ a readily obtainable current value (such as rateable or government valuation) less any subsequent accumulated depreciation and subsequent accumulated impairment losses. ~~(rather than fair value as required by PBE IPSAS 17) when revaluing. Where this is the case, the entity shall disclose the source and date of the valuation in the notes to the performance report.~~

A114.1. If an entity elects to revalue a class of assets it shall:

(a) Present a separate revaluation reserve within accumulated funds in the statement of financial position and the notes to the performance report (see paragraph A143);

(b) Recognise revaluation gains as "Gains/(losses) on the revaluation of property, plant and equipment" directly in accumulated funds through a revaluation reserve, unless they reverse an impairment charge recognised in a prior period (see table 3 and paragraphs A107.1 and A107.2);

(c) Recognise revaluation losses as an expense in the statement of financial performance, except to the extent to which these losses offset any previous revaluation gains. If the revaluation losses offset previous revaluation gains they are recognised as "Gains/(losses) on the revaluation of property, plant and equipment" directly in accumulated funds through a revaluation reserve.; and

(d) Recognise any gains on disposal over the carrying amount in revenue in the statement of financial performance as "Gains/(losses) on disposal of property, plant and equipment".

A114.2. If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following in the notes to the performance report:

(a) The basis (such as the rateable or government valuation) and date of the valuation;

(b) Whether an independent valuer was involved;

(c) The methods and significant assumptions applied in estimating the items' current value; and

(d) The revaluation gain/loss for the period that has been recognised in the revaluation reserve.

A115. ~~It is important to note that o~~Once a type ~~class~~ of ~~once~~ property, plant and equipment is revalued ~~the requirements of PBE Standards mean that it is likely that~~ the entity will need to continue measuring that type ~~class~~ of assets at revalued amounts thereafter (rather than reverting to asset cost). Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date.

A116. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may choose to disclose that current value, and the basis (such as the rateable or government valuation) and date of that valuation in the notes to the performance report.

Investment property

A116.1. Some classes of property, plant and equipment may be described as investment property because they are held primarily by the entity to generate rental income or for capital gains rather than for use in the entity's ordinary activities.

A116.2. Investment property shall be accounted for in the same manner as other items of property, plant and equipment (see Table 3 and paragraphs A113 – A116). This means that an entity can choose to account for investment property on a cost or revaluation basis.

Investments

A116.3. As specified in Table 3, investments are to be measured at the amount paid when purchased, less any impairment. However, where an entity holds investments which are publicly traded it may elect to measure that type of investment at its current market value.

A116.4. If an entity elects to measure publicly traded investments at current market value it shall recognise the change in current market value in revenue or expenses in the statement of financial performance.

A116.5. If investments are reported at current market value an entity shall disclose:

(a) The accounting policies for investments, including the basis on which current market value was determined (for example, NZX-quoted price at the balance date).

(b) In the notes to the performance report, an analysis of investments by type identifying the carrying amount of each type of investment, with those held at current market value being displayed separately from those held at cost less impairment.

(c) In the notes to the performance report, an analysis reconciling the opening and closing carrying amounts of each type of investment held.

Assets Held on Behalf of Others

A117. Assets held as an agent on behalf of another person, entity or other third parties are not recorded as assets of the entity. The statement of financial position should include only assets held by the entity on its own account as principal (see paragraphs A83–A86 for a discussion on principals and agents).

Liabilities

A118. Liabilities are the amounts owed by the entity at balance date[11].

Required Information

A119. In order to make information understandable to users, liabilities shall be aggregated and presented separately in categories. As a **minimum**, the following aggregated categories shall be reported separately and split between current and non-current (see paragraph A128):

[11] See the Glossary for a more detailed definition of liabilities.

(a) Bank overdraft;

(b) Creditors and accrued expenses;

(c) Employee costs payable;

(d) Unused donations ~~and~~ grants, bequests and pledges with expectations over use ~~conditions~~; and

(e) Loans.

A120. Creditors (sometimes called accounts payable) are amounts owing to suppliers to pay for goods or services that have been acquired in the course of the entity's operations. GST payable to Inland Revenue is also part of creditors.

A121. Accrued expenses are costs incurred but not yet paid. This includes electricity, gas, telephone services used but not yet paid, water and local authority rates payable but not yet paid, and rent for the use of premises not yet paid.

A122. Employee costs payable are amounts owing to, but not yet paid to employees. This category includes wages and salaries earned but not yet paid, holidays earned but not yet taken (holiday pay accrual), ACC contributions owing, PAYE withheld from employees' remuneration but not yet paid over to Inland Revenue, and contributions to superannuation schemes (such as KiwiSaver) or other post-employment benefit schemes collected but not paid over.

A123. Unused donations ~~and~~ grants, bequests and pledges ~~with~~ that have ~~conditions~~ expectations over use ~~attached are donations or grants that have a "use or return" condition attached to them. This~~ creates ~~a binding~~ present obligation on the entity that is recorded as a liability (see paragraphs A6~~3~~2.1–A67 for a further discussion on revenue with expectations over use ~~conditions~~). ~~This category includes unused revenue for service delivery contracts that have a "use or return" condition attached.~~

A124. Loans are amounts borrowed by the entity.

A125. Entities need report only the minimum categories specified in paragraph A119 separately when the category is applicable and significant to the entity.

A126. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A119, provided that the separate categories are still maintained.

A127. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A128. In presenting the statement of financial position the entity shall identify those liabilities which are due to be paid within 12 months of the balance date, which shall then be classified as "current liabilities". The remaining liabilities shall then be classified as "non-current liabilities".

Optional Information

A129. The minimum categories specified in paragraph A119 may be disaggregated, or additional categories may be presented in the statement of financial position, when such presentation will enhance users' understanding of the entity's financial position.

A130. Disaggregated or additional categories should be used only where doing so is necessary to provide users with an understanding of the main liabilities of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.

A131. Breakdowns of the minimum categories, or the disaggregated or additional categories, may be provided in the notes to the performance report, for example, a breakdown of loans. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Liabilities

A132. Liabilities shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the liability type. Details for recording and measuring specific liability types are provided in Table 4.

Table 4: Recording of Specific Types of Liability

Bank Overdraft	
When to record	When the overdraft occurs.
Measurement	At the amount of the actual overdraft (not the overdraft facility).
Creditors and Accrued Expenses	
When to record	When transaction occurs that creates the payment obligation, for example on the receipt of goods or services from a supplier.
Initial measurement	At the amount owing. If the entity has not received a supplier invoice it shall record an accrual for an estimate of the amount to be paid
Change measurement at balance date	Review in case some part has been paid or is no longer owed (for example, a supplier changes the arrangement to donations of goods therefore revenue will be recorded).
When to no longer record	When settled.
Employee Costs Payable	
When to record	When an employee has earned the entitlement or the entity has withheld amounts from wages and salaries already paid. It is uncommon for entities with paid employees to have no employee costs payable.
Initial measurement	At the amount to be paid.
Change measurement at balance date	If employees have been granted increased wages and salaries, amounts owing may change (for example, annual leave is based on amounts to be paid when the employee is expected to take the leave).
When to no longer record	When settled.
Unused Donations and Grants with Expectations over Use ~~Conditions~~	
When to record	When the grant or donation is received.
Initial measurement	At the amount received. ~~At the amount to be returned if the conditions are not fulfilled.~~
Change measurement at balance date	Assess whether the expectations ~~conditions~~ have been fulfilled. If not, assess the amount of the grant that relates to expectations ~~conditions~~ that haven't yet been fulfilled.
When to no longer record	When the expectations ~~conditions~~ are fulfilled.
Provisions	
When to record	When an event has occurred that leads to an obligation.
Initial measurement	At the entity's best estimate of the amount to be paid.
Change measurement at balance date	Review the estimate of the amount of the obligation in light of conditions at balance date.
When to no longer record	When no obligation remains.
Loans	
When to record	When the amount borrowed has been received.
Initial measurement	At the amount borrowed from the lender (usually referred to as the loan principal).
Change measurement at balance date	Include any loan principal outstanding and any interest owing that has not yet been paid.
When to no longer record	When all principal and interest has been paid.

Provisions

A133. A provision is a liability of uncertain timing or amount. For example, an entity's lease of office premises may contain conditions that require the premises to be renovated at the end of the lease, so a provision for this is established.

A134. A provision shall be recorded as a liability when:

(a) The entity has a present obligation (legal or constructive) as a result of a past event;

(b) It is probable that the entity will have to settle the obligation; and

(c) The entity can make a reliable estimate of the amount of the obligation.

A135. The use of estimates is an essential part of the preparation of performance reports, and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other liabilities. Except in extremely rare cases, an entity should be able to make an estimate of the obligation that is sufficiently reliable to use in recording a provision.

Possible Future Liabilities

A136. The only liabilities recorded in an entity's statement of financial position are those where obligations exist at the balance date as a result of a past event. Therefore, no provision should be made for liabilities that might result from a future event as these liabilities don't yet exist. For example, costs likely to be incurred in the future in order to continue an entity's activities in the future are not liabilities. Neither are expected future operating losses.

Contingent Liabilities

A137. Contingent liabilities are not recorded in the statement of financial position but are reported in the notes to the performance report (see paragraphs A199–A201).

Other Accruals

A137.1. The balance of deferred revenue arising from donations, grants, bequests and pledges for funding received that has not been spent at balance date shall be reported separately under the heading "Other Accruals" in the statement of financial position.

Accumulated Funds

A138. Accumulated Funds are the residual ~~owners' or members'~~ financial interest in the entity. after all of its liabilities are settled. It represents the amount of the entity's assets which may be directed by trustees/members/officers in pursuit of the entity's stated purposes. It is the component that balances the statement of financial position.[12]

Required Information

A139. In order to make information understandable to users, accumulated funds shall be aggregated and presented separately in categories. As a **minimum**, the following aggregated categories shall be reported separately:

(a) Capital contributed by ~~owners or~~ the settlor/~~or~~ members/officers (if any);

(b) Accumulated surpluses or deficits; and

(c) Reserves.

A140. Contributions from ~~owners~~ the settlor/members/officers means contributions to the entity by external parties that establish a financial interest in the ~~equity~~ accumulated funds of the entity, which:

(a) Conveys to ~~owners~~ beneficiaries/members/officers the entitlement to:

(i) Distributions by the entity during its life; and/or

(ii) Distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or

(b) Gives ~~the owner~~ trustees/~~or~~ members/officers ~~member~~ a voice in the management of the entity ~~as an owner~~; and/or

[12] See the Glossary for a more detailed definition.

(c) Can be sold, exchanged, transferred, or redeemed.

A141. [Deleted] ~~A contribution from owners the settlor/members/officers (see paragraph A53 for a further discussion) may, but does not necessarily need to, be evidenced by a formal ownership document, such as a share certificate.~~

A142. Accumulated surpluses or deficits are the total of all the surpluses and deficits from the commencement of the entity, excluding returns of capital or other distributions paid to ~~owners~~ beneficiaries/members/officers in their capacity as ~~owners~~ beneficiaries/members/officers (if any), and amounts transferred to other reserves.

A143. Reserves are of ~~two~~three types:

(a) Restricted reserves which may be used only for a particular purpose (the restriction). The restriction may apply to the use of revenue from the funds such as interest received, or to changes to the capital fund, or to both. To be a restricted reserve the restriction must be set by an external party, for example:

(i) The express wishes of a donor (including in relation to endowment funds);

(ii) A specific purpose agreed with a donor; or

(iii) The terms of a fundraising appeal.

(b) Discretionary reserves that have been created by a transfer from accumulated surpluses or deficits as a decision of the entity so that it sets aside resources for a particular purpose. A feature of this type of reserves is that they may be transferred back to accumulated surpluses or deficits whenever the entity chooses.

(c) Other reserves which have been created to present the effect of transactions recognised directly in accumulated funds. This includes revaluation reserves which represent the increase in value of items of property, plant and equipment over their carrying amounts (where an entity has elected to measure such items at revalued amounts). [13]

A144. Entities need report only the minimum categories specified in paragraph A139 separately when the category is applicable and significant to the entity.

A145. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A139, provided that the separate categories are still maintained.

Accounting for Accumulated Funds

A146. Contributed funds shall be recorded at the amount contributed by, less any contributed capital ~~returned~~ distributed to, ~~owners~~ beneficiaries ~~to, owners~~/members/officers.

A147. Accumulated surpluses or deficits shall be recorded at the opening balance plus the current period's surplus or deficit from the statement of financial performance, less distributions paid to beneficiaries ~~owners~~/members/officers, less amounts transferred to reserves, plus amounts transferred from reserves.

A148. Reserves shall be recorded at the opening balance of the reserve for the period plus: ~~transfers to/from accumulated surpluses or deficits. The amount of the transfer should be equal to the amount of any revenue or expenses relating to the purpose of the reserve that were recorded in the statement of financial performance and therefore included in the current period's surplus or deficit.~~

(a) For restricted or discretionary reserves, transfers to/from accumulated surpluses or deficits. The amount of the transfer should be equal to the amount of any revenue or expenses relating to the

[13] Apart from revaluations of property, plant and equipment this will generally only apply where an entity has elected to apply the requirements of a PBE Standard (see Appendix C)

purpose of the reserve that were recorded in the statement of financial performance and therefore included in the current period's surplus or deficit; and

(b) For other reserves the amount of gains/(losses) required to be recognised directly in accumulated funds.

Approval and Issue of Performance Report

~~*Explanation*~~

A148.1 It is important for users to know when the performance report was authorised for issue, as the performance report does not reflect events after this date. The performance report is authorised for issue when it is signed and dated by the body or individuals with the authority to approve the performance report for issue.

Required Information

A148.2 An entity shall disclose in the performance report the date the performance report was approved and authorised for issue, who gave that authorisation and the relevant signature(s).

Other Information

Required Information

A149. The statement of financial position shall include any additional information that the entity considers necessary for users to understand the financial position of the entity.

Optional Information

A150. An entity may include the entity's budgets or plans for the current financial year if they are available.

Section 7: Statement of Cash Flows

Purpose and Value to Users

A151. The purpose of the statement of cash flows is to provide information about the cash flows of the entity, which can have a different timing to the accruals that are reported in the statement of financial performance. Cash flow information allows users to determine how much cash the entity has received ~~ed cash~~, and how the cash was used during the year. An understanding of an entity's ~~the timing and certainty of~~ cash flows is helpful to users in making decisions about the sustainability of the entity and whether funds received have been appropriately spent on advancing the entity's objectives ~~resources have been allocated effectively~~.

A152. [Deleted] ~~The difference between the statement of cash flows and the statement of financial performance is that:~~

~~(a) The statement of cash flows reflects the cash movements during the period, regardless of when the transaction or event is recorded in the statement of financial position or statement of financial performance; and~~

~~(b) The statement of financial performance reflects the revenues and expenses that relate to the financial year, regardless of the timing of the associated cash flows.~~

Format of Statement of Cash Flows

Required Information

A153. The statement of cash flows shall be presented as follows:

Cash Flows from Operating Activities (by category)	xx
Cash Flows from ~~Investing and Financing~~ Other Activities (by category)	xx
Net Increase/(Decrease) in Cash	xx
Add Opening Cash Balance	xx
Closing Cash Balance	xx

A154. [Deleted]~~Alternatively, if the entity considers it more relevant to users, the entity may report cash flows from investing activities (by category) separately from cash flows from financing activities (by category).~~

A155. ~~Investing~~ Other activities are the acquisition and disposal of long-term assets and other investments not included in the cash balance. For example, the purchase of property, plant and equipment, or investments. ~~Financing activities~~ It also comprises receipts and payments relating to long-term borrowing by the entity (the principal amount only), and any capital contributions to/from settlors/members/officers ~~owners or members~~ (if any).

A156. Operating activities are the activities of the entity that are ~~not investing or financing activities~~. ~~They include the~~ carried out as part of its normal operations ~~of the entity~~, for example, the funding received and the costs paid in delivery of the entity's objectives ~~providing goods or services.~~

A157. The statement of cash flows does not include:

(a) Cash receipts collected and payments made on behalf of others when the cash flows reflect the activities of the other party rather than those of the entity (see paragraphs A83–A86). For example, rent collected on behalf of, and paid over to, the owners of properties; and

(b) Transactions not involving cash, for example depreciation and donated goods or services.

Cash Flows from Operating Activities

Required Information

A158. In order to make information understandable to users, cash flows from operating activities shall be aggregated and presented separately in categories. As a **minimum**, the following aggregated categories shall be reported separately:

Cash Received~~eipts~~:

(a) Donations, koha, bequests and other general fundraising activities ~~and other similar receipts~~;

(b) ~~Fees, subscriptions and other receipts from members~~ Membership fees and subscriptions;

(c) Gross sales ~~Receipts~~ from ~~providing goods or services~~ commercial activities; ~~and~~

(d) Interest, dividends and other investment receipts;

(e) Grants received;

(f) Funding received from government service delivery grants/contracts;

(g) Funding received from non-government service delivery grants/contracts; and

(h) Other cash received

Cash Payments:

(i) Payments related to public fundraising;

(j) Payments to ~~suppliers and~~ employees

(k) Payments related to the entity's main activities

(l) Payments related to commercial trading activities~~; and~~

(m) Donations or grants paid~~.~~; and

(n) Other payments

A159. Entities need report only the minimum categories specified in paragraph A158 separately when the category is applicable and significant to the entity.

A160. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A158, provided that the separate categories are still maintained.

A161. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

~~Optional Information~~

A162. The minimum categories specified in paragraph A158 may be disaggregated, or additional categories may be presented in the statement of cash flows only when ~~such presentation~~ doing so ~~will enhance~~ is necessary to provide users' with an understanding of the entity's cash flows. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.

A163. [Deleted]~~Disaggregated or additional categories should be used only where doing so is necessary to provide users with an understanding of the main cash flows of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.~~

A164. Further ~~B~~breakdowns of the minimum categories or the disaggregated or additional categories may be provided in the notes to the performance report, for example, a breakdown of cash payments ~~to suppliers~~ related to the entity's main activities. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Cash Flows from ~~Investing and Financing~~ Other Activities

Required Information

A165. In order to make information understandable to users, cash flows from ~~investing and financing~~ other activities shall be aggregated and presented separately in categories. As a **minimum**, the following aggregated categories shall be reported separately:

Cash ~~Receipts~~ Received:

(a) ~~Receipts from the~~ Ssale of property, plant and equipment;

(b) ~~Receipts from the~~ Ssale of investments;

(c) Cash drawn down ~~Proceeds~~ from loans borrowed from other parties; and

(d) Cash ~~Capital~~ received ~~contributed~~ from settlors/members/officers ~~owners or members~~ (capital contributions).

Cash Payments:

(e) Payments to acquire property, plant and equipment;

(f) Payments to purchase investments;

(g) Repayments of loans borrowed from other parties; and

(h) Capital distributed to ~~repaid~~ to settlors/members/officers ~~owners or members~~.

A166. Investments are shares, term deposits (with a maturity greater than 3 months), fixed interest bonds, units in unit trusts, or similar instruments held by the entity. Investments also include ~~They include~~ loans made to other entities ~~by the entity~~.

A167. Entities need report only the minimum categories specified in paragraph A165 separately when the category is applicable and significant to the entity.

A168. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A165, provided that the separate categories are still maintained.

A169. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

Cash Balances

Required Information

A170. Cash balances is the same amount reported as “bank accounts, ~~and~~ cash and short-term deposits” less bank overdrafts as reported in the statement of financial position. It includes petty cash, cheque or savings accounts, ~~deposits held~~ at call deposits with banks or term deposits with a maturity of three months or less from the date purchased, and bank overdrafts (see paragraph A93).

Section 8: Statement of Accounting Policies

Purpose and Value to Users

A171. The purpose of the statement of accounting policies is to disclose the specific policies and practices applied by the entity in preparing its performance report. This provides users with an understanding of the basis on which the performance report has been prepared.

Format of Statement of Accounting Policies

Required Information

A172. The statement of accounting policies shall comprise two components:

(a) Accounting policies applied; and

(b) Changes in accounting policies.

Accounting Policies Applied

A173. Accounting policies applied are the specific policies and practices used by the entity in preparing its performance report for the reporting period.

Required Information

A174. As a **minimum**, the following shall be included in the statement of accounting policies.

Basis of Preparation

A175. The statement of accounting policies shall disclose that:

(a) The entity is eligible to apply this Standard, the criteria specified in XRB A1 that allows it to do so, and the fact that it has elected to do so;

(b) All transactions are reported using the accrual basis of accounting; and

(c) The performance report has been prepared on the assumption that the reporting entity is a going concern, or if this is not the case the fact that the performance report has been prepared on the basis that the entity will not continue to operate for more than 12 months in the future (see paragraph A176).

A176. The performance report is normally prepared assuming that the entity will continue in operation for the foreseeable future (normally considered to be a minimum of 12 months from balance date). This assumption may not be appropriate in some circumstances. For example, it may not be appropriate if the governing body determines after the balance date either (a) that there is an intention to liquidate the entity or to cease operating, or (b) that there is no realistic alternative but to do so. If the assumption of continuity is not appropriate this needs to be disclosed in the statement of accounting policies (additional disclosures are also required in the notes to the performance report – see paragraph A210). The entity shall consider whether different specific accounting policies are more appropriate in these circumstances, for example valuing assets at fire sale value.

Goods and Services Tax (GST)

A177. The statement of accounting policies shall disclose:

(a) Whether the entity is registered for GST; and

(b) Whether the performance report is prepared on a GST-inclusive or GST-exclusive basis.

Specific Accounting Policies

A178. The statement of accounting policies shall disclose the accounting policies for each significant type of transaction or balance. These policies shall be consistent with the requirements of this Standard (including the requirements of paragraph 6).

A179. The policies may be reported at an appropriate level of aggregation, for example, “revenue from the sale of services” as a category of accounting policies.

A180. Where an entity has elected to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements in place of a requirement of this Standard (see Appendix C ~~paragraphs 7–9~~), the PBE Standard applied shall be disclosed.

Changes in Accounting Policies

A181. A change in the accounting treatment, recording, or measurement of a transaction or other event is regarded as a change in accounting policy. For example, the initial application of a policy to revalue assets (rather than measuring them at cost) is a change in accounting policy.

A182. An entity shall change an accounting policy only if the change:

(a) Is required by this Standard; or

(b) Is in accordance with this Standard and results in the statements providing more faithfully representative or more relevant information about the effects of transactions or other events and conditions on the entity's service performance, financial performance, financial position, or cash flows.

Required Information

A183. When an entity changes its accounting policy an entity shall disclose:

(a) The reason for the change, a description of the change in policy, and how and from when this change in policy has been applied; and

(b) For the current period, for each statement line item affected, the amount as calculated under the previous accounting policy.

A184. Where there have been no changes to accounting policies during the reporting period, that fact shall be reported.

Accounting for Changes in Accounting Policies

A185. Changes in accounting policies shall be applied from the beginning of the current reporting period.

Section 9: Notes to the Performance Report

Purpose and Value to Users

A186. The notes to the performance report contain information that expands on the information included in other parts of the performance report as well as providing any additional relevant information. This is designed to provide users with a greater understanding of the information reported in the statements of service performance, financial performance, financial position and cash flows.

Required Information

A187. The following matters shall be included in the notes to the performance report.

~~Significant Grants and Donations with Conditions which have not been Recorded as a Liability~~

A188. [Deleted] ~~Where the entity has (i) received a significant grant or donation (including donated assets) with conditions attached which have not been fulfilled at balance date, and (ii) the significant grant or donation was recorded as revenue because the conditions were not "use or return" conditions that resulted in the recording of a liability (see paragraph A63–A67), the entity shall disclose in the notes to the performance report:~~

~~(a) In the case of cash donations and grants, the amount of the grant or donation and the amount for which the conditions have not been fulfilled;~~

~~(b) In the case of significant donated assets, details of the donated assets and, if recorded, the amount of the donated assets; and~~

~~(c) A description of the purpose and nature of the conditions of the grant or donation.~~

Liability: Unused Donations, Grants, Bequests and Pledges with Expectations over Use

A188.1. Where the entity has received a donation, grant, bequest or pledge where revenue recognition has been deferred at the balance date, the entity shall disclose in the notes to the performance report information to help readers understand:

(a) The purpose and nature of the expectations over future use; and
(b) When the entity expects to satisfy the remaining expectations over use.

Deferred Revenue: Unspent Donations, Grants, Bequests and Pledges

A188.2. Where the entity has unspent donations, grants, bequests and pledges at balance date, the entity shall disclose in the notes to the performance report information to help readers understand when the entity expects to spend the unspent balance on related expenditure.

Goods or Services in Kind Provided to the Entity

A189. An entity shall disclose in the notes to the performance report a description of any significant goods or services in kind provided to the entity during the financial year, such as free professional services. A dollar quantification may be provided but is not required ~~as an optional disclosure~~.

Property, Plant and Equipment

A190. For each class of property, plant and equipment recorded in the statement of financial position, the entity shall disclose in the notes to the performance report:

(a) A description of the asset class (for example, equipment, furniture);

(b) The carrying amount of the asset class at the beginning of the financial year;

(c) The depreciation and/or impairment expense recorded for the asset class for the financial year; and

(d) The carrying amount of the asset class at the end of the financial year.

A191. The entity shall disclose the source and date of the valuation of assets for any assets recorded at valuation (such as significant donated assets) and any other assets for which the entity has chosen to disclose a current value (see paragraphs A113–A116).

Significant Donated Assets not Recorded

A192. Where significant donated assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A112), the entity shall disclose in the notes to the performance report a description of the asset, categorised by class where appropriate.

Significant Heritage Assets not Recorded

A193. Where significant heritage assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A110), the entity shall disclose in the notes to the performance report, a description of the asset, categorised by class where appropriate.

Assets Used as Security for Liabilities

A194. If an entity has used any of its assets as security for loans borrowed, the entity shall disclose in the notes to the performance report information about:

(a) The nature and amount of the loan that is secured; and

(b) The nature and amount of the asset(s) used as security.

Assets Held on Behalf of Others

A195. Where an entity is acting on behalf of another entity as its trustee, nominee or agent, the following matters shall be disclosed in the notes to the performance report:

(a) A description of the assets which it holds in this capacity; and

(b) The name of the entity on whose behalf the assets are held.

Changes in Accumulated Funds

A196. The notes to the performance report shall include an explanation of the movements between the opening and closing balances of all categories of Accumulated Funds. An entity shall also disclose the nature and purpose of each reserve.

A196.1. An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing its accumulated funds.

A196.2. Information which an entity may consider disclosing includes:

(a) A brief description of the entity's general plans for applying its accumulated funds towards its stated purposes;

(b) Whether the entity intends to begin any specific projects to which its accumulated funds will be applied;

(c) To what extent the entity's accumulated funds represents investments in assets. This can be property, plant and equipment that are used in pursuit of its stated purposes in future periods. It can also include long term investments held to generate revenue returns to be used in pursuit of its stated purposes; or

(d) Whether the entity is accumulating funds with the intent to make a significant distribution to another entity with similar NFP objectives.

Commitments

A197. Commitments are legal obligations to make payments in the future. Although commitments (operating or capital) are not yet recorded as liabilities, reporting them is essential for users of reports to gain a proper understanding of the entity's future viability.

A198. An entity shall report in the notes to the performance report the timing and estimated amount of any significant commitments (both operating and capital). Types of commitments which may need to be reported include:

(a) Commitments to lease or rent assets;

(b) Commitments to purchase property, plant and equipment; and

(c) Commitments to provide loans or grants.

Contingent Liabilities

A199. A contingent liability is a possible obligation that arises from past events that is contingent (dependent) on some future event. For example, a court case not yet settled, or a guarantee issued.

A200. For each class of contingent liability at the balance date an entity shall disclose in the notes to the performance report:

(a) A brief description of the nature of the contingent liability;

(b) A best estimate of the amount of the contingent liability (where this can be estimated);

(c) An indication of the uncertainties relating to the amount or timing of any outflow of resources; and

(d) The possibility of any reimbursement.

A201. For each guarantee or class of guarantee, an entity shall disclose in the notes to the performance report:

(a) The nature of the guarantee;

(b) The maximum amount of any guarantees provided to others; and

(c) The likelihood of the entity being required to make payment under the guarantee.

Related Party Transactions

Explanation

A202. A related party transaction is a transfer of money or other resource between the reporting entity and a person or other entity that is closely associated with the reporting entity that has the ability to influence the reporting entity. This includes normal business transactions as well as transactions below market price (including the provision of free goods or services).

A203. Related parties comprise:

(a) People that have significant influence over the entity (such as officeholders, committee members, or others that are involved in the strategic management of the entity – whether employed or volunteer), and close members of their families; and

(b) Other entities that have significant influence over the entity.

A204. Related party relationships exist throughout the NFP sector. Disclosure of related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes, and to enable users to better understand the entity's performance report. This is because:

(a) Related party relationships can influence the way in which an entity operates with other entities;

(b) Related party relationships might expose an entity to risks, or provide opportunities that would not have existed in the absence of that relationship; and

(c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on terms and conditions that differ from those that would normally be available to unrelated parties.

A205. Examples of transactions with a related party that would meet these criteria and therefore would be disclosed are:

(a) The sale of a significant resource (such as a building) to the spouse of a member of the governing body of the entity;

(b) The provision of preferential access to services provided by the entity to the child of the president of the entity;

(c) The provision of finance (including loans, grants and guarantees), for example, a low interest loan, to a related party; and

(d) A member of the governing body providing professional services (for example, accounting or legal services) to the entity at no cost.

Requirements

A206. An entity shall disclose in the notes to the performance report, transactions with a related party that have occurred during the financial year if:

(a) The transaction is significant to the entity (individually or in aggregate with similar transactions); or

(b) The transaction (either significant or insignificant) is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

A207. For each disclosed transaction the following shall be reported:

(a) A description of the related party relationship;

(b) A description and amount of any revenue or expense (and the value of free goods or services provided) related to the transaction during the financial year; and

(c) Any amounts due from or to related parties at balance date.

Events After the Balance Date

A208. Where events after balance date occur (see paragraphs A33–A35), and those events have a significant impact on the information included in the performance report, the entity shall report in the notes to the performance report the following:

(a) The nature of the event; and

(b) An estimate of its financial effect, or a statement that such an estimate cannot be made; and

(c) The effect, if any, on the entity's ability to continue operating.

A209. An entity is not required to provide comparative information for events occurring after the balance date. That is, an entity is not required to repeat disclosure of events occurring after the previous balance date.

Ability to Continue Operating

A210. Where the entity plans to stop operating within 12 months from balance date (see paragraph A176), or it is likely that the entity will be unable to continue operating, the entity shall include in the notes to the performance report the following:

(a) A statement that the entity intends to stop operating or that it is unlikely the entity will be able to continue operating;

(b) The reason why the entity intends to stop operating or why it may not be able to continue operating; and

(c) The estimated effect of the entity's circumstances on the amounts of the entity's assets and liabilities.

A211. The impact of such a change will depend upon the particular circumstances of the entity. For example, the impact on the recorded amounts of assets will depend upon whether operations are to be transferred to another entity, sold, or liquidated. Judgement is required in determining whether a change in the carrying amount of assets and liabilities is required. It is also necessary to consider whether the change in circumstances leads to additional liabilities or triggers clauses in debt contracts which will lead to the reclassification of those debts as current liabilities.

Correction of Errors

A212. When an entity corrects a significant prior period error (see paragraph A28), it shall report in the notes to the performance report:

(a) A description of the error and how it was corrected; and

(b) The line items and amounts that have been corrected.

Additional Information

A213. The notes to the performance report shall include any additional information that the entity considers necessary for users to understand the overall financial performance and position of the entity.

Optional Information

A214. An entity may include in the notes to the performance report:

(a) Breakdowns of the minimum categories, or the disaggregated categories or additional categories reported in the statement of service performance, statement of financial performance, statement of financial position or statement of cash flows;

(b) Additional information about donations, fundraising and other similar revenue including a list of donors; and

(c) Other information that the entity considers will be helpful to users in understanding the performance of the entity.

Section 10: Illustrative Examples

The following are examples of the accounting treatment required in the performance report.

1. Revenue Earned

Scenario 1

A charity that provides health services (the reporting entity) has a government contract where it invoices the government after the services have been provided.

Treatment: The reporting entity records revenue in the statement of financial performance (as revenue from providing goods or services) when the health services have been delivered. In practice this will normally be when the invoice is issued to the government (if issued on a monthly basis or something similar). Any amounts invoiced but not yet received at balance date are recorded as a debtor in the statement of financial position.

Scenario 2

A charity that provides health services (the reporting entity) has a government contract where the government bulk funds the charity at the beginning of each quarter in advance of the services having been delivered.

Treatment: The reporting entity records:

(a) The bulk funding received in advance as a liability in the statement of financial position (as part of creditors and accrued expenses or separately as a disaggregated category "revenue in advance"); and

(b) Revenue in the statement of financial performance (revenue from providing goods or services) as the health services are delivered; and reduces the liability for the funding received in advance by the same amount at the same time.

2. Grants with and Without Expectations Over Use ~~Conditions~~

Scenario 1

A charity that delivers social services (the reporting entity) receives a grant to support its activities. The reporting entity expects to use the grant to fund a particular project; however, the grantor has not specifically communicated any expectations over use in writing to the reporting entity. ~~There are no conditions attached to the grant, other than that it must be used to support the delivery of social services by the entity.~~

Treatment: As the grantor did not communicate any expectations over the use of the grant to the reporting entity in writing, t~~T~~he reporting entity records the grant as revenue in the statement of financial performance (as grant ~~donations, fundraising and other similar~~ revenue) upon receipt of the grant.

Optional Information: The reporting entity may include information about the grant provider in any list of grant providers and their contributions included in the notes to the performance report (see paragraph A61).

Scenario 2

A charity that delivers social services (the reporting entity) receives a grant to support its activities. The grantor specifies in writing that the charity must use the grant to increase its stock of food parcels. ~~However, there is no obligation to return the grant if it is not fully used for this purpose.~~ The charity has used only half of the grant as at balance date.

Treatment: As there is a documented expectation over the use of the grant from the grantor ~~Although there is a condition attached to the grant received, there is no "use or return" requirement. Therefore~~ the reporting entity:

(a) Records the ~~whole amount~~ half of the grant as revenue in the statement of financial performance (as grant ~~donations, fundraising and other similar~~ revenue); and

(b) Provides information in the notes to the performance report outlining the total amount of the grant, the amount of the grant unused, ~~and~~ the fact that the grant is to be used to increase the stock of food parcels, and when the reporting entity expects to fulfil the grantor's expectations in full (see paragraph A188).

Optional Information: The reporting entity may include information about the grant provider in any list of grant providers and their contributions included in the notes to the performance report (see paragraph A61).

~~***Scenario 3***~~

~~A charity that delivers social services (the reporting entity) receives a grant to support its activities. The grantor specifies that the charity must use the grant to help purchase a new vehicle that is to be used to deliver food parcels. The grantor requires the grant to be used for this purpose or be returned.~~

~~*Treatment:* As there is a clear "use or return" condition attached to the grant:~~

~~(a) Upon receipt of the grant the reporting entity records it as a liability in the statement of financial position (as unused donations and grants with conditions); and~~

~~(b) When the reporting entity purchases the vehicle (which cost more than the grant and therefore uses all of the grant) it records:~~

~~(i) The whole amount of the grant as revenue in the statement of financial performance (as donations, fundraising and other similar revenue), and reduces the liability (for the unused donation or grant with conditions attached) by the same amount at the same time; and~~

~~(ii) The purchased vehicle (at the total cost of purchase) as an asset in the statement of financial position (as property, plant and equipment), and then subsequently depreciates it over the expected life of the vehicle.~~

~~*Optional Information:* The reporting entity may include information about the grant provider in any list of grant providers and their contributions included in the notes to the performance report (see paragraph A61).~~

2 Grants Received ~~with and Without~~ ~~Conditions~~

Scenario 1

~~A charity that delivers social services (the reporting entity) receives a grant to support its activities. There are no conditions attached to the grant, other than that it must be used to support the delivery of social services by the entity.~~

~~*Treatment*: The reporting entity records the grant as revenue in the statement of financial performance (as donations, fundraising and other similar revenue~~

~~*Optional Information:* The reporting entity may include information about the grant provider in any list of grant providers and their contributions included in the notes to the performance report (see paragraph A61).~~

~~***Scenario 2***~~

A charity that delivers social services (the reporting entity) receives a significant grant to support its activities. ~~The grantor specifies that the charity must use the grant to increase its stock of food parcels. However, there is no obligation to return the grant if it is not fully used for this purpose.~~ ~~The charity has used~~ O~~o~~nly half of the grant has been spent as at balance date.

Treatment: ~~Although there is a condition attached to the grant received, there is no "use or return" requirement. Therefore~~ T~~t~~he reporting entity:

(c) Records ~~the whole amount~~ half of the grant as revenue in the statement of financial performance (as grant revenue ~~donations, fundraising and other similar revenue~~); and

(d) Provides information in the notes to the performance report outlining the total amount of the grant, the amount of the grant unused, ~~and the fact that the grant is to be used to increase the stock of food parcels~~ and when the rest of the grant is expected to be spent (see paragraph A188).

Optional Information: The reporting entity may include information about the grant provider in any list of grant providers and their contributions included in the notes to the performance report (see paragraph A61).

~~***Scenario 3***~~

~~A charity that delivers social services (the reporting entity) receives a grant to support its activities. The grantor specifies that the charity must use the grant to help purchase a new vehicle that is to be used to deliver food parcels. The grantor requires the grant to be used for this purpose or be returned.~~

~~*Treatment:* As there is a clear "use or return" condition attached to the grant:~~

~~(c) Upon receipt of the grant the reporting entity records it as a liability in the statement of financial position (as unused donations and grants with conditions); and~~

~~(d) When the reporting entity purchases the vehicle (which cost more than the grant and therefore uses all of the grant) it records:~~

~~(iii) The whole amount of the grant as revenue in the statement of financial performance (as donations, fundraising and other similar revenue), and reduces the liability (for the unused donation or grant with conditions attached) by the same amount at the same time; and~~

~~(iv) The purchased vehicle (at the total cost of purchase) as an asset in the statement of financial position (as property, plant and equipment), and then subsequently depreciates it over the expected life of the vehicle.~~

~~*Optional Information:* The reporting entity may include information about the grant provider in any list of grant providers and their contributions included in the notes to the performance report (see paragraph A61).~~

3. Donated Assets

The family of a deceased person (who is not a related person) donates a house, some artefacts and other miscellaneous items from the estate to a charity (the reporting entity). The house has a government valuation, is considered to be significant, and will have a useful life of 12 months or more. The artefacts are considered significant and will have an indefinite useful life of 12 months or more. However the value of the artifacts is not readily obtainable. The other miscellaneous items are considered insignificant.

Treatment: When the donated assets are received, the reporting entity:

(a) Records:

(i) The house as an asset in the statement of financial position (as property, plant and equipment) at the government valuation (see paragraph A111);

(ii) Revenue in the statement of financial performance (as donations, fundraising and other similar revenue) at the same amount as the house was recorded at in the statement of financial position; and

(iii) The basis and date of the valuation, and the information required for property, plant and equipment, in the notes to the performance report (see paragraph A190);

(b) Does not record the artefacts (because their value is not readily obtainable) but discloses in the notes to the performance report details of the artefacts received (see paragraph A192); and

(c) Does not record the other miscellaneous items (because their value is insignificant).

Optional Information: The reporting entity may include in the notes to the performance report a list of donations received including these donated assets.

4. Donated Goods or Services

A charity (the reporting entity) has its performance report prepared free of charge by a chartered accountant who is not associated with the charity. The value of the free services is significant to the charity.

Treatment: The reporting entity does not record the donated services (see paragraph A68). However, the donated service is disclosed in the notes to the performance report (see paragraph A189).

5. Pledges

A local radio station conducts a fundraising appeal for a charity (the reporting entity). Listeners send in pledges, promising to send donations of specified amounts of money. At the conclusion of the appeal, a significant amount has been pledged. The pledged donations are not binding on those making the pledge.

Treatment: The reporting entity does not record any amount in respect of the pledges until it receives the funds pledged.

Optional Information: The reporting entity may wish to record in the notes to the performance report the result of the fundraising appeal.

6. Volunteer Services

The reporting entity is a charity shop run by volunteers.

Treatment: The entity information section reports that the entity is reliant on volunteers' donation of time, and the donation of goods for sale, for the operation of the charity shop (see paragraph A37(f)).

Optional Information: In its statement of service performance the entity may provide a quantification of the contributions from volunteers in terms of numbers of volunteers, number of volunteer hours or full-time staff equivalents involved in running the shop (see paragraph A43(a)(iv)).

7. Loans and Revenue from Loan Forgiveness

Scenario 1

A church (the reporting entity) is lent money by a parishioner (who is not a related party) to fund the repair of the church organ. Repayments on the loan are required to begin immediately.

Treatment: When the loan is received it is recorded as a liability (a loan) in the statement of financial position. Repayments are recorded as a reduction in the loan in the statement of financial position (so that the amount at balance date reflects the loan principal outstanding).

Scenario 2

A church (the reporting entity) is lent money by a parishioner (who is not a related party) to fund the repair of the church organ. Repayments on the loan are not required to begin for five years. After four years, the parishioner decides not to require repayment of the loan.

Treatment: When the loan is received it is recorded as a liability (a loan) in the statement of financial position. When the loan is forgiven, the amount of the loan is recorded as revenue in the statement of financial performance (as donations, fundraising and other similar revenue), and the liability (loan) is removed from the statement of financial position.

Optional Information: The reporting entity may wish to record in the notes to the performance report the donation and the reason that it no longer has the loan recorded in the statement of financial position.

8. Grants and Donations Expense

Scenario 1

A philanthropic trust (the reporting entity) makes grants to worthy organisations. The Trust's policy is that all grants are discretionary and it does not advise organisations receiving a grant in advance of paying the grant.

Treatment: The reporting entity records the grants as an expense (as grants and donations made) in the statement of financial performance when the grants are paid.

Scenario 2

A philanthropic trust (the reporting entity) makes grants to worthy organisations. After each Trust meeting the Trust advises organisations that have been approved for a grant of that fact in writing. The grants are typically paid out two months after the written notification.

Treatment: The reporting entity records the grants as an expense (as grants and donations made) in the statement of financial performance when it notifies the organisations in writing. It also records a liability (as a creditor) in the statement of financial position.

9. Liabilities and Contingent Liabilities

At its annual charity gala, a charity (the reporting entity) made use of material subject to copyright. Legal proceedings are started seeking damages from the reporting entity for breach of copyright, but the reporting entity disputes liability. Up to the date of finalising the performance report for the year, the reporting entity's lawyers advise that it is probable that the entity will not be found liable. However, when the reporting entity prepares its performance report for the following year, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

Treatment: In the first year, the reporting entity does not record a liability in the statement of financial position because the legal advice is that the entity is not likely to be found liable. The matter is reported as a contingent liability in the notes to the performance report.

In the second year, the reporting entity records a liability in the statement of financial position (as a creditor provision) if the amount of damages can be reliably estimated; and records an equivalent amount as an expense in the statement of financial performance. If the amount of damages cannot be reliably estimated, no liability or expense is recorded and the facts are reported in the notes to the performance report.

10. Related Parties

Scenario 1

The reporting entity has total operating payments of $20,000. These payments are all made to the spouse of the chairperson for office administration duties of the entity. The payments are made on normal terms and conditions.

Scenario 2

The reporting entity has total operating payments of $20,000. A few of these payments ($500) are made to the spouse of the chairperson for relieving the office administrator. The payments are made at the same hourly rate as the office administrator receives.

Treatment: In both of the scenarios the spouse of the chairperson is a related party of the reporting entity (see paragraph A203).

In scenario 1 the transactions with the related party are significant to the entity (see paragraph A206(a)) and therefore the entity reports in the notes to the performance report the information set out in paragraph A207(a)–(c).

In scenario 2 the transactions with the related party are not significant to the entity and therefore the entity is not required to report those transactions in the notes to the performance report (but it may do so if it wishes).

Section 11: Glossary

This Glossary contains all terms defined in this Standard.

Accounting policies	The specific policies and practices used by the entity when preparing the performance report.
Accumulated funds	The residual financial interest in the entity which may be directed by trustees/members/officers/in pursuit of the entity's stated purposes. It comprises capital contributed by settlors/members/officers ~~owners or members~~, accumulated surpluses or deficits, and reserves. It also represents the difference between the assets and liabilities of the entity. In the for-profit sector the equivalent term is equity.
Assets	Resources controlled by the entity as a result of past events (which would usually be transactions), from which future economic benefits are expected to flow to the entity (such as investments producing interest revenue).
Associate	An entity over which the investor has significant influence.
Bad debt	Money owing to the entity (accounts receivable) that is deemed uncollectible and written off as an expense. This may be due to the length of time it has been owing, or information known about the customer's ability to pay (for example, the customer has gone into liquidation).
Balance date	The date to which the performance report is prepared. It is usually an end of month date, for example, 31 March 20XX.
Carrying amount	The cost of the asset less accumulated depreciation and accumulated impairment losses (if any).
Commitments	Contracts or similar arrangements entered into by the entity to pay money in the future.
Consolidated performance report	The performance report of an economic entity[14] presented as that of a single entity.
Contingent liability	A possible obligation to pay money that will be confirmed by the occurrence or non-occurrence of an uncertain future event or an obligation that has arisen but is not recorded because: (i) it is not probable that the entity will have to settle the obligation; or (ii) the amount of the obligation cannot be estimated reliably (that is, the entity is too uncertain of the amount of the obligation).
Control	An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.
Controlled entity	An entity that is controlled by another entity.
Controlling entity	An entity that controls one or more entities.
Deficit	The amount in the statement of financial performance when expenses exceed revenue for the year. In the for-profit sector the equivalent term is loss.
Depreciation	The allocation of the cost of the asset over its useful life using a structured method such as straight line or diminishing value.
Economic entity	A controlling entity and its controlled entities.

[14] Note the term group is sometimes used to refer to the economic entity.

Entity	An entity is an organisation which may take any of a number of forms, including but not limited to, registered charity, company, incorporated association, unincorporated association or trust. Dependent on organisational structure, this may be a legal entity, a unit within a wider organisation, or it may be comprised of one or more units.
Expenses	All outflows from the entity during the year other than capital outflows. Capital outflows comprise distributions to beneficiaries/members/officers ~~owners~~ (in their capacity as beneficiaries/members/officers ~~owners~~), outflows to settle liabilities that were recorded in a previous year, and outflows to purchase assets. Expenses include cash paid out during the year, and any liability to pay out cash in the future related to an event (usually a transaction) in the current year or a prior year. These outflows may be from normal operating activities such as the costs of fundraising, or from transactions such as grants made by the entity. Expenses also include reductions in property, plant and equipment called depreciation expense and impairment expense.
Fair value	The amount for an arm's length transaction if it takes place between two willing parties in the market. Fair value applies to both assets and liabilities.
Financial year	A twelve month period ending on the entity's balance date.
Impairment	When an asset is worth less in the market than the carrying amount in the statement of financial position, the difference is an impairment (and is recorded as an expense). This may occur if the asset becomes obsolete due to technological change or the asset is damaged. Impairment tests apply to both tangible and intangible assets.
Intangible assets	Assets without a physical presence (for example, trademarks, patents).
Inventory	Also referred to as stock, these are current assets held for sale in the ordinary course of business. For example, the goods for sale in a charity shop.
Joint arrangement	An arrangement of which two or more parties have joint control.
Joint control	The agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
Joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
Liabilities	Present obligations arising from past events, the settlement of which is expected to result in an outflow of resources from the entity. An example is the purchase of supplies prior to balance date, with the payment due in the next financial year.
Measurement	Quantification of activities in terms of money, being New Zealand dollars.
Not-for-profit public benefit entity (NFP PBE)	A public benefit entity that is not a public sector public benefit entity.
Notes to the performance report	Notes that provide further information on items in the various financial statements, either by a further breakdown of figures or a narrative description.
~~**Outcomes**~~	~~What the entity is seeking to achieve in terms of its impact on society.~~
~~**Outputs**~~	~~The goods or services that the entity delivered during the year.~~
Performance report	A set of statements which collectively tell the story of the entity over the financial year. This includes the entity information, statement of service performance, statement of financial performance, statement of financial position, statement of cash flows, statement of accounting policies, and notes to the performance report prepared in accordance with this Standard.

Public accountability	While NFP entities are generally considered to be publicly accountable, "public accountability" has a specific meaning in the accounting standards issued by the XRB. Entities are considered to have public accountability for financial reporting purposes when they have issued debt or equity instruments through a public offering or their main activity is holding cash or other assets on behalf of others (e.g. a superannuation scheme). The full definition of "Public Accountability" is included in XRB A1.
Public benefit entity	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.
Recording	Including ~~an output, outcome, a~~ a revenue, expense, asset or liability item in the statements of the performance report (also referred to as recognition).
Recognition event	An event that brings about the legal obligation for the entity to: (a) Settle a transaction with another party at a future date (payables), or by the payment of cash; or (b) Have a legal obligation settled upon the entity by another party (receivables), or by the receipt of cash. This is what distinguishes accrual accounting from cash accounting (for which the only recognition event is the receipt or payment of cash).
Related parties	People or entities that have significant influence over the reporting entity, such as officeholders, committee members, or others that are involved in the strategic management of the entity (whether employed or volunteer) and close members of their families.
Reporting entity	An entity preparing a performance report in accordance with this Standard. In the New Zealand reporting environment it is an organisation that is required by law, or elects to apply, standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB. For the purposes of applying this Standard the entity is a NFP entity.
Revenue	All inflows into the entity during the year other than capital inflows. Revenue includes the cash received during the year, and the right to receive a payment in the future related to an event (usually a transaction) in the current year. These inflows may be from normal operating activities such as the sale of a good or service. Capital inflows comprise contributions from settlors/members/officers ~~owners~~ (in their capacity as settlors/members/officers ~~owners~~), inflows to settle a receivable that was recorded in the previous year, inflows from the sale of assets, and inflows from borrowings.
Significant	An item is significant if recording and/or disclosure of the particular item, whether financial or non-financial, could influence a user's understanding of the entity's overall performance. For the purposes of this Standard it has the same meaning as material.
Significant influence	The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.
Statement of cash flows	A statement that shows the movements between the cash balances at the beginning and the end of the year. It is divided into two categories: operating, and investing and financing.
Statement of financial performance	A statement that shows an entity's revenue and expenses, to establish its surplus or deficit for the financial year. This statement is sometimes called the income statement or operating statement.

Statement of financial position	A statement that reports a picture of the entity's position by listing what it owns and what it owes at the balance date. This statement is sometimes called the balance sheet.
Statement of service performance	A statement that provides information to help users understand what the entity did during the financial year to achieve its broader aims and objectives. ~~on the outputs delivered by the entity during the financial year, and the outcomes those outputs contribute to.~~ It is particularly useful in the not-for-profit sector when the focus is on achieving objectives ~~outcomes~~, rather than making a profit. The information in this statement is predominantly non-financial, but still involves measurement.
Surplus	The amount in the statement of financial performance when revenue exceeds expenses for the year. In the for-profit sector the equivalent term is profit.
Total expenses	For the purpose of applying the Tier 3 size criteria, total expenses means total expenses (including losses and grant expenses) recognised in accordance with Tier 3 PBE Accounting Requirements in the Statement of Financial Performance. Where revenue and expense are offset as required or permitted, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.

Appendix B: Transitional Arrangements

This Appendix contains the requirements for entities to transition to Tier 3 ~~Public Benefit Entity Simple Format~~ Reporting Standard ~~– Accrual~~ (Not-for-Profit) – Annual Reporting Requirements. It is an integral part of the Standard.

Objective

B1. This part of the Standard[15] is designed to assist an entity in preparing its first performance report under this Standard. This Standard recognises that entities come from divergent reporting backgrounds and prescribes different transitional rules to meet different circumstances.

Transitional Groups

B2. There are likely to be four types of entities applying this standard:

Group 1: New entities – those that have started up in the current financial year.

Group 2: Entities previously applying Tier 4 PBE Accounting Requirements – those who have complied with Tier 4 PBE Accounting Requirements in the previous financial year.

Group 3: Entities previously applying Tier 2 PBE Accounting Requirements – those who have complied with Tier 2 PBE Accounting Requirements in the previous financial year.

Group 4: Other Entities – entities that have been operating prior to the current financial year, and in the previous financial year followed other accounting standards (for example, NZ IFRS PBE or Old GAAP), or have not followed any accounting standard issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB.

General Provisions

B3. These general provisions apply to all entities in Groups 1 to 4 applying this Standard unless there is an override in the Special Provisions in paragraphs B7 to B10.

B4. An entity that is reporting in accordance with this Standard for the first time, shall apply this Standard from the beginning of the earliest comparative period presented. This is the financial year prior to that for which the performance report is currently being prepared, for example, if the performance report is being prepared in accordance with these general provisions for the year ended 31 March 2016, the beginning of the earliest comparative period would be 1 April 2014.

B5. All assets and liabilities shall be recorded at the beginning of the earliest comparative period presented.

(a) For payables and receivables, amounts shall be recorded at the amount owing or owed at the beginning of the earliest comparative period.

(b) For property, plant and equipment, an entity shall record significant items at their readily obtainable current amounts (such as rateable value or government valuation). Where amounts are not readily obtainable the entity is not required to record the assets but shall disclose this fact in the notes to the performance report. An entity is not required to record insignificant items of property, plant and equipment.

(c) For other assets and liabilities an entity shall make its best estimate of the value at the beginning of the earliest comparative period presented and record the assets and liabilities at that amount. In this case accumulated funds is the number needed to make the statement of financial position balance on transition.

B6. Separate disclosure of significant restatements is encouraged, but is not required.

[15] This Appendix is part of the Standard and so the term "Standard" is used throughout. "Standard" refers to the Tier 3 ~~Public Benefit Entity Simple Format~~ Reporting Standard ~~– Accrual~~ (Not-For-Profit) – Annual Reporting Requirements abbreviated as Tier 3 Reporting Standard ~~PBE SFR-A~~ (NFP)

Special Provisions

Group 1: New Entities

B7. No comparative figures are required for this Group. This overrides any requirement elsewhere in this Standard for comparatives to be reported. New entities shall disclose their date of commencement in the notes to the performance report.

Group 2: Entities Previously Applying Tier 4 Accounting Requirements

B8. Entities in this Group shall follow one of the following two options:

(a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or

(b) Apply the general provisions of this Standard.

Group 3: Entities Previously Applying Tier 2 Accounting Requirements

B9. Entities in this Group shall follow one of the following two options:

(a) Provide comparative data based on the applicable information reported in their financial statements for the previous year prepared in accordance with Tier 2 PBE Accounting Requirements; or

(b) Apply the general provisions of this Standard.

Group 4: Other Entities

B10. Entities in this Group shall follow one of the following two options:

(a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or

(b) Apply the general provisions of this Standard.

Appendix C: Application of PBE Standards

This Appendix contains the requirements for entities when applying a PBE Standard that is part of the Tier 2 PBE Accounting Requirements. It is an integral part of the Standard.

Interests in Other Entities

C1. To determine whether an entity has an interest in a controlled entity, an associate or a joint arrangement the entity must refer to the guidance within the following Tier 2 PBE Standards:

(a) PBE IPSAS 35 *Consolidated Financial Statements*

(b) PBE IPSAS 36 *Investments in Associates and Joint Ventures*

(c) PBE IPSAS 37 *Joint Arrangements*

C2. If an entity controls another entity it shall prepare a consolidated performance report which combines the assets, liabilities, net assets/equity, revenue and expenses of the controlling entity with those of the controlled entity in accordance with the requirements in PBE IPSAS 35 ~~*Consolidated Financial Statements*~~ and PBE IPSAS 38 *Disclosure of Interests in Other Entities.* An entity that controls another entity but which is not required to prepare a consolidated performance report because it qualifies for the exemption in paragraph 5 of PBE IPSAS 35 not to present consolidated financial statements shall prepare a performance report in accordance with PBE IPSAS 34 *Separate Financial Statements*.

C3. If an entity has an interest in an associate or a joint venture it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 36 ~~*Investments in Associates and Joint Ventures*~~ and PBE IPSAS 38. An entity that qualifies for the exemption in paragraph 23 of PBE IPSAS 36 not to apply the equity method to its investment in an associate or a joint venture shall prepare a performance report in accordance with PBE IPSAS 34.

C4. If an entity has an interest in a joint arrangement it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 37 ~~*Joint Arrangements*~~ and PBE IPSAS 38.

C5. When applying the requirements in PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 or PBE IPSAS 38 an entity is not required to comply with the disclosure requirements in those standards denoted with an asterisk (*). Where an entity elects to apply a disclosure concession, it shall comply with any RDR paragraphs associated with that concession.

Other Applications of PBE Standards

C6. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements to a specific type of transaction, as long as it applies that option to all transactions of that type. Table 1 below sets out a list of PBE Standards that are applicable to specific transactions. This list is not exhaustive. ~~For example, an entity may decide to opt up to PBE IPSAS 17 *Property, Plant and Equipment* for a class of assets, such as buildings, so that it can revalue that class of assets, or an entity may decide to opt up to the financial instruments standards (PBE IPSAS 28 *Financial Instruments: Presentation*, PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* (in limited circumstances), PBE IPSAS 41 *Financial Instruments* and PBE IPSAS 30 *Financial Instruments: Disclosures*) for a class of financial instruments, such as investments in shares, so that it can measure that class of financial instruments at fair value (in which case it must apply the whole standard to that class).~~

Transaction type	**Possible reasons to apply Tier 2 PBE Accounting Requirements**	**Applicable PBE Standard(s)**
Biological assets[16] and agricultural produce[17]	To measure biological assets or agricultural produce at fair value less costs to sell	PBE IPSAS 27 *Agriculture*

[16] A living animal or plant.
[17] The harvested produce of an entity's biological assets.

Transaction type	**Possible reasons to apply Tier 2 PBE Accounting Requirements**	**Applicable PBE Standard(s)**
Intangible assets	To account for intangible assets using a revaluation model	PBE IPSAS 31 *Intangible Assets*

C7. If, for a specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity shall disclose this in the statement of accounting policies.

C8. If, for a specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity cannot then choose to return to applying this Standard for that type of transaction unless the entity complies with the requirements of this Standard for changes in accounting policies (see paragraphs A181– A182).

C9. If, for a specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, and the PBE Standard requires that the effect of that transaction shall be recognised in other comprehensive revenue and expense, the entity shall instead:

(a) Recognise the effect of that transaction directly in accumulated funds; and
(b) Present the cumulative effect of similar transactions as a separate reserve within accumulated funds.

Basis for Conclusions

BC1. This Basis for Conclusions summarises the NZASB's considerations in developing the PBE Simple Format Reporting – Accrual (Not-For-Profit) Standard (PBE SFR-A (NFP)).

Background

BC2. The Accounting Standards Framework includes four reporting tiers for not-for-profit entities. PBE SFR-A (NFP) contains requirements for the third tier and may be applied by entities that do not have "public accountability" (as defined in standard XRB A1 (FP Entities + PS PBEs + NFPs Update)) and that have annual expenses less than, or equal, to $2 million.

Objective

BC3. PBE SFR-A (NFP) is intended to improve the quality and consistency of financial reporting by entities eligible to apply the Standard.

BC4. PBE SFR-A (NFP) is intended to provide a simplified version of the Tier 1 and Tier 2 PBE Accounting Standards, rather than a standard based on a different conceptual framework. As a result, the NZASB approached the development of the Standard with a view that, in principle, the same recognition and measurement requirements should apply to Tier 3 NFP financial reporting as are applied by entities applying the Tier 1 and Tier 2 PBE Accounting Standards. The NZASB also considered the extent to which the cost of applying the recognition and measurement requirements in the PBE Accounting Standards outweighed the benefits to users of the resulting financial statements.

Approach

BC5. In preparing the Standard, the NZASB was cognisant of the fact that some Tier 3 not-for-profit preparers, as well as users of their performance report, may have limited access to professional accounting expertise. The NZASB was of the view that the Standard should be able to be applied by persons who are managing the finances of an entity that is eligible to apply PBE SFR-A (NFP).

BC6. The NZASB decided that PBE SFR-A (NFP) should be a single, short, and relatively simple standard written in less technical language than is normally found in accounting standards. As a result, the Standard:

(a) Addresses only those transactions that are commonly undertaken by entities eligible to apply PBE SFR-A (NFP);

(b) Contains simplified measurement of transactions where, taking the not-for-profit sector as a whole, the costs of applying the requirements of Tier 1 and Tier 2 standards are likely to outweigh the benefits;

(c) Excludes the options contained in Tier 1 and Tier 2 standards such as the option to measure property, plant and equipment using the revaluation model; and

(d) Contains simplified presentation and disclosure requirements.

Omitted Transactions

BC7. The NZASB relied heavily on research funded by the then Charities Commission to assist it in identifying transactions which were undertaken very infrequently by charities and therefore did not need to be addressed in this Standard. These transactions include:

(a) Financial instruments other than payables, receivables and term deposits; and

(b) Complex transactions such as service concession arrangements and insurance contracts.

Simplifications

BC8. The major simplifications in this Standard compared to the Tier 1 and Tier 2 PBE Accounting Standards are as follows:

(a) *Whether grants or donations are recorded*: Goods or services (and other non-cash assets) received in kind are not required to be recorded;

(b) *Timing of recognition:* Bequests of cash or significant assets are recorded on receipt rather than when the definition of an asset is met (which might be earlier than receipt); and

(c) *Treatment of donation/grant revenue:* Donations and grants (and other fundraising revenue) are recorded as revenue when received unless there is a "use or return" condition attached to the revenue. In this Standard the key element that drives recognition of a liability relating to the donation/grant received is the "use or return" condition.

BC9. The NZASB decided that the simplification in BC8(a) should not apply to significant donated assets, such as property. Any such donated assets are required to be recognised at a readily available current value (rather than requiring measurement at fair value as defined in the Tier 1 and Tier 2 PBE Accounting Standards). This is to ensure that the statement of financial position includes all significant assets regardless of whether they are purchased or donated.

BC10. The simplification set out in BC8(a) has the consequence that information about donated goods, services and assets (other than significant donated assets), including services provided by volunteers, will not be recorded in the performance report. To compensate for this, PBE SFR-A (NFP) requires disclosure of significant donations in kind in the notes to the performance report.

BC11. In relation to the simplification set out in BC8(c) the NZASB chose not to fully apply to grants and donations the principles in PBE IPSAS 23 *Revenue from Non-Exchange Transactions.* The NZASB considered the requirements of PBE IPSAS 23 to be too costly and complex for entities likely to apply PBE SFR-A (NFP) without a corresponding increase in the usefulness of the information that would be provided to users. The NZASB decided to simplify the principles to require a "use or return" condition before a liability is recorded.

BC12. The NZASB made a number of other simplifications in order to reduce the amount of professional judgement required and to make the Standard simpler to apply. Those simplifications include the following:

(a) Financial instruments are measured at amounts receivable or payable, with interest revenue or expense recognised in accordance with the terms of the contract, rather than by applying the effective interest method;

(b) Any foreign currency transactions are to be translated using the rate at the transaction date or at the balance sheet date for monetary assets and liabilities;

(c) Tax expense (where relevant) is based on income tax payable without any allowance for deferred tax assets or deferred tax liabilities;

(d) Basing the statement of cash flows on 'cash' rather than cash equivalents; and

(e) Allowing the direct method of preparing the statement of cash flows, on the assumption that most entities applying this Standard will use cash books as their primary source of information.

Option to Apply the Requirements in Tier 2 PBE Accounting Standards

BC13. The NZASB is aware that some entities may prefer not to apply certain of these simplifications or may wish to use an option that is available in Tier 1 and Tier 2 PBE Accounting Standards. Accordingly, the NZASB included an option in this Standard that permits entities to elect to use the recognition and measurement requirements of a Tier 2 PBE Accounting Standard for a specific type of transaction as long as the entity applies that same requirement to all transactions of that type. Entities are required to disclose the use of this option, where applied.

Financial Information

BC14. This Standard establishes minimum aggregated categories for the reporting of financial information. It also allows an entity to add additional categories applicable to that entity and to describe all categories using terminology appropriate to that entity. In doing so, the NZASB was seeking to achieve a balance between comparability and understandability on the one hand, and flexibility for entities to reflect their own circumstances on the other.

Non-Financial Information

BC15. To enhance financial reporting with non-financial information that explains the activities of the entity, this Standard requires:

(a) Disclosure of information about the entity's structure and objectives, together with disclosure of the entity's reliance on donations, including services donated by volunteers; and

(b) The preparation of a statement of service performance.

BC16. The NZASB is of the view that the reporting of this non-financial information is necessary for users to gain a full understanding of the entity's performance.

Group Accounting

BC17. At the stage that PBE SFR-A (NFP) was issued in November 2013, the NZASB indicated its intention to issue a separate exposure draft on accounting for groups (the entity together with any entities that it controls).

BC17.1 The NZASB subsequently considered this issue and issued ED NZASB 2014-3 *Interests in Other Entities* (Amendments to PBE SFR-A (NFP)) in April 2014 (ED NZASB 2014-3). The NZASB noted that PBE SFR-A (NFP) applied both to single entities and groups and required that an entity's performance report incorporate all the activities of the entity. However, it was silent as to how an entity applying the standard should account for significant interests in other entities, such as interests in controlled entities, associates and joint ventures.

BC17.2 The NZASB considered how to clarify this issue for Tier 3 public sector entities. The NZASB considered and rejected a disclosure only approach on the grounds that this would not result in an entity reporting the reality of its structures and arrangements. The NZASB was of the view that if a Tier 3 not-for-profit entity has interests in other entities, those interests need to be appropriately accounted for in the performance report. The NZASB considered that the Tier 2 PBE Accounting Standards contain appropriate accounting requirements for accounting for significant interests in other entities and that those requirements should also apply to any Tier 3 not-for-profit entity with such interests in other entities.

BC17.3 In considering how best to incorporate these requirements in PBE SFR-A (NFP) the NZASB noted that:

(a) Some Tier 3 not-for-profit entities would be expected to have interests in controlled entities, associates or joint ventures;

(b) Some Tier 3 not-for-profit entities with interests in controlled entities, associates or joint ventures would already be accounting for those interests in accordance with similar requirements to the Tier 2 PBE Accounting Standards; and

(c) Development of simplified group accounting requirements would be difficult to draft and would significantly increase the size of the Tier 3 not-for-profit standard, thereby detracting from the usefulness of the standard for most not-for-profit entities.

BC17.4 The NZASB agreed to require Tier 3 not-for-profit entities to account for significant interests in other entities in accordance with the Tier 2 PBE Accounting Standards, and to give effect to this requirement by referring to the Tier 2 PBE Accounting Standards in the Tier 3 not-for-profit standard. When applying the requirements of the Tier 2 PBE Accounting Standards an entity may use any RDR concessions available to Tier 2 entities in those standards.

Related Parties

BC18. The definition of related party in existing accounting practice includes both people (and close members of their families) and other entities that have significant influence over the entity. The NZASB considered whether to simplify that definition of related party for this Tier. After considering the importance of related party disclosures for accountability purposes, and the risks and opportunities inherent in these relationships, the NZASB decided to retain in the definition of related party both related people (and close members of their families) and other entities that have significant influence over the entity.

BC19. However, disclosure of related party transactions is only required if the transaction is significant to the entity (individually or in aggregate with similar transactions), or the transaction is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

Transition

BC20. The NZASB was aware that a wide range of pre-existing accounting policies were applied by entities that are now required by law to follow standards issued by the XRB. The NZASB was also concerned that some of those entities might have difficulty in restating their comparative information and measuring some existing purchased assets as required by this Standard. Rather than delay the application of the Standard, PBE SFR-A (NFP) permits entities to:

(a) Apply PBE SFR-A (NFP) in the first year without restating the comparative information. Entities taking this option are required to attach their prior period financial statements (including an explanation of the accounting policies applied) rather than having to restate the comparative financial information; and

(b) Record only pre-existing assets that are significant and that have values that are readily obtainable. Assets that are not significant or for which values are not readily obtainable need only be disclosed in the notes to the performance report. The NZASB concluded that disclosing reliable information about purchased pre-existing assets was sufficiently useful to users of financial statements rather than imposing the costs on entities to attempt to identify, recognise and measure the assets in accordance with the PBE SFR-A (NFP).

History of Amendments

Tier 3 ~~Public Benefit Entity Simple Format~~ Reporting Standard ~~– Accrual~~ (Not-For-Profit) – Annual Reporting Requirements (Tier 3 Reporting Standard ~~PBE SFR-A~~ (NFP)) was issued in November 2013.

This table lists the pronouncements establishing and substantially amending Tier 3 Reporting Standard ~~PBE SFR-A~~ (NFP). The table is based on amendments issued as at 3131 January 2021.

Pronouncements	**Date issued**	**Early operative date**	**Effective date (annual financial statements … on or after …)**
Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit) (PBE SFR-A (NFP))	Nov 2013	Early application is permitted	1 April 2015
Interests in Other Entities (Amendments to PBE SFR-A (NFP))	Sept 2014	Early application is permitted	1 April 2015
Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1	Dec 2015	Early application is permitted	1 Jan 2016
PBE IPSAS 34 *Separate Financial Statements*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 35 *Consolidated Financial Statements*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 36 *Interests in Associates and Joint Ventures*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 37 *Joint Arrangements*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 38 *Disclosure of Interests in Other Entities*	Jan 2017	Early application is permitted	1 Jan 2019
2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements	July 2018	Early application is permitted	1 Jan 2019

Table of Amended Paragraphs in Tier 3 Reporting Standard ~~PBE SFR-A~~ (NFP)		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 1	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 2	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 3	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 4	Amended	*Interests in Other Entities* [Sept 2014]
Paragraph 4.1 to 4.6	Added	*Interests in Other Entities* [Sept 2014]
Paragraphs 4.1 to 4.6	Amended	PBE IPSAS 34 [Jan 2017]
Paragraph 4.5	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 6	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 6	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]

Table of Amended Paragraphs in Tier 3 Reporting Standard ~~PBE SFR-A~~ (NFP)		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 7 and the preceding heading	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 7	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph 8	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 8	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph 9	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 9	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph 11	Added	*Interests in Other Entities* [Sept 2014]
Paragraph 12	Added	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 13	Added	PBE IPSAS 34 [Jan 2017]
Paragraph 14	Added	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph 15	Added	PBE IPSAS 41 [Mar 2019]
Paragraph A1	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph A10	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A12	Deleted	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Table 1: *Recording of Specific Types of Revenue* (follows paragraph A62)	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Table 2: *Recording of Specific Types of Expenses* (follows paragraph A80)	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Table 3: *Recording of Specific Types of Assets* (follows paragraph A107)	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A107.1	Added	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A107.2	Added	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A113	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A114	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A115	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A148.1	Added	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]

Table of Amended Paragraphs in Tier 3 Reporting Standard ~~PBE SFR-A~~ (NFP)		
Paragraph affected	**How affected**	**By … [date]**
Paragraph A148.2	Added	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A175(a)	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph A180	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A182	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A202	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Section 11: Glossary Associate, Consolidated performance report, Control, Controlled entity, Controlling entity, Economic entity, Joint control, Joint venture, Significant influence	Added defined terms	*Interests in Other Entities* [Sept 2014]
Section 11: Glossary Associate, joint arrangement, joint control, joint venture, significant influence	Amended	PBE IPSAS 34 [Jan 2017]
Section 11: Glossary Control, controlled entity, controlling entity, economic entity.	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph B2	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
The heading preceding Paragraph B 8 is amended	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph B9 and the preceding heading	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]

~~PUBLIC BENEFIT ENTITY SIMPLE FORMAT~~ TIER 3 REPORTING STANDARD~~– ACCRUAL~~ (PUBLIC SECTOR) – ANNUAL REPORTING REQUIREMENTS (~~PBE SFR-A~~ TIER 3 REPORTING STANDARD (PS))

Issued November 2013 and incorporates amendments to xx ~~31 January 2021~~

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.

Notes for the Board

At this meeting the Board we are seeking only Board feedback on the amended text in responses to specific issues raised through the PIR process.

1. Amended text is shaded in grey – this includes proposed removed text, shown by ~~strikethroughs~~. Additions are shown by underlined text.
2. The ED includes two revenue recognition options for donations, grants, bequests and pledges. Option 1 is shaded light blue and Option 2 is shaded light green.
3. The Basis for Conclusions section has not been updated for the proposed amendments. This will be done in the next stage of developing the EDs, which will be brought back to the Board at a future meeting.
4. Further amendments to existing text will be considered for the purposes of simplification. This will be brought back to the Board at a future meeting.

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CONTENTS

Tier 3 ~~Public Benefit Entity Simple Format~~ Reporting Standard ~~–Accrual~~ (Public Sector) – Annual Reporting Requirements (Tier 3 Reporting Standard ~~PBE SFR-A~~ (PS)) is set out in paragraphs 1–15 and Appendices A, ~~and~~ B and C. All the paragraphs in the Standard and Appendices have equal authority. Tier 3 Reporting Standard ~~PBE SFR-A~~ (PS) should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 *Application of the Accounting Standards Framework*.

Objective

1. The objective of this Standard is to facilitate financial reporting by public sector public benefit entities that are eligible for and elect to apply the Tier 3 PBE Accounting Requirements for public sector entities, by improving the quality and consistency of the information disclosed in performance reports, and to facilitate comparability between entities, and between years for the reporting entity.

Scope

2. This Standard applies to public sector public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements. ~~XRB A1 *Application of the Accounting Standards Framework* prescribes the criteria that those entities must meet to be eligible to apply this Standard.~~ A public sector public benefit entity is eligible to apply this Standard if it:

   (a) Has total expenses less than or equal to $2 million; and

   (b) Does not have public accountability for financial reporting purposes.

   Please refer to the Glossary for further information about how "public sector public benefit entity", "total expenses" and "public accountability" are defined for financial reporting purposes.

Standard

3. Public sector public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements shall prepare a performance report in accordance with the requirements set out in Appendix A and the transitional provisions in Appendix B of this Standard. The requirement to prepare a performance report exists regardless of the term used in any legislation that defines the reporting obligations of the entity, for example annual financial statements.

3.1. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements to a specific type of transaction, in accordance with the requirements set out in Appendix C of this Standard.

4. This Standard applies to an entity that is required to prepare a performance report. The Standard applies to the performance report of single entities and entities that have certain interests in other entities.

4.1 When preparing a performance report, an entity is required to identify its interests in other entities and assess whether, for the purposes of financial reporting, any of those interests result in the other entity meeting the definition of a controlled entity, an associate or a joint arrangement. Refer to Appendix C for further guidance on how to determine the nature of an entity's interest in another entity, as well as for the requirements that an entity must apply when accounting for an interest in a controlled entity, an associate or joint arrangement.

4.2 [Deleted] ~~If an entity controls another entity it shall prepare a consolidated performance report which combines the assets, liabilities, net assets/equity, revenue and expenses of the controlling entity with those of the controlled entity in accordance with the requirements in PBE IPSAS 35 *Consolidated Financial Statements* and PBE IPSAS 38 *Disclosure of Interests in Other Entities*. An entity that controls another entity but which is not required to prepare a consolidated performance report because it qualifies for the exemption in paragraph 5 of PBE IPSAS 35 not to present consolidated financial statements shall prepare a performance report in accordance with PBE IPSAS 34 *Separate Financial Statements*.~~

4.3 [Deleted] ~~If an entity has an interest in an associate or a joint venture it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 36 *Investments in Associates and Joint Ventures* and PBE IPSAS 38. An entity that qualifies for the exemption in paragraph 23 of PBE IPSAS 36 not to apply the equity method to its investment in an associate or a joint venture shall prepare a performance report in accordance with PBE IPSAS 34.~~

4.4 [Deleted] ~~If an entity has an interest in a joint arrangement it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 37 *Joint Arrangements* and PBE IPSAS 38.~~

4.5 [Deleted] ~~When applying the requirements in PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 or PBE IPSAS 38 an entity is not required to comply with the disclosure requirements in those standards~~

~~denoted with an asterisk (*). Where an entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.~~

4.6 If an entity has an interest in another entity that is not a controlled entity, an associate or a joint arrangement, it accounts for that interest in accordance with the requirements on investments in Section 6 of this Standard.

5. Accompanying this Standard is an explanatory guide containing an optional template and associated guidance notes that illustrate the requirements of this Standard (Explanatory Guide A3 *Optional Template and Associated Guidance Notes for Applying* ~~*Public Benefit Entity Simple Format Reporting – Accrual (Public Sector))*~~ *Tier 3 Reporting Standard (Public Sector) – Annual Reporting Requirements*. It is not mandatory to apply the template or guidance notes and they have no legal status. However, when an entity applies the template in the specific circumstances of the entity, the performance report will comply with this Standard.

6. Where this Standard does not provide guidance on a specific type of transaction or event, the entity shall use its judgement to determine an appropriate method of accounting for that transaction type that results in the performance report providing relevant and faithfully representative information. The entity shall refer to, and consider the applicability of, the following in descending order:

(a) The principles and requirements in this Standard dealing with similar and related transactions or events; and

(b) The definitions and concepts in the PBE Conceptual Framework to the extent that they do not conflict with this Standard.

In making the judgement described above, the entity might also consider (but is not required to apply) the relevant requirements in the Tier 2 PBE Accounting Requirements dealing with the same, similar or related transactions or events.

~~Application of PBE Standards~~

~~7.~~ [Deleted] ~~An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements to a specific type of transaction, as long as it applies that option to all transactions of that type. For example, an entity may decide to opt up to PBE IPSAS 17 *Property, Plant and Equipment* for a class of assets, such as buildings, so that it can revalue that class of assets, or an entity may decide to opt up to the financial instruments standards (PBE IPSAS 28 *Financial Instruments: Presentation*, PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* (in limited circumstances), PBE IPSAS 41 *Financial Instruments* and PBE IPSAS 30 *Financial Instruments: Disclosures*) for a class[1] of financial instruments, such as investments in shares, so that it can measure that class of financial instruments at fair value (in which case it must apply the whole standard to that class).~~

~~8.~~ [Deleted] ~~If, for a specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity shall disclose this in the statement of accounting policies.~~

~~9.~~ [Deleted] ~~If, for a specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity cannot then choose to return to applying this Standard for that type of transaction unless the entity complies with the requirements of this Standard for changes in accounting policies (see paragraphs A183 – A184).~~

Effective Date

10. A public sector public benefit entity that is eligible to apply this Standard, and elects to do so, shall apply this Standard for periods beginning on or after 1 July 2014. Earlier application is not permitted.

11. *Interests in Other Entities* (Amendments to PBE SFR-A (PS)), issued in September 2014 amended paragraph 4 and the Glossary, and inserted paragraphs 4.1–4.6. A public sector public benefit entity shall apply these amendments for periods beginning on or after 1 July 2014. Earlier application is not permitted.

~~[1] PBE IPSAS 30 (paragraphs 9, AG1 and AG2) provides guidance on determining classes of financial instruments.~~

12. *Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1*, issued in December 2015, amended paragraphs 1–3, 4.5, 6–9, A1, A43, A177(a) B2 and B9 and the headings preceding paragraphs 7, B8 and B9. It made no changes to the requirements contained in this Standard. A public sector public benefit entity shall apply those amendments for periods beginning on or after 1 January 2016. Earlier application is permitted.

13. PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36, PBE IPSAS 37 and PBE IPSAS 38, issued in January 2017 amended paragraphs 4.1–4.6 and the Glossary. A public sector public benefit entity shall apply those amendments for periods beginning on or after 1 January 2019. Earlier application is permitted.

14. *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements,* issued in July 2018, amended paragraphs 6, 7, 8, 9, A10, A113, A114, A115, A180, A182 and A202, Table 1: *Recording of Specific Types of Revenues* (follows paragraph A62), Table 2: *Recording of Specific Types of Expenses* (follows paragraph A80), Table 3: *Recording of Specific Types of Asset* (follows paragraph A107) and the Glossary, added paragraphs A107.1, A107.2, A148.1, A148.2 and deleted paragraph A12. An entity shall apply those amendments for periods beginning on or after 1 January 2019. Earlier application is permitted.

15. PBE IPSAS 41 *Financial Instruments*, issued in March 2019, amended paragraph 7. An entity shall apply those amendments if and when it applies PBE IPSAS 41.

Appendix A: Specific Requirements

This Appendix contains the requirements for Public Benefit Entity Simple Format Reporting - Accrual (Public Sector). It is an integral part of the Standard.

Section 1: Introduction

A1. This part of the Standard[2] sets out the requirements for the preparation of a simple format report known as the "Performance Report". The Standard may be applied by eligible public sector public benefit entities (PBEs) that elect to apply this Standard in accordance with the requirements of XRB A1 *Application of the Accounting Standards Framework.*

A2. This Standard comprises a number of sections (as shown in the Table of Contents). These refer to specific aspects of reporting. Within each section information is presented in numbered paragraphs to enable cross-referencing within this Standard.

A3. Terms are defined in the Glossary in section 11 to assist with the understanding of this Standard.

[2] This Appendix is part of the Standard and so the term "Standard" is used throughout. "Standard" refers to ~~Public Benefit Entity Simple Format~~ Tier 3 Reporting Standard ~~– Accrual~~ (Public Sector) – Annual Reporting Requirements abbreviated as ~~PBE SFR-A (PS)~~ Tier 3 (PS) Standard.

Section 2: Objective of Reporting and Overview of Reporting Requirements

Users and Their Needs

A4. The performance report for a public sector PBE is designed for those users who cannot require the entity to disclose the information needed for accountability and decision making. Most users fall into two groups:

(a) Providers of resources to the entity; and

(b) Recipients of services from the entity.

A5. Examples of these users are:

(a) Taxpayers or ratepayers who provide funding to an entity, persons who pay fees and charges to an entity, and purchasers of goods or services provided by an entity (resource providers); and

(b) Service recipients who benefit from the services provided by the entity (such as pupils of a school or their caregivers).

Objective of Reporting

A6. An entity should prepare a performance report that addresses the following questions:

(a) "Who are we?" – an overview of the entity;

(b) "Why do we exist?" – why the entity was established and what it seeks to achieve ~~(outcomes)~~;

(c) "What did we do?" – what the entity did during the year in providing goods or services ~~(outputs)~~;

(d) "What did it cost?" – what it cost to provide the goods or services, and to run the entity;

(e) "How was it funded?" – the sources of revenue used to pay for its activities in providing goods or services;

(f) "When did we do it?" – the period covered by the report, and a comparison of information with previous reporting periods;

(g) "How did we do our accounting?" – the accounting policies applied; and

(h) "What do we need to continue operating?" – the ability of the entity to continue achieving its objectives and operate in the foreseeable future. This question can be answered by looking at the performance report as a whole.

A7. The performance report is usually prepared for a financial year (which ends on its "balance date"). The performance report shall identify and reflect the period to which it refers, and contain only the revenue, expenses and cash flows for that period. It may be prepared for a part year, but this is unusual and occurs only when the entity is formed or ceases to exist during a year, or changes its balance date. If this is the case, the entity will need to check that the revenue, expenses and cash flows are only for that part year, for example, depreciation and rent.

Required Components of the Performance Report

A8. An entity shall prepare a performance report every financial year with, at a minimum, the following components:

(a) Entity information which explains what the entity is and why it exists (section 3);

(b) A statement of financial performance showing what the entity has generated (revenue) and the cost of running the entity (expenses), over the year, so that users and preparers know whether the entity has made a surplus or a deficit for that financial year (section 5);

(c) A statement of financial position showing what the entity owns (assets), what the entity owes (liabilities) and the difference (accumulated funds) at the balance date (section 6);

(d) A statement of cash flows showing the cash the entity received, and the cash the entity paid out during the year (section 7);

(e) A statement of accounting policies which explains the accounting rules used to prepare the performance report (section 8); and

(f) Notes to the performance report explaining some of the amounts shown in the statements in (b) to (e) above, as well as explaining relevant events affecting the financial year including commitments and contingencies (section 9).

A9. In addition, a statement of service performance, which explains what the entity did (see section 4), shall be prepared by entities that are required by law to prepare this statement (by whatever name called). The statement of service performance is optional for other entities.

A10. An entity may change the titles of these statements if the entity considers that an alternative title is more suitable for the entity and users of the performance report. For example, the statement of financial position is sometimes referred to as the balance sheet, and the statement of financial performance is sometimes referred to as the operating statement.

Presentation of the Entity's Performance

A11. The performance report shall "fairly present" (the entity's service performance, financial performance and cash flows over the financial year, and its position at balance date, in accordance with this Standard. Fair presentation is achieved by compliance with this Standard, and also requires an entity to:

(a) Select and apply appropriate accounting policies (section 8);

(b) Present information in the best way to achieve the following goals:

(i) Relevance: the information can be used to assess the entity's performance.

(ii) Faithful representation: the information represents what has happened in a way that most users would see as a fair representation of the situation. Information is complete, neutral and free from material error.

(iii) Understandability: information is presented so that users can identify the main points of the entity's performance in that year and ask questions about that. Users should not have to be a qualified accountant to do this

(iv) Timeliness: the performance report should be provided as soon as possible following the end of the financial year so that the information is useful and relatively current. For some public sector PBEs legislation defines the period by which the annual performance report must be completed.

(v) Comparability: users are able to compare what the entity did this year with what the entity did last year. Users might also want to see how the entity performed compared to similar entities in the same sector this year.

(vi) Verifiability: the information reported is capable of being supported by independent means. Verifiability helps assure users with different levels of knowledge that the information in the performance report is without material error or bias.

A12. Where the requirements of this Standard have been followed but more information about particular events during the year is needed in order to give users a full picture of what happened, additional relevant information shall be provided.

A13. [Deleted]

A14. It is important that the performance report is internally consistent. This is done by cross-referencing each line of a statement to any other information that relates to that line item in the rest of the performance report. For example, the total for property, plant and equipment would be referenced to the note containing the property, plant and equipment schedule. It is also important that any non-financial information, for example, information included within the statement of service performance, is consistent with financial information included elsewhere in the performance report.

General Information

A15. Each component in the performance report specified in paragraphs A8 and A9 shall be clearly identified.

A16. An entity's performance report shall incorporate all the activities of the entity. The performance report shall include all branches or other operating units, if the entity is structured into more than one unit. This is done by collating and reporting information from all the branches or operating units and excluding all transactions between those units

A17. The following information shall be displayed prominently, and repeated at the top of each page of the performance report:

(a) The name of the entity that is preparing the performance report;

(b) The date of the end of the financial year covered by the performance report, or the period to which the performance report applies, as appropriate; and

(c) The level of rounding used in the presentation of the performance report (as a general rule whole dollars – rather than dollars and cents – should be used; rounding to the nearest hundred or thousand may be appropriate for larger entities).

Comparative Information

A18. Although the performance report focuses on this year's information, comparative information for the previous year shall be included in the statement of service performance, statement of financial performance, statement of financial position, statement of cash flows and any associated notes to the performance report unless this Standard specifically allows otherwise. Comparative information shall also be provided for the disclosures about related parties in the notes to the performance report. The performance report may contain further comparative information where it is considered useful for users of the report.

A19. Entities required by law to publish their budget are required to report budgeted information in an additional column alongside their actual results as further comparative information. Other entities may choose to, but are not required to, report budgeted information (or plans) alongside their actual results.

Consistency of Presentation

A20. An entity shall select and apply its accounting policies consistently for similar transactions and other events, unless this Standard specifically requires or permits categorisation of items for which different policies may be appropriate. If this Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

A21. An entity may prepare its performance report on either a GST-inclusive or a GST-exclusive basis, provided that GST is reported in a consistent way throughout the performance report.

A22. All amounts shall be presented in New Zealand dollars. If the entity has transactions or balances that are not in New Zealand dollars, it shall translate amounts to New Zealand dollars as follows:

(a) Transactions are to be translated using the exchange rate on the date the revenue, expense or cash flow occurs; and

(b) Monetary asset and liability balances are to be translated using the exchange rate at balance date.

A23. An entity shall not change the way the information is presented, or the categories of disclosure, from one period to the next unless:

(a) There has been a significant change in the entity's operations; or

(b) This Standard requires that the presentation or a category of disclosure is changed.

A24. Any changes to presentation or categories of disclosure due to the application of paragraph A23 also require similar changes to the comparative amounts, unless it is impracticable to do so.

No Offsetting of Amounts

A25. Users of the performance report should be given as much relevant information as possible about the entity. Therefore, the entity shall report gross amounts for transactions, and not offset (net-off) any associated transactions or balances. This means that:

(a) Assets and liabilities shall not be offset against each other; and

(b) Revenue and expenses shall not be offset against each other.

A26. Valuation adjustments such as write-downs of inventory or property, plant and equipment provide for the change in value of an entity's assets. Measuring assets net of valuation adjustments is not considered offsetting. Accounting for the net amount of GST owing to or from Inland Revenue is also not considered offsetting.

Significant Items

A27. Items are significant if their omission or misstatement could, individually or collectively, influence the decisions or assessment of users relying on the performance report. Significance is considered in relation to both the nature and size of the item, or a combination of both. For the purposes of this Standard, significance has the same meaning as materiality

A28. Significance applies to both financial and non-financial information.

Correction of Errors

A29. Significant errors shall be corrected as soon as practicable. Errors arising during the ~~reporting period~~ shall be corrected before the performance report is finalised. Errors relating to past periods shall be corrected in the current performance report before the report is finalised by adjusting the opening balance of the relevant asset, liability or accumulated funds at the beginning of the financial year. No adjustments to past periods are required (see paragraph A214).

Changes in Accounting Estimates

A30. ~~Many items can only be estimated as a result of the uncertainties inherent in delivering services or conducting other activities.~~ The use of ~~reasonable~~ estimates is ~~therefore~~ an essential part of ~~the~~ preparing ~~preparation of~~ the performance report on an accrual basis. For example, estimates may be required of:

(a) Revenue earned to date under a contract;

(b) Bad debts arising from uncollected receivables;

(c) Out-of-date inventory; and

(d) The useful lives of items or categories of property, plant and equipment.

A31. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. The revision of an estimate does not relate to prior periods and is not the correction of an error.

A32. The effect of a change in an accounting estimate shall be recorded by including it in the statement of financial performance as part of the relevant revenue or expense item in the current period.

A33. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or accumulated funds, it shall be recorded by adjusting the amount of the related asset, liability, or accumulated funds for the current period.

Events After the Balance Date

A34. Events after the balance date are those events, both favourable and unfavourable, that occur between the balance date and the date when the performance report is finalised. The balance date is the last day of the financial year to which the statements relate. The date of finalisation is the date on which the statements have received approval from the individual or body with the authority to authorise those statements for issue.

A35. An entity shall adjust the amounts recorded in its performance report and update the related disclosures to reflect events after the balance date that provide evidence of conditions that existed at the balance date. The following are examples of events that require an entity to adjust the amounts recorded in its performance report, or to record items that were not previously recorded:

(a) The settlement after the balance date of a court case that confirms that the entity had a liability at the balance date.

(b) The receipt of information after the balance date indicating that an asset was impaired or damaged at the balance date. For example:

(i) The bankruptcy of a debtor that occurs after the balance date usually confirms that a loss already existed at the balance date on a receivable account, and that the entity needs to adjust the carrying amount of the receivable account; and

(ii) The disposal of damaged inventories after the balance date may provide evidence about their net realisable value at the balance date.

(c) The discovery of fraud or errors that show that the performance report is incorrect.

A36. An entity shall not adjust the amounts recorded in its performance report to reflect events after the balance date that are indicative of conditions that arose after the balance date. The following are examples of such events:

(a) The entity decides after the balance date, to incur expenses relating to an activity that occurs after balance date;

(b) Purchases and disposals of assets that occur after balance date;

(c) A decision by a lender made after balance date to forgive some amounts borrowed by the entity; and

(d) The entity enters into significant commitments after the balance date, for example issuing significant guarantees after balance date.

Section 3: Entity Information

Purpose and Value to Users

A37. The purpose of the entity information is to summarise for users what the entity does and how it is organised. This information will assist users in their understanding of the entity and help particularly with their interpretation of the performance report.

Required Information

A38. The entity information shall provide general descriptive information about the entity. ~~and its activities~~. This information shall comprise:

(a) The entity's name, type of entity and legal basis (if any);

(b) The entity's purpose or mission[3] (the key difference the entity is trying to make);

(c) ~~A description of the structure of the entity's operations (including governance arrangements)~~ The entity structure (i.e. whether it includes separate operating units, divisions or branches);

(d) [Deleted] ~~The main sources of the entity's cash and resources; and~~

(e) [Deleted] ~~Any additional information that is considered essential to users' overall understanding of the entity.~~

(f) The names of any entities controlled by the entity for financial reporting purposes; and

(g) The entity's governance arrangements (i.e. who makes the key decisions on behalf of the entity).

A38.1. The information required by paragraph A38 may be incorporated by cross-reference from the performance report to some other statement or report (e.g. an annual return submitted to a regulator) that is available to users of the performance report at the same time.

A39. The amount of detail will depend on the size of the entity and the complexity of its operations.

A40. If the entity does not prepare a statement of service performance (see paragraph A42) the entity shall include ~~the outputs of the entity in the entity information.~~ a general description of:

(a) What the entity is seeking to achieve (i.e. its objectives); and

(b) The significant activities it has undertaken during the financial year to achieve its objectives.

[3] Also called vision, strategic goals, or outcome goals.

Section 4: Statement of Service Performance

Purpose and Value to Users

A41. The purpose of the statement of service performance is to provide ~~mainly non-financial~~ information to help users understand what the entity did during the financial year to achieve its broader aims and objectives.

Requirement to Complete a Statement of Service Performance

A42. Public sector entities which are required by legislation to provide a statement of service performance (by whatever name called including "statement of performance") in accordance with generally accepted accounting practice (GAAP) shall prepare a statement of service performance in accordance with this Standard.

A43. This requirement is optional for all other public sector PBEs. However, given the usefulness of this information for users of simple format reports, all public sector PBEs applying this Standard are encouraged to prepare a statement of service performance.

Required Information

A44. The statement of s~~S~~ervice performance ~~reporting is based around two elements:~~ provides information about:

(a) ~~Outcomes:~~ W~~w~~hat the entity is seeking to achieve over the medium to long term (i.e. its objectives)~~in terms of its impact on society~~; and

(b) ~~Outputs:~~ T~~t~~he significant activities the entity has undertaken during the financial year to achieve its objectives. ~~the goods or services that the entity delivered during the year.~~

A45. The statement of service performance shall:

(a) Describe ~~the outcome(s) that~~ what the entity is seeking to achieve over the medium to long term ~~or influence through the delivery of its goods or services. The outcomes are likely to be closely related to the mission/purpose reported in the entity information section of the performance report. The main difference is that the mission/purpose is usually stated in broad or general terms and applies over the life of the entity. By contrast, the description of the outcomes in the statement of service performance should be more specific and focused on what the entity is seeking to achieve over the short to medium-term~~; and

(b) Describe, and quantify to the extent practicable, information about the significant activities the entity has undertaken during the financial year. ~~the outputs (goods or services) the entity has delivered for the current year~~ This information shall include~~, together with the following output measures~~:

(i) Appropriate quantity measures (to the extent practicable);

(ii) Appropriate quality measures (to the extent practicable); and

(iii) A measure of the timeliness of delivery of the entity's goods or services if this is important to the recipient.

A45.1. The information required by paragraph A45(a) is likely to be closely related to the entity's mission or purpose. The main difference is that the mission or purpose is usually stated in broad or general terms and applies over the life of the entity. By contrast, the information required by paragraph A45(a) should be more specific and focused on what the entity is seeking to achieve over the medium to long term.

A46. The statement of service performance need include only information about the activities undertaken ~~the outputs~~ that are significant to the performance of the entity. It is not expected to include a detailed account of everything the entity ~~does~~ has done in the financial year.

A46.1. The entity should include additional information that is considered important for the user's overall understanding about what the entity is seeking to achieve and the significant activities undertaken during the financial year.

~~Optional Information~~

A47. [Deleted]. ~~An entity may wish to report additional information such as:~~

~~(a) Additional output measures:~~

~~An allocation of revenue and expenses related to each category of the entity's outputs; and~~

~~A quantification of the contributions from volunteers in terms of hours or full-time staff equivalents (this figure may be estimated, and shall be noted as such if this is the case).~~
~~Comments on those factors which affect the achievement of the outcomes. This might include the working relationships between volunteers and employees, decisions to broaden or narrow the delivery of services, or the impact of factors external to the entity – such as economic, legal and geographical factors;~~
~~The entity's budget (plans) for the financial year being reported on, and an explanation of actual performance achieved against the plans set by the entity – for some entities this may be a legislative requirement and if so is required rather than optional information; and~~

~~Any additional information that is considered to be relevant to users' understanding of the entity's outcome goals, or the delivery of goods or services.~~

A48. Entities can choose to present the information in the statement of service performance in whichever format is most helpful to users' understanding of the entity's activities. The Tier 3 template reports provide a generic simple example. For example, an entity may choose to present information using: ~~which the statement of service performance is presented can enhance the user's understanding of the entity. Sometimes a pictorial representation of the entity's achievements during the financial year presents the story more clearly than words or numbers only.~~

(a) Graphs;

(b) Tables; or

(c) Images or infographics showing the entity's activities and achievements during the financial year.

Section 5: Statement of Financial Performance

Purpose and Value to Users

A49. The purpose of the statement of financial performance is to report all revenue and expenses of the entity for the financial year. The statement provides users with information about the entity's financial performance, including its revenue, expenses and the resulting surplus or deficit generated during the financial year.

Format of Statement of Financial Performance

Required Information

A50. The statement of financial performance shall be presented as follows:

Revenue (by category)	xx
Less expenses (by category)	xx
Surplus/(Deficit)	xx

Optional Information

A51. Additional line items, headings and subtotals may be presented in the statement of financial performance when such presentation will help users to understand the entity's financial performance.

Revenue

A52. Revenue is the cash and other resource inflows of the entity, other than inflows from borrowings, sale of assets, or contributions of capital from owners (see paragraph A55)[4].

A53. Revenue can come from various sources. Examples include funding from government (either as general funding or for the provision of goods or services), fees and charges (such as registration fees), grants and donations, and proceeds from the sale of goods or services.

A54. Revenue includes only amounts received and receivable by the entity on its own account. Amounts collected on behalf of others (that is, as agent of another entity) are not revenue of the entity. However, if there is a commission involved in this collection arrangement the commission received would be recorded as revenue (see also paragraphs A85–A88).

A55. All public sector PBEs are owned by someone – usually central or local government acting on behalf of the taxpayer or ratepayer. From time to time the owner may contribute capital[5] to the entity. Contributions to the entity by owners are classified as "capital contributed by owners" in the statement of financial position, and not as revenue (see also paragraphs A142–A143). Sometimes the contributions of capital are referred to as "grants" (the entity may need to refer to the nature of the funding agreement in order to determine whether it should be categorised as equity or revenue). In order to account for them correctly such grants will need to be distinguished from grants that are provided to fund the delivery of goods or services (which are accounted for as revenue).

Required Information

A56. In order to make information understandable to users, revenue shall be aggregated and presented separately in categories. As a **minimum**, the following aggregated categories shall be reported separately:

(a) Funding from ~~central or local~~ government service delivery grants/contracts;

(b) Funding from non-government service delivery grants/contracts; ~~Revenue from non-governmental sources for providing goods or services;~~

(c) ~~Donations, fundraising and other similar revenue; and~~ Donations, koha, bequests and other fundraising revenue from the public or non-governmental organisations;

(d) Interest, dividends and other investment revenue~~; and~~

[4] See the Glossary for a more detailed definition of revenue.

[5] This is analogous to a for-profit entity where the shareholders contribute share capital.

(e) General funding received from government;

(f) Grants from non-governmental organisations

(g) Revenue from commercial activities; and

(h) Other revenue.

A57. Category (a) above includes all funding received from central or local government which is not explicitly linked to the delivery of specific goods or services. ~~including both general funding and funding that is linked to the delivery of specific goods or services. Category (b) includes~~ Any fees, charges and other revenue from other organisations and individuals that are ~~(~~in substance~~)~~ a contract for the delivery of goods or services (including student fees, registration fees, licensing fees and examination fees)~~.~~ would be included in category (a) or ~~Category~~ (b) depending on its source. Categories (c) and (e) include ~~grants and~~ donations, koha, bequests fundraising revenue and grants received from the public ~~and~~ or non-governmental organisations (such as charitable trusts, foundations and other philanthropic agencies).

A57.1. Category (g) includes any revenue received by the entity from the sale of goods or services as a commercial activity. In this context commercial activities are activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis (for example an entity may operate a baked goods stand at a gala event without intending to operate a commercial bakery). In such cases this revenue would instead be considered fundraising revenue and therefore be included in category (c).

A58. Entities need report only the minimum categories specified in paragraph A56 separately when the category is applicable and significant to the entity. If a category is not applicable, entities should omit that category from their performance report.

A59. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A56, provided that the separate categories are still maintained.

A60. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

~~***Optional Information***~~

A61. The minimum categories specified in paragraph A56 may be disaggregated, or additional categories may be presented in the statement of financial performance, only when ~~such presentation~~ doing so ~~will~~ is ~~enhance~~ necessary to provide users with an understanding of the main revenue sources of the entity. ~~entity's financial performance.~~ Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary. ~~Possible disaggregated or additional categories are listed below.~~

~~(a) General funding from central or local government;~~

~~(b) Funding from central or local government for the delivery of goods or services;~~

~~(c) Fees and charges in exchange for goods and services;~~

~~(d) Other revenue from the provision of goods or services;~~

~~(e) Donations or koha from the public or non-governmental organisations;~~

~~(f) Grants from non-governmental organisations~~

~~(g) Bequests;~~

~~(h) Fundraising revenue from the public or non-governmental organisations;~~

~~(i) Lease or rental revenue;~~

~~(j) Interest or dividend revenue; and~~

~~(k) Other revenue.~~

A62. [Deleted]~~Disaggregated or additional categories should be used only where doing so is necessary to provide users with an understanding of the main revenue sources of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.~~

A63. Further breakdowns~~Breakdowns~~ of the minimum categories, or the disaggregated or additional categories, may be provided in the notes to the performance report, for example, fees and charges may be disaggregated by type of fees (for example, school fees, examination fees, activity fees). Where the entity receives significant donations and grants, the entity may also elect to include in the notes to the performance report a list of donors or grant providers, together with a summary of their contributions, if it considers that this is useful information. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Revenue

A64. Revenue shall be recorded on the occurrence of a recognition event. This is generally when there is a legal right to receive cash either now or sometime in the future. The timing of the recording of specific revenue types is provided in Table 1.

Table 1: Recording of Specific Types of Revenues

Source	**When to Record**	**Comments**
~~Revenue from central or local~~ Funding from government service delivery grants/contracts		
Funding linked to the delivery of goods or services	Record as revenue in accordance with the appropriate category for "revenue from providing goods or services".	
Revenue from the provision of services (including fees and charges relating to services delivered across the year)	Record as revenue by reference to the stage of completion of the services at balance date, based on the actual services provided as a percentage of the total services to be provided.	The stage of completion of a service may be determined in many ways including: (a) On an event by event basis if that is the basis for charging; or (b) Services performed to date as a percentage of total services.
~~Grants that are service contracts which have a "use or return" condition attached~~	~~On receipt of the grant, record an asset received (generally cash) and a liability. As the conditions are met (i.e. services are provided) the liability is reduced and revenue is recorded.~~	~~The liability as at balance date reflects the extent to which obligations under the service contract have not been satisfied.~~
Funding from non-government service delivery grants/contracts		
Fees and charges in exchange for goods or services	*If the goods or services are of similar value in each time period (for example, monthly access to tuition):* Record as revenue evenly over the period in which the items are provided to the recipients. *If the goods or services vary in value from period to period:* Record as revenue proportionally on the basis of the value of each item in relation to the total estimated value of all items covered by the fee or charge.	Any fees or charges received in advance of the period to which they relate should be recorded as a liability.
Other fees and charges	Record as revenue when the fee or charge is due to be received.	Fees and charges such as registration fees that primarily entitle a person to the benefits derived from the payment of the fees and charges and do not provide on-going benefits during the year, should be recorded in this way. However, if the fee or charge is received prior to the year to which it relates, it should be recorded as a liability.
Entrance fees and one-off fees	Record as revenue when the event takes place.	Any fees received for events that have not yet taken place are recorded as a liability.
Donations, koha, bequests and other fundraising ~~and other similar~~ revenue from the public or non-governmental organisations		
Donations and bequests ~~and grants~~ received with ~~no "use or return" condition attached~~ no specific expectations over use	Record as revenue when cash received.	~~Recording as~~ Revenue recognition shall not be deferred even if the reporting entity ~~resources~~ expects to spend the funding received on related expenditures in future periods.~~are received in advance of any expense on the activity funded by the donation or grant.~~

Source	When to Record	Comments
~~Grants and d~~Donations and bequests received ~~that have a "use or return" condition attached~~ with specific expectations over use	On receipt of ~~grant~~ donation or bequest, record asset for funding received (generally cash) and a matching liability. As the ~~conditions~~ specific expectations over use are met the liability is reduced and revenue is recorded.	The liability as at balance date reflects the extent to which ~~conditions~~ specific expectations (as established by the resource provider) have not been satisfied. Revenue is recognised over the period in which the agreed expectations over use are satisfied.
Donations and bequests received that have expectations about how the funds transferred will be used	On receipt of the donation or bequest, record an asset received (generally cash) and deferred revenue. The deferred revenue balance is reduced and revenue is recorded over the period in which the funds are spent	The deferred revenue balance as at balance date reflects the extent to which the funds have not been spent. Revenue is recognised as the matching corresponding expenditure is incurred.
Donated assets	*Significant donated assets with useful lives of 12 months or more*: Record on receipt at readily obtainable values such as rateable value or government value. *Significant donated assets that are difficult to value such as intangible assets, highly specialised assets, and heritage assets:* Do not record. *Other donated assets:* Do not record.	*Significant donated assets that are recorded*: Disclose in the notes to the performance report details of the assets in accordance with the disclosure requirements of this Standard in relation to the particular class of asset (see paragraphs A192–A193). *Significant donated assets not recorded*: Details are disclosed in the notes to the performance report (see paragraph A194).
Donated goods or services (other than donated assets)	Do not record	Significant donated goods or services (including services in kind) are to be disclosed in the notes to the performance report (see paragraph A70).
Fundraising – cash	If no ~~"use or return" condition~~ expectations attached ~~(that is, no requirements to return the funds if they are not used as intended)~~ record as revenue when cash is received.	May be received in the form of donations or from the sale of goods or services. It is rare that fundraising has expectations ~~a "use or return" condition~~ attached. ~~Funds may be raised for a specific purpose; this is not a condition but a restriction of use.~~
Fundraising – other	If the entity receives an asset refer to section on "donated assets" below. If the entity receives goods or services refer to section on "donated goods or services (other than donated assets)" below.	As part of a fundraising campaign the entity may receive donations of assets (other than cash) which it may keep, or the entity may receive donated goods which it may sell to raise funds.
Interest, dividends and other investment revenue		
Interest	Record as revenue as it is earned during the period.	If the borrower pays interest in advance, the entity records a liability being the amount of the advance payment. If the borrower pays interest in arrears (after the investment period has elapsed), the entity records as an asset, any amount owed to the entity as a receivable.
Dividends and similar revenue	Record as revenue when receivable, for example when the dividend is declared (which would usually be before it is paid).	Dividends declared after the end of the financial year of the entity are not recorded as revenue.
General funding received from government		

Source	When to Record	Comments
General funding	Record as revenue when the funding is received.	General funding is funding that is not linked to the delivery of specific goods or services.
Grants from non-governmental organisations		
~~Grants for current operations with no "use or return" condition attached~~	~~Record as revenue on receipt.~~	~~A grant for current operations might be to help fund an extra staff member, whereas a grant for capital purposes might be to contribute to a new building.~~
~~Grants for capital purposes with no "use or return" condition attached~~	~~Record as revenue on receipt.~~	
Grants received with no specific expectations over use	Record as revenue when cash received.	Revenue recognition shall not be deferred even if the reporting entity expects to spend the funding received on related expenditures in future periods.
Grants received with specific expectations over use	On receipt of grant, record asset for funding received (generally cash) and a matching liability. As the specific expectations over use are met the liability is reduced and revenue is recorded.	The liability as at balance date reflects the extent to which specific expectations (as established by the resource provider) have not been satisfied. Revenue is recognised over the period in which the agreed expectations over use are satisfied.
Grants received that have expectations about how the funds transferred will be used	On receipt of the grant, record an asset received (generally cash) and deferred revenue. The deferred revenue balance is reduced and revenue is recorded over the period in which the funds are spent	The deferred revenue balance as at balance date reflects the extent to which the funds have not been spent. Revenue is recognised as the matching corresponding expenditure is incurred.
Revenue from ~~providing goods or services~~ commercial activities		
Sale of goods	Record as revenue when the goods are sold (this is usually when the goods are received the purchaser).	If the purchaser pays before they receive their goods, the entity records a liability. If the purchaser does not pay on receipt of the goods, the entity records a debtor.
Subscriptions to a series of events	Record as revenue as events occur, allocating to each event on a basis that reflects the extent to which services are performed at each event.	Any subscriptions received for events that have not yet taken place are recorded as a liability.
Other revenue		
Commission for acting on behalf of another entity as the agent of that other entity (the principal)	Record as revenue when receivable, which would usually be defined in the agency agreement.	Revenue includes only amounts received and receivable by the entity on its own account, not the amounts collected for the principal.
Lease or rental revenue	Record as revenue on a straight-line basis over the term of the agreement, unless another systematic basis is representative of the time pattern of the user's benefit.	If the lessee pays in advance, the entity (as lessor) records a liability being the amount of the advance payment. If the lessee pays after the leased asset is used, the entity (as lessor) records, as an asset, any amount owed to the entity.
Gain on sale of an asset	Record as revenue when control of the asset transfers to the new owner.	The gain is the proceeds from the sale less the amount recorded as the value of the asset prior to its sale.

Revenue recognition – Option 1

Donations, Grants and Bequests with Expectations over Use

A64.1. When accounting for donations, grants or bequests an expectation over how the funding will used by the reporting entity arises when the funder sets out expectations over use clearly in writing and communicate these expectations clearly to the reporting entity.

A65. Where there are no expectations communicated from the provider about how the funds will be used, r~~R~~evenue from donations, grants or bequests ~~, fundraising and funding from government without "use or return" conditions attached~~ is recorded when the funding is received.

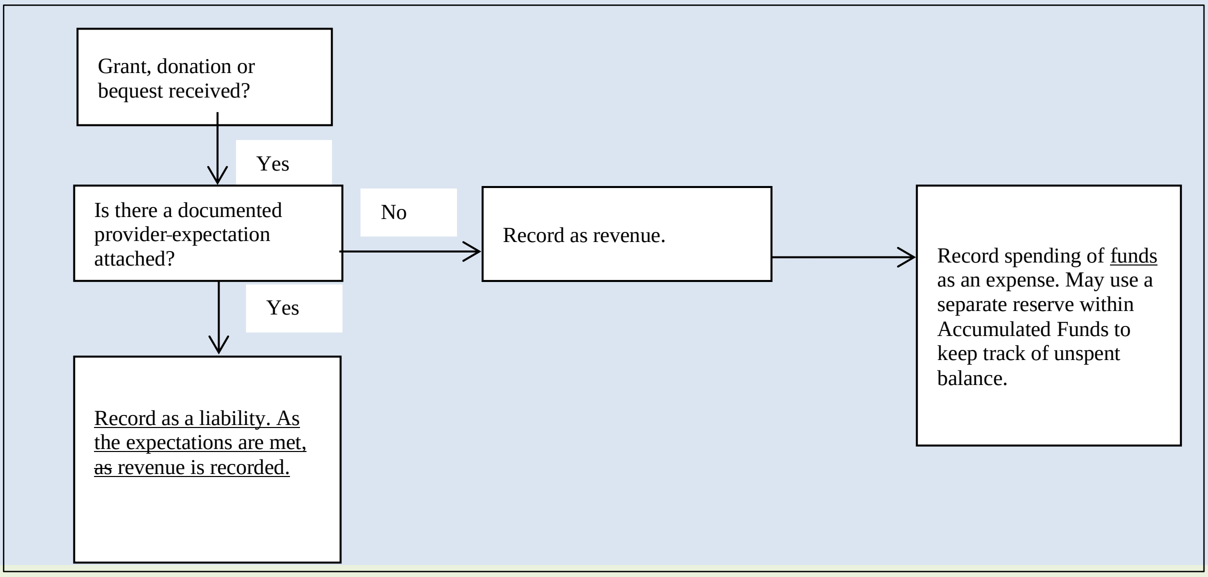
A66. ~~Some donations and grants have conditions attached. Sometimes these can be of a general nature, for example to be used for specific purposes by the entity, and the entity is not legally required to return the money if it is not used for that purpose. Other donations and grants can be received on a "use or return" basis, for example when the entity is required to either use the donation/grant as specified by the donor/grantor or return the donation/grant to the donor/grantor. Funding from government sometimes also has a "use or return" condition attached~~. Expectations about how donations, grants or bequests should be used include obligations to acquire or build assets (i.e. developing a capital asset such as a building), provision of goods or services to third-party beneficiaries, funding general operating costs, and funding the delivery of specific programmes or activities.

A67. ~~Where revenue has conditions attached, it is necessary to determine whether those conditions lead to a liability.~~ Where there are expectations about how the funds will be used, the funds ~~Revenue that has a "use or return" condition,~~ shall initially be recorded as a liability until the ~~conditions~~ expectations have been met, at which point the revenue shall then be recorded.

A68. [Deleted]~~For the purposes of this Standard donations, grants or funding from government with conditions attached, but which are not "use or return" conditions, shall be accounted for in the same way as revenue without conditions (see paragraph A65).~~

A69. Figure 1 illustrates the process an entity ~~should~~ undertakes to determine how to record revenue with or without ~~conditions~~ expectations attached.

Figure 1: Decision Tree: Accounting for Revenue with and without ~~Conditions~~ Expectations



Revenue recognition – Option 2

Donations, Grants or Bequests

A65. [Deleted] ~~Revenue from donations, grants, fundraising and funding from government without "use or return" conditions attached is recorded when the cash or significant assets are received.~~

A66. [Deleted] ~~Some donations and grants have conditions attached. Sometimes these can be of a general nature, for example to be used for specific purposes by the entity, and the entity is not legally required to return the~~

~~money if it is not used for that purpose. Other donations and grants can be received on a "use or return" basis, for example when the entity is required to either use the donation/grant as specified by the donor/grantor or return the donation/grant to the donor/grantor. Funding from government sometimes also has a "use or return" condition attached~~.

A67. ~~Where revenue has conditions attached, it is necessary to determine whether those conditions lead to a liability. Revenue that has a "use or return" condition,~~ Donations, grants or bequests received shall initially be recorded as deferred revenue on the statement of financial position ~~a liability~~. ~~until the conditions have been met, at which point the~~The deferred revenue balance shall subsequently be reduced, and revenue shall ~~then~~ be recorded, as the funds are spent. This means that revenue and the related expense are recorded in the same financial year.

A67.1. For multi-year funding (such as multi-year grants) revenue shall not be recognised on a straight-line basis over the period of the grant if this is not the pattern of actual spending. Instead, revenue shall be recorded in line with the requirements in paragraph A67.

A68. [Deleted] ~~For the purposes of this Standard donations, grants or funding from government with conditions attached, but which are not "use or return" conditions, shall be accounted for in the same way as revenue without conditions (see paragraph A65).~~

A69. [Deleted] ~~Figure 1 illustrates the process an entity should undertake to determine how to record revenue with or without conditions attached.~~

Goods or Services in Kind

A70. Entities shall not ~~are not required (but may if they wish) to~~ record as revenue goods or services received in kind, unless they are significant donated assets (see paragraph A113). However, entities shall provide information about significant goods or services received in kind in the notes to the performance report (see paragraph A191).

Expenses

A71. Expenses are the cash and other resource outflows from the entity, other than outflows to settle liabilities or purchase assets, or which are distributions of capital to owners (see paragraph A149)[6].

A72. Expenses do not include prepayments. Executory contracts are also excluded (an executory contract is one where neither party has performed their obligation under the contract, for example, inventory that has been ordered but not received and therefore not paid for).

A73. Expenses include only amounts paid and payable by the entity on its own account. Amounts paid on behalf of others (that is, as agent of another entity) are not expenses of the entity (see paragraphs A85-A88).

Required Information

A74. In order to make information understandable to users, expenses shall be aggregated and presented separately in categories. As a **minimum**, the following aggregated categories shall be reported separately:

(a) Employee ~~related costs~~ remuneration;

(b) Other employee costs;

(c) Costs related to providing goods or services; ~~and~~

(d) ~~Expenses~~ Costs related to fundraising;

(e) Costs related to commercial activities;

(f) Grants and donations; and

(g) Other costs.

A75. Entities need report only the minimum categories specified in paragraph A74 separately when the category is applicable and significant to the entity.

6 See the Glossary for a more detailed definition of expenses.

A76. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A74, provided that the separate categories are still maintained.

A77. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A78. Reimbursements for expenses incurred by employees on behalf of the organisation are not classified as employee expenses but are recorded in the appropriate category of expenses, for example, as an expense relating to providing goods or services.

A78.1. Category (a) above includes all remuneration paid to employees of the entity

A78.2. Category (c~~b~~) above includes all costs attributable to the activities carried out by the entity in pursuit of their stated purposes (excluding employee remuneration).

A78.3. Category (e) above includes all costs attributable to commercial activities carried out the entity (excluding employee remuneration). In this context commercial activities means activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis (for example, an entity may operate a baked goods stand at a gala event without intending to operate a commercial bakery). In such cases these costs would instead be considered fundraising costs and therefore be included in category (d).

~~Optional Information~~

A79. The minimum categories specified in paragraph A74 may be disaggregated, or additional categories may be presented in the statement of financial performance only~~,~~ when ~~such presentation~~ doing so is necessary to provide ~~will enhance~~ users with an understanding of the main expenses of the entity~~'sfinancial performance~~. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary. ~~Possible disaggregated or additional categories are listed below.~~

~~(a) Administration and overhead costs;~~

~~(b) Fees paid to members of the governing body;~~

~~(c) Lease and rental expense;~~

~~(d) Interest expense;~~

~~(e) Bad debts;~~

~~(f) Depreciation;~~

~~(g) Impairment charges; and~~

~~(h) Other expenses.~~

A80. [Deleted]~~Disaggregated or additional categories should be used only where doing so is necessary to provide users with an understanding of the main expenses of the entity.Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.~~

A81. Further breakdowns ~~Breakdowns~~ of the minimum categories or the disaggregated or additional categories may be provided in the notes to the performance report. For example, employee ~~related~~ remuneration and other employee costs ~~payments~~ could be disaggregated into salaries and wages, employer superannuation contributions (for example, KiwiSaver) and other costs relating to employees (for example, ACC levies). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Expenses

A82. Expenses shall be recorded on the occurrence of a recognition event. This is where there is a legal obligation to pay cash either now or sometime in the future (this is normally referred to as the point at which an expense is "incurred"). The timing of the recording of specific expense types is provided in Table 2.

Table 2: Recording of Specific Types of Expenses

Source	When to Record	Comments
Employee remuneration ~~related costs~~		
Wages and salaries~~,~~ and annual leave.~~, performance related bonuses; and any benefits such as medical care, housing, and free or subsidised goods or services for current employees for operating activities~~	Record the expense as staff provide services and become entitled to wages and salaries and leave entitlements.	Amounts for leave entitlements are recorded as liabilities. Amounts deducted from staff wages and salaries and held to pay to a third party (for example, Inland Revenue, KiwiSaver) are recorded as liabilities.
~~Wages and salaries related to the production of inventory or other assets~~	~~Do not record as an expense – include in cost of asset.~~	
Wages and salaries paid in advance	Record the expense when the staff provide services.	Record as an asset (prepayment) until the relevant services are provided.
Performance related b~~B~~onuses	Record the expense when the employee is notified that the bonus has been granted.	
Other employee costs		
Other (including ACC levies)	Record the expense in accordance with the relevant agreement.	Often recorded as an expense evenly over the period of the agreement.
Superannuation contributions	Record the expense as staff provide services.	This category comprises the entity's contribution to KiwiSaver or other superannuation schemes on behalf of staff. Amounts not yet paid over are recorded as liabilities. An entity sponsoring a defined benefit plan shall account for that plan in accordance with PBE IPSAS 25 *Employee Benefits*.[7]
Costs related to providing goods or services		
Purchase of i~~I~~nventory for sale ~~sold~~ or ~~distributed~~ distribution	Record the expense when the goods are sold or distributed.	Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.
Inventory written down or written off	Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution).	Inventory may lose value as: (a) It ages (for example, fresh food); (b) Future customers would not pay as much for the inventory; (c) Stock becomes obsolete; and (d) The inventory is less valuable to service recipients.
Administration and overhead costs	Record the expense when the cost is incurred.	Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.
Other costs associated with the delivery of services	Record the expense when the cost is incurred.	

7 Superseded by PBE IPSAS 39 *Employees Benefits* from 1 January 2019.

Source	When to Record	Comments
~~Expenses~~ Costs related to fundraising[8]		
Advertising costs, printing of fundraising materials, staff training	Record the expense when the advertising service is received or the other expense is incurred.	This category would include expenses associated with seeking gifts or donations.
Amounts paid to third party fundraisers	Record the expense when it is incurred.	
Costs related to commercial activities		
Inventory sold or distributed	Record the expense when the goods are sold or distributed.	Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.
Inventory written down or written off	Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution).	Inventory may lose value as: (e) It ages (for example, fresh food); (f) Future customers would not pay as much for the inventory; (g) Stock becomes obsolete; and (h) The inventory is less valuable to service recipients.
Administration and overhead costs	Record the expense when the cost is incurred.	Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.
Other costs associated with the delivery of services	Record the expense when the cost is incurred.	
Grants and donations		
Grants and donations made	Record the expense when the grant or donation has been approved and the recipient advised.	
Other costs ~~expenses~~		
Interest expense	Record the expense as it is incurred during the period.	This category is the amount paid during the period related to borrowings. Includes any interest amount owing but not yet paid.
Impairment charges (changes in the value of assets) Reversal of an impairment charge recorded in a prior period	Record the expense when it is apparent that an asset is recorded at an amount that is greater than its net realisable value. Reverse the expense when there is an indication that an impairment charge recorded in a prior period may no longer exist or may have decreased. (see paragraphs A109.1 and A109.2)	The impairment expense is the amount by which the asset's recorded amount is reduced. Impairment charges mostly relate to property, plant and equipment, inventory, and receivables (which become bad debts). See also Table 3 for further discussion on impairment.
Depreciation	Record the expense at year end based on the established depreciation rate.	See also Table 3 for further discussion on depreciation.
Loss on sale of an asset	Record the expense when control of the asset transfers to the new owner.	The loss is the amount recorded as the value of the asset prior to its sale, less the proceeds from the sale.

[8] If expenses are classified under a separate category in this Standard then exclude them from this category. For example, a full-time staff member spends a small proportion of their time involved in fundraising, so their salary is still classified under employee costs. However, if a person is employed on contract solely for fundraising purposes this would be included under expenses related to fundraising.

Source	When to Record	Comments
Other expenses	Record the expense when it is incurred.	It may be useful to consider the above principles.

Other Information

Required Information

A83. The statement of financial performance shall include any additional information that the entity considers necessary for users to understand the financial performance of the entity.

A84. An entity shall include the entity's budget (or plans) for the current financial year where this is required by legislation. Other entities may include this information if they wish and it is available.

Amounts Payable or Receivable on Behalf of Others

A85. Revenue and expenses include only the amounts relating to the entity on its own account, that is, where it is the "principal". Where the entity is acting as an "agent" (including as a trustee or nominee) for another party (for example, the Government[9], another entity, or some other third party), the amounts collected or paid belong to that other party rather than the entity.

A86. An entity is a principal (that is, acting on its own behalf) when:

(a) The entity has the primary responsibility for providing the goods or services to the beneficiary or customer;

(b) The entity establishes the prices, either directly or indirectly, for those goods or services; and

(c) The entity bears the customer's credit risk for any amount receivable from the customer.

A87. An example of the entity as principal is when the entity organises a conference for a group of organisations involved in the same service area, receives the conference fees, and is responsible for all the conference-related payments such as advertising and catering.

A88. An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the transactions. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

[9] For the purposes of this Standard, the collection and payment of GST or PAYE are not considered to be transactions undertaken by the entity as an agent.

Section 6: Statement of Financial Position

Purpose and Value to Users

A89. The purpose of the statement of financial position is to provide a snapshot of the entity's assets (what the entity owns), liabilities (what the entity owes) and accumulated funds (the difference between assets and liabilities) at a certain point in time (being the balance date). This is what the entity owns, what the entity owes, and the value of the members' financial interests in the entity. The statement provides users with information about the financial sustainability of the entity, including the assets that can be used to run the entity in the future, and the liabilities that will have to be settled ~~met~~ in ~~the~~ future periods ~~from cash balances and other assets~~.

Format of Statement of Financial Position

Required Information

A90. The statement of financial position shall be presented as follows:

Assets (by category)	xx
Less Liabilities (by category)	xx
Assets less Liabilities	xx
Accumulated Funds (by category)	xx

A91. [Deleted] ~~Alternatively if the entity considers it more relevant to users of the performance report, the entity may use the following format:~~

~~Assets (by category)~~	~~xx~~
~~Liabilities (by category)~~	~~xx~~
~~Plus Accumulated Funds (by category)~~	~~xx~~
~~Total Liabilities and Accumulated Funds~~	~~xx~~

A92. Additional line items, headings and subtotals may be presented in the statement of financial position when such presentation will help users to understand the entity's financial performance and position.

Assets

A93. Assets are resources of the entity that are expected to provide benefits to the entity in the future[10].

Required Information

A94. In order to make information understandable to users, assets shall be aggregated and presented separately in categories. As a **minimum**, the following aggregated categories shall be reported separately and split between current and non-current (see paragraph A104):

(a) Bank accounts, ~~and~~ cash and short-term deposits;

(b) Debtors and prepayments;

(c) Inventory;

(d) Property, plant and equipment; and

(e) Investments.

A95. Bank Accounts, ~~and~~ cash and short-term deposits comprise petty cash, cheque or savings accounts, and deposits held at call ~~with banks~~ or with a maturity of three months or less from the date purchased.

A96. Debtors (sometimes called accounts receivable) comprise amounts owed to the entity by customers or others. This includes any GST receivable from Inland Revenue.

[10] See the Glossary for a more detailed definition of assets.

A97. Prepayments are expenses paid in advance of a good or service being received by the entity (such as rent, insurance or salaries and wages).

A98. Inventories are materials or supplies that are to be consumed in producing goods or services, held for sale or distribution in the ordinary course of operations, or are in the process of production for sale or distribution. Inventories may include information brochures printed for the entity but not yet distributed, consumable stores, maintenance materials, spare parts for plant and equipment, and work-in-progress, such as educational/training course materials under development.

A99. Property, plant, and equipment (sometimes called fixed assets) are tangible items that are used in the production or supply of goods or services, or for administrative purposes, and are expected to be used during more than one financial year.

A100. Investments are shares, term deposits (with a maturity of more than three months from the date purchased), fixed interest bonds, units in unit trusts, or similar instruments held by the entity.

A101. Entities need report only the minimum categories specified in paragraph A94 separately when the category is applicable and significant to the entity.

A102. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A94, provided that the separate categories are still maintained.

A103. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A104. In presenting the statement of financial position the entity shall identify those assets which are intended to be converted to cash within 12 months of the balance date, for example, debtors that are expected to be collected within a few months of balance date, or inventories that are expected to be sold or used within the next year. These shall then be classified as “current assets”. The remaining assets shall then be classified as “non-current assets”.

Optional Information

A105. The minimum categories specified in paragraph A94 may be disaggregated, or additional categories may be presented in the statement of financial position, when such presentation will enhance users’ understanding of the entity’s financial position.

A106. The main asset category where this is likely to be useful is property, plant, and equipment. A class of property, plant, and equipment is a grouping of assets of a similar nature or function in an entity’s operations. Possible classes of property, plant and equipment that could be reported separately (either in the statement of financial position or in the notes to the performance report) are:

(a) Land;

(b) Buildings;

(c) Motor vehicles;

(d) Furniture and fixtures;

(e) Office equipment;

(f) Computers (including software); and

(g) Machinery.

A107. Disaggregated or additional categories should be used only where doing so is necessary to provide users with an understanding of the main assets of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.

A108. Breakdowns of the minimum categories, or the disaggregated or additional categories, may be provided in the notes to the performance report, for example, classes of property, plant and equipment, or different types of inventory (such as inventories held for consumption versus inventories held for sale). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Assets

A109. Assets shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the asset type. Details for recording and measuring specific asset types are provided in Table 3.

Table 3: Recording of Specific Types of Asset

Bank Accounts, ~~and~~ Cash and Short-term Deposits (note: bank overdrafts should be separately recorded as a liability)	
When to record	When the cash is received (either in hand or in the bank account).
Measurement	At the amount held.
Debtors	
When to record	When action is taken (such as goods or services sold) to give the entity the right to collect cash in the future. Compensation due from third parties (such as insurers) for assets that were impaired, lost, or given up should also be recorded as a debtor (and included as revenue in the statement of financial performance).
Initial measurement	At the amount owed.
When to record impairment	When it is likely that the amount owed (or some portion) will not be collected. Record the loss as a bad debt expense.
Change measurement at balance date	Consider whether any amounts are impaired (see paragraph A110). If the entity charges interest on overdue amounts, add this to the amount of the debtor and record revenue.
When to no longer record	When amount is collected or written off.
Prepayments	
When to record	When payment made.
Initial measurement	At the amount relating to the future goods or services to be received.
When to record impairment	If the entity is unlikely to get the service it has paid for.
Change measurement at balance date	Re-measure at the amount relating to the future services still to be received at that date.
When to no longer record (when to expense)	Once the entity receives the benefit for which it has paid, the prepayment (or portion thereof), is transferred from prepayments and is recorded as an expense.
Inventories	
When to record	When acquired.
Measurement	Purchased inventories: At cost.
When to record impairment	*Goods for sale:* Write-down to lower of cost and selling price. *Goods for use or distribution:* Write-down if the value to the entity decreases (for example, materials to be distributed are out of date or damaged).
Change measurement at balance date	Only if impaired.
When to no longer record (when to expense)	When sold, distributed or written off.

Property, Plant and Equipment (including Heritage Assets)	
When to record	When purchased or donated.
Initial measurement	*Purchased*: Cost (cash price equivalent). *Donated:* Current value (such as rateable value or government value).
When to record impairment	*Asset to be sold:* If the market price for an equivalent asset falls below the carrying amount of the asset. *Asset to be used:* If the value to the entity in using the asset falls below the carrying amount of the asset (for example, the entity no longer provides the service supported by the asset).
Change measurement at balance date	*Record depreciation* – spread the cost of the asset over the expected useful life of the asset, using a structured method such as straight line or diminishing value. Note that land is not depreciated.
When to no longer record	When sold, otherwise disposed of or written off.
Investments	
When to record	When purchased.
Initial measurement	At the amount paid.
When to record impairment	If it appears that the carrying amount of the investment will not be recovered, it shall be written down to the current market price.
Change measurement at balance date	If the current market price falls below cost.
When to no longer record	When sold, otherwise disposed of, or written off.
Other Assets	
When to record	When: (a) The asset is acquired; and (b) The asset has a cost or value that can be measured reliably[(a).]
Initial measurement	At the amount paid or other value that can be measured reliably.
When to record impairment	If it appears that the carrying amount of the asset will not be recovered, that is, it is more than the current market value (if it can be determined).
When to no longer record	When the asset is sold or otherwise disposed of.
(a) Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.	

Reversal of Impairment Charges

A109.1 If there is any indication that an impairment charge recorded in prior periods for an asset

(a) May no longer exist; or

(b) May have decreased (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value);

an entity shall reverse all or part of that impairment charge.

A109.2 The reversal of the impairment charge shall:

(a) In the case of inventories, be limited to the amount of the original write-down;

(b) In the case of investments, not result in the carrying amount of the asset being recorded at more than its original cost; and

(c) In the case of property, plant and equipment, not result in the carrying amount of the asset (net of depreciation) being recorded at more than it would have been had the impairment not been recorded.

Calculating Debtors

A110. In calculating the value of debtors at the end of each financial year, the entity shall assess whether there is evidence that a receivable may not be collected. The factors to consider are:

(a) Financial difficulty of the other party;

(b) A breach of contract by the other party, such as a default in interest or principal payments;

(c) The entity granting to the other party a concession relating to debt payment; or

(d) Other information indicating that the receivable may not be collected.

Heritage Assets

A111. Some classes of property, plant and equipment may be described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

A112. Heritage assets shall be accounted for in the same manner as other property, plant and equipment (that is, at cost or if donated then at readily obtainable current values). Heritage assets for which current values are not readily obtainable, do not need to be recorded in the statement of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

Donated Assets

A113. Significant donated assets, such as significant items of property, plant and equipment, shall be recorded at readily obtainable current values, such as rateable or government valuation, where it is practicable to obtain such current values.

A114. Significant donated assets for which values are not readily obtainable, do not need to be recorded in the statement of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

Revaluation of Property, Plant and Equipment

A115. As specified in Table 3, purchased property, plant and equipment is to be measured on the cost basis. However, an entity may elect to revalue a class of property, plant and equipment. Entities are more likely to make such an election when the value of an asset has increased significantly over that asset's life (such as land or a building).

A116. If an entity wishes to revalue a type ~~class~~ of assets, it shall ~~apply the relevant requirements of PBE IPSAS 17 *Property, Plant and Equipment*, except that the entity may use the current rateable or government valuation (rather than fair value as required by PBE IPSAS 17) when revaluing. Where this is the case, the entity shall disclose the source and date of the valuation in the notes to the performance report.~~ Measure an item of property, plant and equipment at a readily obtainable current value (such as rateable or government valuation) less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

A116.1. If an entity elects to revalue a class of assets it shall:

(a) Present a separate revaluation reserve within accumulated funds in the statement of financial position and the notes to the performance report (see paragraph A145);

(b) Recognise revaluation gains as "Gains/(losses) on the revaluation of property, plant, and equipment" directly in accumulated funds through a revaluation reserve, unless they reverse an impairment charge recognised in a prior period (see Table 3 and paragraphs A109.1 and A.109.2);

(c) Recognise revaluation losses as an expense in the statement of financial performance, except to the extent to which these losses offset any previous revaluation gains. If the revaluation losses offset previous revaluation gains they are shown as "Gains/(losses) on the revaluation of property, plant, and equipment" directly in accumulated funds through a revaluation reserve; and

(d) Recognise any gain on disposal over the carrying amount in revenue in the statement of financial performance as "Gains/(losses) on disposal of property, plant and equipment".

A116.2. If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following in the notes to the performance report:

(a) The basis (such as the rateable or government valuation) and date of the valuation;

(b) Whether an independent valuer was involved;

(c) The methods and significant assumptions applied in estimating the items' current value; and

(d) The revaluation gain/loss, indicating the change for the period that has been recognised in the revaluation reserve.

A117. ~~It is important to note that~~ Once a type of ~~once~~ property, plant and equipment is revalued, ~~the requirements of PBE Standards mean that it is likely that~~ the entity will need to continue measuring that type ~~class~~ of assets at revalued amounts thereafter (rather than reverting to asset cost).

A118. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may choose to disclose that current value, and the basis (such as the, rateable or government valuation) and date of that valuation in the notes to the performance report.

Investment property

A118.1. Some types of property, plant and equipment may be described as investment property because they are held primarily by the entity to generate revenue or for capital gains rather than for use in the entity's ordinary activities.

A118.2. Investment property shall be accounted for in the same manner as other items of property, plant and equipment (see Table 3 and paragraphs A115 – A118). This means that an entity can choose to account for investment property on a cost or revaluation basis.

Investments

A118.3. As specified in Table 3, investments are to be measured at the amount paid when purchased, less any impairment. However, where an entity holds investments which are publicly traded it may elect to measure that type of investment at its current market value.

A118.4. If an entity elects to measure publicly traded investments at current market value it shall recognise the change in current market value in revenue or expenses in the statement of financial performance.

A118.5. If investments are reported at current market value an entity shall disclose:

(a) The accounting policies for investments, including the basis on which current market value was determined (for example, NZX-quoted price at the balance date).

(b) In the notes to the performance report, an analysis of investments by type identifying the carrying amount of each type of investment, with those held at current market value being displayed separately from those held at cost less impairment.

(c) In the notes to the performance report, an analysis reconciling the opening and closing carrying amounts of each type of investment held.

Assets Held on Behalf of Others

A119. Assets held as an agent (including as a trustee or nominee) on behalf of another person, entity or other third parties are not recorded as assets of the entity. The statement of financial position should include only assets held by the entity on its own account as principal (see paragraphs A85–A88 for a discussion on principals and agents)

Liabilities

A120. Liabilities are the amounts owed by the entity at balance date[11].

Required Information

A121. In order to make information understandable to users, liabilities shall be aggregated and presented separately in categories. As a **minimum**, the following aggregated categories shall be reported separately and split between current and non-current (see paragraph A130):

[11] See the Glossary for a more detailed definition of liabilities.

(a) Bank overdraft;

(b) Creditors and accrued expenses;

(c) Employee costs payable;

(d) Unused donations, grants and bequests ~~government funding~~ with ~~conditions~~ expectations over use; and

(e) Loans.

A122. Creditors (sometimes called accounts payable) are amounts owing to suppliers to pay for goods or services that have been acquired in the course of the entity's operations. GST payable to Inland Revenue is also part of creditors.

A123. Accrued expenses are costs incurred but not yet paid. This includes electricity, gas, telephone services used but not yet paid; water and local authority rates payable but not yet paid, and rent for the use of premises not yet paid.

A124. Employee costs payable are amounts owing to, but not yet paid to employees. This category includes wages and salaries earned but not yet paid, holidays earned but not yet taken (holiday pay accrual), ACC contributions owing, PAYE withheld from employees' remuneration but not yet paid over to Inland Revenue, and contributions to superannuation schemes (such as KiwiSaver) or other post-employment benefit schemes collected but not paid over.

A125. Unused donations, grants and bequests ~~and government funding~~ with ~~conditions~~ expectations over use ~~are donations, grants or government funding that have a "use or return" condition attached to them. This~~ creates a ~~binding~~ present obligation on the entity that is recorded as a liability (see paragraphs A6~~5~~4.1–A69 for a further discussion on revenue with ~~conditions~~ expectations over use). ~~This category includes unused revenue for service delivery contracts that have a "use or return" condition attached.~~

A126. Loans are amounts borrowed by the entity. These are likely to be relatively uncommon amongst entities applying this Standard.

A127. Entities need report only the minimum categories specified in paragraph A121 separately when the category is applicable and significant to the entity.

A128. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A121, provided that the separate categories are still maintained.

A129. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A130. In presenting the statement of financial position the entity shall identify those liabilities which are due to be paid within 12 months of the balance date, which shall then be classified as "current liabilities". The remaining liabilities shall then be classified as "non-current liabilities".

Optional Information

A131. The minimum categories specified in paragraph A121 may be disaggregated, or additional categories may be presented in the statement of financial position, when such presentation will enhance users' understanding of the entity's financial position.

A132. Disaggregated or additional categories should be used only where doing so is necessary to provide users with an understanding of the main liabilities of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.

A133. Breakdowns of the minimum categories, or the disaggregated or additional categories, may be provided in the notes to the performance report, for example, a breakdown of loans. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Liabilities

A134. Liabilities shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the liability type. Details for recording and measuring specific liability types are provided in Table 4.

Table 4: Recording of Specific Types of Liability

Bank Overdraft	
When to record	When the overdraft occurs.
Measurement	At the amount of the actual overdraft (not the overdraft facility).
Creditors and Accrued Expenses	
When to record	When transaction occurs that creates the payment obligation, for example, on the receipt of goods or services from a supplier.
Initial measurement	At the amount owing. If the entity has not received a supplier invoice it shall record an accrual for an estimate of the amount to be paid
Change measurement at balance date	Review in case some part has been paid or is no longer owed (for example, a supplier changes the arrangement to donations of goods therefore revenue will be recorded).
When to no longer record	When settled.
Employee Costs Payable	
When to record	When an employee has earned the entitlement or the entity has withheld amounts from wages and salaries already paid. It is uncommon for entities with paid employees to have no employee costs payable.
Initial measurement	At the amount to be paid.
Change measurement at balance date	If employees have been granted increased wages and salaries, amounts owing may change (for example, annual leave is based on amounts to be paid when the employee is expected to take the leave).
When to no longer record	When settled.
Unused Donations, Grants and Bequests ~~and Government Funding~~ with ~~Conditions~~ Expectations over Use	
When to record	When the grant, donation or bequest ~~or government funding~~ is received.
Initial measurement	At the amount received. ~~At the amount to be returned if the conditions are not fulfilled.~~
Change measurement at balance date	Assess whether the expectations ~~conditions~~ have been fulfilled. If not, assess the amount of the grant that relates to expectations ~~conditions~~ that haven't yet been fulfilled.
When to no longer record	When the expectations ~~conditions~~ are fulfilled.
Provisions	
When to record	When an event has occurred that leads to an obligation.
Initial measurement	At the entity's best estimate of the amount to be paid.
Change measurement at balance date	Review the estimate of the amount of the obligation in light of conditions at balance date.
When to no longer record	When no obligation remains.
Loans	
When to record	When the amount borrowed has been received.
Initial measurement	At the amount borrowed from the lender (usually referred to as the loan principal).
Change measurement at balance date	Include any loan principal outstanding and any interest owing that has not yet been paid.

When to no longer record	When all principal and interest has been paid.

Provisions

A135. A provision is a liability of uncertain timing or amount. For example, an entity's lease of office premises may contain conditions that require the premises to be renovated at the end of the lease, so a provision for this is established.

A136. A provision shall be recorded as a liability when:

(a) The entity has a present obligation (legal or constructive) as a result of a past event;

(b) It is probable that the entity will have to settle the obligation; and

(c) The entity can make a reliable estimate of the amount of the obligation.

A137. The use of estimates is an essential part of the preparation of performance reports, and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other liabilities. Except in extremely rare cases, an entity should be able to make an estimate of the obligation that is sufficiently reliable to use in recording a provision.

Possible Future Liabilities

A138. The only liabilities recorded in an entity's statement of financial position are those where obligations exist at the balance date as a result of a past event. Therefore, no provision should be made for liabilities that might result from a future event as these liabilities don't yet exist. For example, costs likely to be incurred in the future in order to continue an entity's activities in the future are not liabilities. Neither are expected future operating losses.

Contingent Liabilities

A139. Contingent liabilities are not recorded in the statement of financial position but are reported in the notes to the performance report (see paragraphs A201–A203).

Other Accruals

A139.1. The balance of deferred revenue arising from donations, grants and bequests for funding received that has not been spent at balance date shall be reported separately under the heading "Other Accruals" in the statement of financial position.

Accumulated Funds

A140. Accumulated Funds are the residual ~~owners'~~ financial interest in the entity. after all of its liabilities are settled. It represents the amount of the entity's assets which may be directed by trustees/members/officers in pursuit of the entity's stated purposes. It is the component that balances the statement of financial position[12].

Required Information

A141. In order to make information understandable to users, accumulated funds shall be aggregated and presented separately in categories. As a **minimum**, the following aggregated categories shall be reported separately:

(a) Capital contributed by owners;

(b) Accumulated surpluses or deficits; and

(c) Reserves.

A142. Contributions from owners means contributions to the entity by external parties (usually the government) that establish a financial interest in the equity of the entity, which:

(a) Conveys to owners the entitlement to:

(i) Distributions by the entity during its life; and/or

[12] See the Glossary for a more detailed definition.

(ii) Distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or

(b) Gives the owner a voice in the management of the entity as an owner; and/or

(c) Can be sold, exchanged, transferred, or redeemed.

A143. A contribution from owners (see paragraph A55 for a further discussion) may, but does not necessarily need to, be evidenced by a formal ownership document, such as a share certificate.

A144. Accumulated surpluses or deficits are the total of all the surpluses and deficits from the commencement of the entity, excluding returns of capital or other distributions paid to owners in their capacity as owners (if any), and amounts transferred to other reserves.

A145. Reserves are of three ~~two~~ types:

(a) Restricted reserves which may be used only for a particular purpose (the restriction). The restriction may apply to the use of revenue from the funds such as interest received, or to changes to the capital fund, or to both. To be a restricted reserve the restriction must be set by an external party, for example:

(i) The express wishes of a donor (including in relation to endowment funds);

(ii) A specific purpose agreed with a donor; or

(iii) The terms of a fundraising appeal.

(b) Discretionary reserves that have been created by a transfer from accumulated surpluses or deficits as a decision of the entity so that it sets aside resources for a particular purpose. A feature of this type of reserves is that they may be transferred back to accumulated surpluses or deficits whenever the entity chooses.

(c) Other reserves which have been created to present the effect of transactions recognised directly in accumulated funds . This includes revaluation reserves which represent the increase in value of items of property, plant and equipment over their carrying amounts (where an entity has elected to measure such items at revalued amounts).

A146. Entities need report only the minimum categories specified in paragraph A141 separately when the category is applicable and significant to the entity.

A147. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A141, provided that the separate categories are still maintained.

Accounting for Accumulated Funds

A148. Contributed funds shall be recorded at the amount contributed by, less any contributed capital returned to, owners.

A149. Accumulated surpluses or deficits shall be recorded at the opening balance plus the current period’s surplus or deficit from the statement of financial performance, less distributions paid to owners, less amounts transferred to reserves plus amounts transferred from reserves.

A150. Reserves shall be recorded at the opening balance of the reserve for the period plus: ~~transfers to/from accumulated surpluses or deficits. The amount of the transfer should be equal to the amount of any revenue or expenses relating to the purpose of the reserve that were recorded in the statement of financial performance and therefore included in the current period’s surplus or deficit.~~

(a) For restricted or discretionary reserves, transfers to/from accumulated surpluses or deficits. The amount of the transfer should be equal to the amount of any revenue or expenses relating to the purpose of the reserve that were recorded in the statement of financial performance and therefore included in the current period's surplus or deficit; and

(b) For other reserves, the amount of gains/(losses) required to be recognised directly in accumulated funds.

Approval and Issue of Performance Report

Explanation

A150.1 It is important for users to know when the performance report was authorised for issue, as the performance report does not reflect events after this date. The performance report is authorised for issue when it is signed and dated by the body or individuals with the authority to approve the performance report for issue.

Required Information

A150.2 An entity shall disclose in the performance report the date the performance report was approved and authorised for issue, who gave that authorisation and the relevant signature(s).

Other Information

Required Information

A151. The statement of financial position shall include any additional information that the entity considers necessary for users to understand the financial position of the entity.

A152. An entity shall include the entity's budget (or plans) for the current financial year where this is required by legislation. Other entities may include this information if they wish and it is available.

Section 7: Statement of Cash Flows

Purpose and Value to Users

A153. The purpose of the statement of cash flows is to provide information about the cash flows of the entity, which can have a different timing to the accruals that are reported in the statement of financial performance. Cash flow information allows users to determine how much cash the entity has received ~~cash~~, and how the cash was used during the year. An understanding of an entity's ~~the timing and certainty of~~ cash flows is helpful to users in making decisions about the sustainability of the entity and whether funds received have been appropriately spent on advancing the entity's objectives ~~resources have been allocated effectively~~.

A154. [Deleted] ~~The difference between the statement of cash flows and the statement of financial performance is that:~~

~~(a) The statement of cash flows reflects the cash movements during the period, regardless of when the transaction or event is recorded in the statement of financial position or statement of financial performance; and~~

~~(b) The statement of financial performance reflects the revenues and expenses that relate to the financial year, regardless of the timing of the associated cash flows.~~

Format of Statement of Cash Flows

Required Information

A155. The statement of cash flows shall be presented as follows:

Cash Flows from Operating Activities (by category)	xx
Cash Flows from ~~Investing and Financing~~ Other Activities (by category)	xx
Net Increase/(Decrease) in Cash	xx
Add Opening Cash Balance	xx
Closing Cash Balance	xx

A156. [Deleted]~~Alternatively, if the entity considers it more relevant to users, the entity may report cash flows from investing activities (by category) separately from cash flows from financing activities (by category).~~

A157. ~~Investing~~ Other activities are the acquisition and disposal of long-term assets and other investments not included in the cash balance. For example, the purchase of property, plant and equipment, or investments. ~~Financing activities~~ It also comprises receipts and payments relating to long-term borrowing by the entity (the principal amount only), and any capital contributions to/from owners (if any).

A158. Operating activities are the activities of the entity that are ~~not investing or financing activities. They include the~~ carried out as part of its normal operations ~~of the entity~~, for example, the funding received and the costs paid in delivery of the entity's objectives ~~providing goods or services~~.

A159. The statement of cash flows does not include:

(a) Cash receipts collected and payments made on behalf of others when the cash flows reflect the activities of the other party rather than those of the entity (see paragraphs A85–A88). For example, rent collected on behalf of, and paid over to, the owners of properties; and

(b) Transactions not involving cash, for example depreciation and donated goods or services.

Cash Flows from Operating Activities

Required Information

A160. In order to make information understandable to users, cash flows from operating activities shall be aggregated and presented separately in categories. As a **minimum**, the following aggregated categories shall be reported separately:

Cash Received ~~Receipts~~:

(a) Funding from ~~central or local~~ government service delivery grants/contracts;

(b) ~~Receipts~~ Funding from non-governmental ~~sources for providing goods or services~~ service delivery grants/contracts;

(c) Donations, koha, bequests and other fundraising ~~and other similar~~ receipts from the public or non-governmental organisations; ~~and~~

(d) Interest, dividends and other investment receipts;

(e) General funding received;

(f) Grants from non-governmental organisations

(g) Gross sales from commercial activities; and

(h) Other cash received.

Cash Payments:

(i) Payments to ~~suppliers and~~ employees;

(j) Payments related to providing goods or services;

(k) Payments related to fundraising;

(l) Payments related to commercial activities;

(m) Grants and donations paid; and

(n) Other payments.

A161. Entities need report only the minimum categories specified in paragraph A160 separately when the category is applicable and significant to the entity.

A162. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A160, provided that the separate categories are still maintained.

A163. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

~~Optional Information~~

A164. The minimum categories specified in paragraph A160 may be disaggregated, or additional categories may be presented in the statement of cash flows only when ~~such presentation~~ doing so ~~will enhance~~ is necessary to provide users with an understanding of the entity's cash flows. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.

A165. [Deleted] ~~Disaggregated or additional categories should be used only where doing so is necessary to provide users with an understanding of the main cash flows of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.~~

A166. Further ~~B~~breakdowns of the minimum categories or the disaggregated or additional categories may be provided in the notes to the performance report, for example, a breakdown of cash payments to suppliers. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Cash Flows from ~~Investing and Financing~~ Other Activities

Required Information

A167. In order to make information understandable to users, cash flows from ~~investing and financing~~ other activities shall be aggregated and presented separately in categories. As a **minimum**, the following aggregated categories shall be reported separately:

Cash Receipts:

(a) Receipts from the sSale of property, plant and equipment;

(b) ~~Receipts from the s~~Sale of investments;

(c) Cash drawn down ~~Proceeds~~ from loans from other parties; and

(d) Cash received ~~Capital contributed~~ from owners (capital contributions).

Cash Payments:

(e) Payments to acquire property, plant and equipment;

(f) Payments to purchase investments;

(g) Repayments of loans borrowed from other parties; and

(h) Capital distributed ~~repaid~~ to owners.

A168. Investments are shares, term deposits (with a maturity greater than 3 months), fixed interest bonds, units in unit trusts, or similar instruments held by the entity. ~~They~~ Investments also include loans made to other entities ~~by the entity~~.

A169. Entities need report only the minimum categories specified in paragraph A167 separately when the category is applicable and significant to the entity.

Optional Information

A170. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A167, provided that the separate categories are still maintained.

A171. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

Cash Balances

Required Information

A172. Cash balances is the same amount reported as "bank accounts, ~~and~~ cash and short-term deposits" less bank overdrafts as reported in the statement of financial position. It includes petty cash, cheque or savings accounts, ~~deposits held~~ at call deposits ~~with banks~~ or with a maturity of three months or less from the date purchased, and bank overdrafts (see paragraph A95).

Section 8: Statement of Accounting Policies

Purpose and Value to Users

A173. The purpose of the statement of accounting policies is to disclose the specific policies and practices applied by the entity in preparing its performance report. This provides users with an understanding of the basis on which the performance report has been prepared.

Format of Statement of Accounting Policies

Required Information

A174. The statement of accounting policies shall comprise two components;

(a) Accounting policies applied; and

(b) Changes in accounting policies.

Accounting Policies Applied

A175. Accounting policies applied are the specific policies and practices used by the entity in preparing its performance report for the reporting period.

Required Information

A176. As a **minimum**, the following shall be included in the statement of accounting policies.

Basis of Preparation

A177. The statement of accounting policies shall disclose that:

(a) The entity is eligible to apply this Standard, the criteria specified in XRB A1 that allows it to do so, and the fact that it has elected to do so;

(b) All transactions are reported using the accrual basis of accounting; and

(c) The performance report has been prepared on the assumption that the reporting entity is a going concern, or if this is not the case the fact that the performance report has been prepared on the basis that the entity will not continue to operate for more than 12 months in the future (see paragraph A178).

A178. The performance report is normally prepared assuming that the entity will continue in operation for the foreseeable future (normally considered to be a minimum of 12 months from balance date). This assumption may not be appropriate in some circumstances. For example, it may not be appropriate if the governing body determines after the balance date either (a) that there is an intention to liquidate the entity or to cease operating, or (b) that there is no realistic alternative but to do so. If the assumption of continuity is not appropriate this needs to be disclosed in the statement of accounting policies (additional disclosures are also required in the notes to the performance report – see paragraph A212). The entity shall consider whether different specific accounting policies are more appropriate in these circumstances, for example valuing assets at fire sale value.

Goods and Services Tax (GST)

A179. The statement of accounting policies shall disclose:

(a) Whether the entity is registered for GST; and

(b) Whether the performance report is prepared on a GST-inclusive or GST-exclusive basis.

Specific Accounting Policies

A180. The statement of accounting policies shall disclose the accounting policies for each significant type of transaction or balance. These policies shall be consistent with the requirements of this Standard (including the requirements of paragraph 6).

A181. The policies may be reported at an appropriate level of aggregation, for example, “revenue from the sale of services” as a category of accounting policies.

A182. Where an entity has elected to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements in place of a requirement of this Standard (see Appendix C ~~paragraphs 7–9~~), the PBE Standard applied shall be disclosed.

Changes in Accounting Policies

A183. A change in the accounting treatment, recording, or measurement of a transaction or other event is regarded as a change in accounting policy. For example, the initial application of a policy to revalue assets (rather than measuring them at cost) is a change in accounting policy.

A184. An entity shall change an accounting policy only if the change:

(a) Is required by this Standard; or

(b) Is in accordance with this Standard and results in the statements providing more faithfully representative or more relevant information about the effects of transactions or other events and conditions on the entity's service performance, financial performance, financial position, or cash flows.

Required Information

A185. When an entity changes its accounting policy an entity shall disclose:

(a) The reason for the change, a description of the change in policy, and how and from when this change in policy has been applied; and

(b) For the current period, for each statement line item affected, the amount as calculated under the previous accounting policy.

A186. Where there have been no changes to accounting policies during the ~~r~~eporting period, that fact shall be reported.

Accounting for Changes in Accounting Policies

A187. Changes in accounting policies shall be applied from the beginning of the current reporting period.

Section 9: Notes to the Performance Report

Purpose and Value to Users

A188. The notes to the performance report contain information that expands on the information included in other parts of the performance report as well as providing any additional relevant information. This is designed to provide users with a greater understanding of the information reported in the statements of service performance, financial performance, financial position and cash flows.

Required Information

A189. The following matters shall be included in the notes to the performance report.

~~Revenue with Conditions which has not been Recorded as a Liability~~

A190. [Deleted] ~~Where the entity has (i) received government funding or a significant grant or donation (including donated assets) with conditions attached which have not been fulfilled at balance date, and (ii) the government funding, significant grant or donation was recorded as revenue because the conditions were not "use or return" conditions that resulted in the recording of a liability (see paragraphs A65–A69), the entity shall disclose in the notes to the performance report:~~

~~(a) In the case of cash funding, donations and grants, the amount of the funding, grant or donation and the amount for which the conditions have not been fulfilled;~~

~~(b) In the case of significant donated assets, details of the donated assets and, if recorded, the amount of the donated assets; and~~

~~A description of the purpose and nature of the conditions of the funding, grant or donation.~~

Liability: Unused Donations, Grants and Bequests with Expectations over Use

A190.1. Where the entity has received a donation, grant or bequest where revenue recognition has been deferred at the balance date, the entity shall disclose in the notes to the performance report information to help readers understand:

(a) The purpose and nature of the expectations over future use; and
(b) When the entity expects to satisfy the remaining expectations over use.

Deferred Revenue: Unspent Donations, Grants and Bequests

A190.2. Where the entity has unspent donations, grants and bequests at balance date, the entity shall disclose in the notes to the performance report information to help readers understand when the entity expects to spend the unspent balance on related expenditure.

Goods or Services in Kind Provided to the Entity

A191. An entity shall disclose in the notes to the performance report a description of any significant goods or services in kind provided to the entity during the financial year, such as free professional services. A dollar quantification may be provided but is not required. ~~as an optional disclosure.~~

Property, Plant and Equipment

A192. For each class of property, plant and equipment recorded in the statement of financial position, the entity shall disclose in the notes to the performance report:

(a) A description of the asset class (for example, equipment, furniture);

(b) The carrying amount of the asset class at the beginning of the financial year;

(c) The depreciation and/or impairment expense recorded for the asset class for the financial year; and

(d) The carrying amount of the asset class at the end of the financial year.

A193. The entity shall disclose the source and date of the valuation of assets for any assets recorded at valuation (such as significant donated assets) and any other assets for which the entity has chosen to disclose a current value (see paragraphs A115–A118).

Significant Donated Assets not Recorded

A194. Where significant donated assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A114), the entity shall disclose in the notes to the performance report a description of the asset, categorised by class where appropriate.

Significant Heritage Assets not Recorded

A195. Where significant heritage assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A112), the entity shall disclose in the notes to the performance report, a description of the asset, categorised by class where appropriate.

Assets Used as Security for Liabilities

A196. If an entity has used any of its assets as security for loans borrowed, the entity shall disclose in the notes to the performance report information about:

(a) The nature and amount of the loan that is secured; and

(b) The nature and amount of the asset(s) used as security.

Assets Held on Behalf of Others

A197. Where an entity is acting on behalf of another entity as its trustee, nominee or agent, the following matters shall be disclosed in the notes to the performance report:

(a) A description of the assets which it holds in this capacity; and

(b) The name of the entity on whose behalf the assets are held.

Changes in Accumulated Funds

A198. The notes to the performance report shall include an explanation of the movements between the opening and closing balances of all categories of Accumulated Funds. An entity shall also disclose the nature and purpose of each reserve.

A198.1. An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing its accumulated surpluses. Information which may need to be disclosed includes:

(a) A brief description of the entity's plans for applying its accumulated surpluses towards its stated purposes, for example:

(i) Whether the entity intends to begin a significant project to which its accumulated surpluses will be applied;

(ii) Whether the entity intends to invest its accumulated surpluses in order to generate future income to be used in pursuit of its stated purposes. This would also include a description of the kind of investments the entity plans to make and how long it intends to retain these investments; or

(iii) Whether the entity is accumulating surpluses with the intent to make a significant distribution to another entity.

(b) Whether the entity retains an operating reserve (often referred to as a "rainy-day fund") and if so:

(i) The amount generally retained for this purpose; and

(ii) The basis on which these amounts are determined.

Commitments

A199. Commitments are legal obligations to make payments in the future. Although commitments (operating or capital) are not yet recorded as liabilities, reporting them is essential for users of reports to gain a proper understanding of the entity's future viability.

A200. An entity shall report in the notes to the performance report the timing and estimated amount of any significant commitments (both operating and capital). Types of commitments which may need to be reported include:

(a) Commitments to lease or rent assets;

(b) Commitments to purchase property, plant and equipment; and

(c) Commitments to provide loans or grants.

Contingent Liabilities

A201. A contingent liability is a possible obligation that arises from past events that is contingent (dependent) on some future event. For example, a court case not yet settled, or a guarantee issued.

A202. For each class of contingent liability at the balance date an entity shall disclose in the notes to the performance report:

(a) A brief description of the nature of the contingent liability;

(b) A best estimate of the amount of the contingent liability (where this can be estimated);

(c) An indication of the uncertainties relating to the amount or timing of any outflow of resources; and

(d) The possibility of any reimbursement.

A203. For each guarantee or class of guarantee, an entity shall disclose in the notes to the performance report:

(a) The nature of the guarantee;

(b) The maximum amount of any guarantees provided to others; and

(c) The likelihood of the entity being required to make payment under the guarantee.

Related Party Transactions

Explanation

A204. A related party transaction is a transfer of money or other resource between the reporting entity and a person or other entity that is closely associated with the reporting entity that has the ability to influence the reporting entity. For public sector entities related party transactions comprise significant transactions that are different from those conducted under normal terms and conditions (including the provision of free goods or services).

A205. Related parties comprise:

(a) People that have significant influence over the entity (such as members of the governing body, persons in key management roles, or others that are involved in the strategic management of the entity – whether employed or volunteer), and close members of their families; and

(b) Other entities that have significant influence over the entity.

A206. Related party relationships exist throughout the public sector. Disclosure of related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes, and to enable users to better understand the entity’s performance report. This is because:

(a) Related party relationships can influence the way in which an entity operates with other entities;

(b) Related party relationships might expose an entity to risks, or provide opportunities that would not have existed in the absence of that relationship; and

(c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on terms and conditions that differ from those that would normally be available to unrelated parties.

A207. Examples of transactions with a related party that would meet these criteria and therefore would be disclosed are:

(a) The sale of a significant resource (such as a used vehicle) to the chairperson of the governing body at less than market rates;

(b) The provision of preferential access to services provided by the entity to the dependent of a person in a key management role; and

(c) The provision of finance (including loans, grants and guarantees), for example, a low interest loan, to a related party.

Requirements

A208. An entity shall disclose in the notes to the performance report, transactions with a related party that have occurred during the financial year if the transaction is significant to the entity (individually or in aggregate with similar transactions) and is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

A209. For each disclosed transaction the following shall be reported:

(a) A description of the related party relationship;

(b) A description and amount of any revenue or expense (and the value of free goods or services provided) related to the transaction during the financial year; and

(c) Any amounts due from or to related parties at balance date.

Events After the Balance Date

A210. Where events after balance date occur (see paragraphs A34–A36), and those events have a significant impact on the information included in the performance report, the entity shall report in the notes to the performance report the following:

(a) The nature of the event; and

(b) An estimate of its financial effect, or a statement that such an estimate cannot be made; and

(c) The effect, if any, on the entity's ability to continue operating.

A211. An entity is not required to provide comparative information for events occurring after the balance date. That is, an entity is not required to repeat disclosure of events occurring after the previous balance date.

Ability to Continue Operating

A212. Where the entity plans to stop operating within 12 months from balance date (see paragraph A178), or it is likely that the entity will be unable to continue operating, the entity shall include in the notes to the performance report the following:

(a) A statement that the entity intends to stop operating or that it is unlikely the entity will be able to continue operating;

(b) The reason why the entity intends to stop operating or why it may not be able to continue operating; and

(c) The estimated effect of the entity's circumstances on the amounts of the entity's assets and liabilities.

A213. The impact of such a change will depend upon the particular circumstances of the entity. For example, the impact on the recorded amounts of assets will depend upon whether operations are to be transferred to another entity, sold, or liquidated. Judgement is required in determining whether a change in the carrying amount of assets and liabilities is required. It is also necessary to consider whether the change in circumstances leads to additional liabilities or triggers clauses in debt contracts which will lead to the reclassification of those debts as current liabilities.

Correction of Errors

A214. When an entity corrects a significant prior period error (see paragraph A29), it shall report in the notes to the performance report:

(a) A description of the error and how it was corrected; and

(b) The line items and amounts that have been corrected.

Additional Information

A215. The notes to the performance report shall include any additional information that the entity considers necessary for users to understand the overall financial performance and position of the entity.

Optional Information

A216. An entity may include in the notes to the performance report:

(a) Breakdowns of the minimum categories, or the disaggregated categories or additional categories reported in the statement of service performance, statement of financial performance, statement of financial position or statement of cash flows;

(b) Additional information about donations, fundraising and other similar revenue including a list of donors; and

(c) Other information that the entity considers will be helpful to users in understanding the performance of the entity.

Section 10: Illustrative Examples

The following are examples of the accounting treatment required in the performance report.

1. Revenue Earned

Scenario 1

A Rural Education Activity Programme (REAP – the reporting entity) receives funding from the government on a "use or return" basis at the beginning of each quarter to provide education services during that quarter.

Treatment: The reporting entity records:

(a) The funding received as a liability in the statement of financial position (as part of creditors and accrued expenses or separately as a disaggregated category "revenue in advance"; and

(b) Revenue in the statement of financial performance (revenue from providing goods or services) as the education services are delivered (i.e. as the quarter year progresses), and reduces the liability for the funding received in advance by the same amount at the same time.

Scenario 2

A fish and game council (the reporting entity) receives money from the issuing of fishing and hunting licences. The licences give the users the right to fish or hunt for a designated period.

Treatment: The reporting entity records:

(a) The license money received as a liability in the statement of financial position (as part of creditors and accrued expenses or separately as a disaggregated category "revenue in advance"); and

(b) Revenue evenly in the statement of financial performance (revenue from providing goods or services) as the period covered by the licence progresses; and reduces the liability for the revenue received in advance by the same amount at the same time.

Scenario 3

A registration board (the reporting entity) receives fees for issuing registration certificates. The registrations give the users the right to practice in their designated profession.

Treatment: The reporting entity records the registration fees as revenue in the statement of financial performance (revenue from providing goods or services) when it is received. The fees are not treated as revenue in advance because the registration is a right to practice and that right is granted at the point the certificate is issued. The registration does not provide any further service during the year.

2. Grants with and Without ~~Conditions~~ Expectations

Scenario 1

A school (the reporting entity) receives a grant from a local philanthropic trust to support its activities. The grantor has not communicated any expectations to the reporting entity as to how the grant should be used. ~~There are no conditions attached to the grant, other than that it must be used to support the delivery of education by the school.~~

Treatment: The reporting entity records the grant as revenue in the statement of financial performance (as donations, fundraising and other similar revenue).

Optional Information: The reporting entity may include information about this grant provider in any list of grant providers and their contributions included in the notes to the performance report (see paragraph A63).

~~***Scenario 2***~~

~~A school (the reporting entity) receives a grant from a local philanthropic trust to support its activities. The grantor specifies that the school must use the grant to increase the stock of books in the school library. However, there is no obligation to return the grant if it is not fully used for this purpose. The school has used only half of the grant as at balance date.~~

~~*Treatment:* Although there is a condition attached to the grant received, there is no "use or return" requirement. Therefore the reporting entity:~~

~~(a) Records the whole amount of the grant as revenue in the statement of financial performance (as donations, fundraising and other similar revenue); and~~

~~(b) Provides information in the notes to the performance report outlining the total amount of the grant, the amount of the grant unused, and the fact that the grant is to be used to increase the stock of books in the school library (see paragraph A190).~~

~~*Optional Information:* The reporting entity may include information about this grant provider in any list of grant providers and their contributions included in the notes to the performance report (see paragraph A63).~~

Scenario ~~3~~2

A school (the reporting entity) receives a grant from a local philanthropic trust to support its activities. The grantor specifies in writing that the school must use the grant to increase the number of computers in the school library. The school has used only half of the grant as at balance date for this purpose, with the rest of the grant expected to be spent in the following financial year. ~~help purchase a new vehicle that is to be used to allow students to participate in education outside the classroom (EOTC) activities. The grantor requires the grant to be used for this purpose or be returned.~~

Treatment: As there is a clear ~~"use or return" condition~~ documented expectation attached to the grant:

Financial Year 1

(a) Upon receipt of the grant the reporting entity records it as a liability in the statement of financial position (as unused donations and grants with ~~conditions~~ expectations over use); and

(b) When the reporting entity purchases the ~~vehicle~~ computers ~~(which cost more than the grant and therefore uses all of the grant)~~ it records:

   (i) ~~The whole~~ Half of the amount of the grant as revenue in the statement of financial performance (as donations, fundraising and other similar revenue), and reduces the liability (for the unused donation or grant with ~~conditions~~ expectations attached) by the same amount at the same time; and

   (ii) The purchased ~~vehicle~~ computers (at the total cost of purchase) as ~~an~~ assets in the statement of financial position (as property, plant and equipment)~~, and then subsequently depreciates it over the expected life of the vehicle~~.

Financial Year 2

The school spends the remaining half of the amount of the grant on additional computers for the school library. The entity records:

(a) The remaining half of the amount of the grant as revenue in the statement of financial performance (as donations, fundraising and other similar revenue), and reduces the liability (for the unused donation or grant with expectations over use) to zero; and
(b) The purchased computers (at the total cost of purchase) as assets in the statement of financial position (as property, plant and equipment)

Optional Information: The reporting entity may include in the notes to the performance report a list of grant providers, together with a summary of their contributions (see paragraph A63).

Scenario 1

A school (the reporting entity) receives a grant from a local philanthropic trust to support its activities. The grantor specifies that the school must use the grant to increase the number of computers in the school library. The school has used only half of the grant as at balance date for this purpose, with the rest of the grant expected to be spent in the following financial year.

Treatment:

Financial Year 1

(c) Upon receipt of the grant the reporting entity records it as an "other accrual" in the statement of financial position (as deferred revenue); and

(d) When the reporting entity purchases the computers it records:

(iii) Half of the amount of the grant as revenue in the statement of financial performance (as revenue from grants from non-governmental organisations), and reduces the deferred liability balance by the same amount at the same time; and

(iv) The purchased computers (at the total cost of purchase) as ~~an~~ assets in the statement of financial position (as property, plant and equipment).

Financial Year 2

The school spends the remaining half of the amount of the grant on additional computers for the school library. The entity records:

(c) The remaining half of the amount of the grant as revenue in the statement of financial performance (as revenue from grants from non-governmental organisations), and reduces the deferred revenue balance to zero; and

(d) The purchased computers (at the total cost of purchase) as assets in the statement of financial position (as property, plant and equipment)

Optional Information: The reporting entity may include in the notes to the performance report a list of grant providers, together with a summary of their contributions (see paragraph A63).

3. Donated Goods or Services

An Administering Body (the reporting entity) has its performance report prepared free of charge by a chartered accountant who is not associated with the Administering Body. The value of the free services is significant to the Administering Body.

Treatment: The reporting entity does not record the donated services (see paragraph A70). However, the donated service is disclosed in the notes to the performance report (see paragraph A191).

4. Liabilities and Contingent Liabilities

At its annual student concert, a school (the reporting entity) made use of material subject to copyright. Legal proceedings are started seeking damages from the reporting entity for breach of copyright, but the school disputes liability. Up to the date of finalising the performance report for the year, the reporting entity's lawyers advise that it is probable that the entity will not be found liable. However, when the reporting entity prepares its performance report for the following year, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

Treatment: In the first year, the reporting entity does not record a liability in the statement of financial position because the legal advice is that the entity is not likely to be found liable. The matter is reported as a contingent liability in the notes to the performance report.

In the second year, the reporting entity records a liability in the statement of financial position (as a creditor provision) if the amount of damages can be reliably estimated; and records an equivalent amount as an expense in the statement of financial performance. If the amount of damages cannot be reliably estimated, no liability or expense is recorded and the facts are reported in the notes to the performance report.

5. Related Parties

Scenario 1

A trust (the reporting entity) has total operating payments of $20,000. These payments are all made to the spouse of the trust's chairperson for office administration duties of the entity. The payments are made at a higher hourly rate than the office administrator receives.

Scenario 2

The reporting entity has total operating payments of $20,000. A few of these payments ($1,000) are made to the spouse of the chairperson for relieving the office administrator. The payments are made at a higher hourly rate than the office administrator receives.

Treatment: In both of the scenarios the spouse of the chairperson is a related party of the reporting entity (see paragraph A205).

In scenario 1 the transactions with the related party are significant and are not made under normal terms and conditions (see paragraph A204) and therefore the entity reports in the notes to the performance report the information set out in paragraph A209(a)–(c).

In scenario 2 the transactions with the related party are not significant and therefore the entity is not required to report those transactions in the notes to the performance report (but it may do so if it wishes).

Section 11: Glossary

This Glossary contains all terms defined in this Standard.

Accounting policies	The specific policies and practices used by the entity when preparing the performance report.
Accumulated funds	The owners' financial interest in the entity. It comprises capital contributed by owners, accumulated surpluses or deficits, and reserves. It also represents the difference between the assets and liabilities of the entity. In the for-profit sector the equivalent term is equity.
Assets	Resources controlled by the entity as a result of past events (which would usually be transactions), from which future economic benefits are expected to flow to the entity (such as investments producing interest revenue).
Associate	An entity over which the investor has significant influence.
Bad debt	Money owing to the entity (accounts receivable) that is deemed uncollectible and written off as an expense. This may be due to the length of time it has been owing, or information known about the customer's ability to pay (for example, the customer has gone into liquidation).
Balance date	The date to which the performance report is prepared. It is usually an end of month date, for example, 30 June 20XX.
Carrying amount	The cost of the asset less accumulated depreciation and accumulated impairment losses (if any).
Commitments	Contracts or similar arrangements entered into by the entity to pay money in the future.
Consolidated performance report	The performance report of an economic entity[13] presented as that of a single entity.
Contingent liability	A possible obligation to pay money that will be confirmed by the occurrence or non-occurrence of an uncertain future event or an obligation that has arisen but is not recorded because (i) it is not probable that the entity will have to settle the obligation; or (ii) the amount of the obligation cannot be estimated reliably (that is, the entity is too uncertain of the amount of the obligation).
Control	An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.
Controlled entity	An entity that is controlled by another entity.
Controlling entity	An entity that controls one or more entities.
Deficit	The amount in the statement of financial performance when expenses exceed revenue for the year. In the for-profit sector the equivalent term is loss.
Defined benefit plan	A retirement scheme where the amount paid to members on retirement is principally determined by years of membership in the scheme and/or salary level rather than the level of contributions by the member.
Depreciation	The allocation of the cost of the asset over its useful life using a structured method such as straight line or diminishing value.
Economic entity	A controlling entity and its controlled entities.

[13] Note the term group is sometimes used to refer to the economic entity.

Entity	An organisation which may take any of a number of forms, including but not limited to, a public entity, company, incorporated association, unincorporated association or trust. Dependent on organisational structure, this may be a legal entity, a unit within a wider organisation, or it may be comprised of one or more units.
Expenses	All outflows from the entity during the year other than capital outflows. Capital outflows comprise distributions to owners (in their capacity as owners), outflows to settle liabilities that were recorded in a previous year, and outflows to purchase assets. Expenses include cash paid out during the year, and any liability to pay out cash in the future related to an event (usually a transaction) in the current year or a prior year. These outflows may be from normal operating activities such as the costs of fundraising, or from transactions such as grants made by the entity. Expenses also include reductions in property, plant and equipment called depreciation expense and impairment expense.
Fair value	The amount for an arm's length transaction if it takes place between two willing parties in the market. Fair value applies to both assets and liabilities.
Financial year	A twelve month period ending on the entity's balance date.
Impairment	When an asset is worth less in the market than the carrying amount in the statement of financial position, the difference is an impairment (and is recorded as an expense). This may occur if the asset becomes obsolete due to technological change or the asset is damaged. Impairment tests apply to both tangible and intangible assets.
Intangible assets	Assets without a physical presence (for example, trademarks, patents).
Inventory	Also referred to as stock, these are current assets held for sale in the ordinary course of business. For example, a stock of licensing or registration forms held for distribution.
Joint arrangement	An arrangement of which two or more parties have joint control.
Joint control	The agreed sharing of control of an arrangement by way of binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
Joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
Liabilities	Present obligations arising from past events, the settlement of which is expected to result in an outflow of resources from the entity. An example is the purchase of supplies prior to balance date, with the payment due in the next financial year.
Measurement	Quantification of activities in terms of money, being New Zealand dollars.
Notes to the performance report	Notes that provide further information on items in the various financial statements, either by a further breakdown of figures or a narrative description.
~~**Outcomes**~~	~~What the entity is seeking to achieve in terms of its impact on society.~~
~~**Outputs**~~	~~The goods or services that the entity delivered during the year.~~
Performance report	A set of statements which collectively tell the story of the entity over the financial year. This includes the entity information, statement of service performance, statement of financial performance, statement of financial position, statement of cash flows, statement of accounting policies, and notes to the performance report prepared in accordance with this Standard.
Public accountability	While public sector entities are generally considered to be publicly accountable, "public accountability" has a specific meaning in the accounting standards issued by the XRB.

	Entities are considered to have public accountability for financial reporting purposes when they have issued debt or equity instruments through a public offering or their main activity is holding cash or other assets on behalf of others (e.g. a superannuation scheme). The full definition of "Public Accountability" is included in XRB A1
Public benefit entity (PBE)	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 public benefit entity (PS PBE)	A public benefit entity that is a public entity as defined in the Public Audit Act 2001, and all Offices of Parliament.
Recording	Including ~~aan output, outcome,~~ revenue, expense, asset or liability item in the statements of the performance report (also referred to as recognition).
Recognition event	An event that brings about the legal obligation for the entity to: (a) Settle a transaction with another party at a future date (payables), or by the payment of cash; or (b) Have a legal obligation settled upon the entity by another party (receivables), or by the receipt of cash. This is what distinguishes accrual accounting from cash accounting (for which the only recognition event is the receipt or payment of cash).
Related parties	People or entities that have significant influence over the reporting entity, such as members of the governing body, persons in key management roles, or others that are involved in the strategic management of the entity (whether employed or volunteer) and close members of their families.
Reporting entity	An entity preparing a performance report in accordance with this Standard. In the New Zealand reporting environment it is a public entity that is required by law to apply standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB. For the purposes of applying this Standard the entity is a public sector entity.
Revenue	All inflows into the entity during the year other than capital inflows. Revenue includes the cash received during the year, and the right to receive a payment in the future related to an event (usually a transaction) in the current year. These inflows may be from normal operating activities such as the sale of a good or service. Capital inflows comprise contributions from owners (in their capacity as owners), inflows to settle a receivable that was recorded in the previous year, inflows from the sale of assets, and inflows from borrowings.
Significant	An item is significant if recording and/or disclosure of the particular item, whether financial or non-financial, could influence a user's understanding of the entity's overall performance. For the purposes of this Standard it has the same meaning as material.
Significant influence	The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.
Statement of cash flows	A statement that shows the movements between the cash balances at the beginning and the end of the year. It is divided into two categories: operating, and investing and financing.
Statement of financial performance	A statement that shows an entity's revenue and expenses, to establish its surplus or deficit for the financial year. This statement is sometimes called the income statement or operating statement.

Statement of financial position	A statement that reports a picture of the entity's position by listing what it owns and what it owes at the balance date. This statement is sometimes called the balance sheet.
Statement of service performance	A statement that provides information to help users understand what the entity did during the financial year to achieve its broader aims and objectives. ~~on the outputs delivered by the entity during the financial year, and the outcomes those outputs contribute to.~~ It is particularly useful in the public sector when the focus is on achieving planned ~~outputs and outcomes~~ objectives, rather than making a profit. The information in this statement is predominantly non-financial, but still involves measurement.
Surplus	The amount in the statement of financial performance when revenue exceeds expenses for the year. In the for-profit sector the equivalent term is profit.
Total expenses	For the purpose of applying the Tier 3 size criteria, total expenses means total expenses (including losses and grant expenses) recognised in accordance with Tier 3 PBE Accounting Requirements in the Statement of Financial Performance. Where revenue and expense are offset as required or permitted, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.

Appendix B: Transitional Arrangements

This Appendix contains the requirements for entities to transition to Tier 3 ~~Public Benefit Entity Simple Format~~ Reporting Standard ~~– Accrual~~ (Public Sector) – Annual Reporting Requirements. It is an integral part of the Standard.

Objective

B1. This part of the Standard[14] is designed to assist an entity in preparing its first performance report under this Standard. This Standard recognises that entities come from divergent reporting backgrounds and prescribes different transitional rules to meet different circumstances.

Transitional Groups

B2. There are likely to be four types of entities applying this standard:

Group 1: New entities – those who have started up in the current financial year.

Group 2: Entities previously applying Tier 4 PBE Accounting Requirements – those who have complied with Tier 4 PBE Accounting Requirements in the previous financial year.

Group 3: Entities previously applying Tier 2 PBE Accounting Requirements – those who have complied with Tier 2 PBE Accounting Requirements in the previous financial year.

Group 4: Other Entities – entities that have been operating prior to the current financial year, and in the previous financial year followed other accounting standards (for example, NZ IFRS PBE or Old GAAP), or have not followed any accounting standard issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB.

General Provisions

B3. These general provisions apply to all entities in Groups 1 to 4 applying this Standard unless there is an override in the Special Provisions in paragraphs B7 to B10.

B4. An entity that is reporting in accordance with this Standard for the first time, shall apply this Standard from the beginning of the earliest comparative period presented. This is the financial year prior to that for which the performance report is currently being prepared. For example, if the performance report is being prepared in accordance with these general provisions for the year ended 30 June 2015, the beginning of the earliest comparative period would be 1 July 2013.

B5. All assets and liabilities shall be recorded at the beginning of the earliest comparative period presented.

(a) For payables and receivables, amounts shall be recorded at the amount owing or owed at the beginning of the earliest comparative period.

(b) For property, plant and equipment, an entity shall record significant items at their readily obtainable current amounts (such as rateable value or government valuation). Where amounts are not readily obtainable the entity is not required to record the assets but shall disclose this fact in the notes to the performance report. An entity is not required to record insignificant items of property, plant and equipment.

(c) For other assets and liabilities an entity shall make its best estimate of the value at the beginning of the earliest comparative period presented and record the assets and liabilities at that amount. In this case accumulated funds is the number needed to make the statement of financial position balance on transition.

B6. Separate disclosure of significant restatements is encouraged, but is not required.

[14] This Appendix is part of the Standard and so the term "Standard" is used throughout. "Standard" refers to the Tier 3 ~~Public Benefit Entity Simple Format~~ Reporting Standard ~~– Accrual~~ (Public Sector) abbreviated as Tier 3 Reporting Standard ~~PBE SFR-A~~ (PS)

Special Provisions

Group 1: New Entities

B7. No comparative figures are required for this Group. This overrides any requirement elsewhere in this Standard for comparatives to be reported. New entities shall disclose their date of commencement in the notes to the performance report.

Group 2: Entities Previously Applying Tier 4 Accounting Requirements

B8. Entities in this Group shall follow one of the following two options:

(a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or

(b) Apply the general provisions of this Standard.

Group 3: Entities Previously Applying Tier 2 Accounting Requirements

B9. Entities in this Group shall follow one of the following two options:

(a) Provide comparative data based on the applicable information reported in their financial statements for the previous year prepared in accordance with the Tier 2 PBE Accounting Requirements; or

(b) Apply the general provisions of this Standard.

Group 4: Other Entities

B10. Entities in this Group shall follow one of the following two options:

(a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or

(b) Apply the general provisions of this Standard.

Appendix C: Application of PBE Standards

This Appendix contains the requirements for entities when applying a PBE Standard that is part of the Tier 2 PBE Accounting Requirements. It is an integral part of the Standard.

Interests in Other Entities

C1. To determine whether an entity has an interest in a controlled entity, an associate or a joint arrangement the entity must refer to the guidance within the following Tier 2 PBE Standards:

(a) PBE IPSAS 35 *Consolidated Financial Statements*

(b) PBE IPSAS 36 *Investments in Associates and Joint Ventures*

(c) PBE IPSAS 37 *Joint Arrangements*

C2. If an entity controls another entity it shall prepare a consolidated performance report which combines the assets, liabilities, net assets/equity, revenue and expenses of the controlling entity with those of the controlled entity in accordance with the requirements in PBE IPSAS 35 ~~*Consolidated Financial Statements*~~ and PBE IPSAS 38 *Disclosure of Interests in Other Entities*. An entity that controls another entity but which is not required to prepare a consolidated performance report because it qualifies for the exemption in paragraph 5 of PBE IPSAS 35 not to present consolidated financial statements shall prepare a performance report in accordance with PBE IPSAS 34 *Separate Financial Statements*.

C3. If an entity has an interest in an associate or a joint venture it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 36 ~~*Investments in Associates and Joint Ventures*~~ and PBE IPSAS 38. An entity that qualifies for the exemption in paragraph 23 of PBE IPSAS 36 not to apply the equity method to its investment in an associate or a joint venture shall prepare a performance report in accordance with PBE IPSAS 34.

C4. If an entity has an interest in a joint arrangement it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 37 ~~*Joint Arrangements*~~ and PBE IPSAS 38.

C5. When applying the requirements in PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 or PBE IPSAS 38 an entity is not required to comply with the disclosure requirements in those standards denoted with an asterisk (*). Where an entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.

Other Applications of PBE Standards

C6. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements to a specific type of transaction, as long as it applies that option to all transactions of that type. Table 1 below sets out a list of PBE Standards that are applicable to specific transactions. This list is not exhaustive. ~~For example, an entity may decide to opt up to PBE IPSAS 17 *Property, Plant and Equipment* for a class of assets, such as buildings, so that it can revalue that class of assets, or an entity may decide to opt up to the financial instruments standards (PBE IPSAS 28 *Financial Instruments: Presentation*, PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* (in limited circumstances), PBE IPSAS 41 *Financial Instruments* and PBE IPSAS 30 *Financial Instruments: Disclosures*) for a class of financial instruments, such as investments in shares, so that it can measure that class of financial instruments at fair value (in which case it must apply the whole standard to that class).~~

Transaction type	**Possible reasons to apply Tier 2 PBE Accounting Requirements**	**Applicable PBE Standard**
Biological assets[15] and agricultural produce[16]	To measure biological assets or agricultural produce at fair value less costs to sell	PBE IPSAS 27 *Agriculture*

[15] A living animal or plant.
[16] The harvested produce of an entity's biological assets.

Transaction type	**Possible reasons to apply Tier 2 PBE Accounting Requirements**	**Applicable PBE Standard**
Intangible assets	To account for intangible assets using a revaluation model.	PBE IPSAS 31 *Intangible Assets*

C7. If, for a specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity shall disclose this in the statement of accounting policies.

C8. If, for a specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity cannot then choose to return to applying this Standard for that type of transaction unless the entity complies with the requirements of this Standard for changes in accounting policies (see paragraphs A181– A182).

C9. If, for a specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, and the PBE Standard requires that the effect of that transaction shall be recognised in other comprehensive revenue and expense, the entity shall instead:

(d) Recognise the effect of that transaction directly in accumulated funds; and
(e) Present the cumulative effect of similar transactions as a separate reserve within accumulated funds.

Basis for Conclusions

BC1. This Basis for Conclusions summarises the NZASB's considerations in developing the PBE Simple Format Reporting – Accrual (Public Sector) Standard (PBE SFR-A (PS)).

Background

BC2. The Accounting Standards Framework includes four reporting tiers for public sector PBEs. PBE SFR-A (PS) contains requirements for the third tier and may be applied by entities that do not have "public accountability" (as defined in standard XRB A1 (FP Entities + PS PBEs Update)) and that have annual expenses less than, or equal, to $2 million.

Objective

BC3. PBE SFR-A (PS) is intended to improve the quality and consistency of financial reporting by entities eligible to apply the Standard.

BC4. PBE SFR-A (PS) is intended to provide a simplified version of the Tier 1 and Tier 2 PBE Accounting Standards, rather than a standard based on a different conceptual framework. As a result, the NZASB approached the development of the Standard with a view that, in principle, the same recognition and measurement requirements should apply to Tier 3 public sector financial reporting as are applied by public sector entities applying the Tier 1 and Tier 2 PBE Accounting Standards. The NZASB also considered the extent to which the cost of applying the recognition and measurement requirements in the PBE Accounting Standards outweighed the benefits to users of the resulting financial statements.

Approach

BC5. In preparing the Standard, the NZASB was cognisant of the fact that some Tier 3 public sector preparers, as well as users of their performance report, may have limited access to professional accounting expertise. The NZASB was of the view that the Standard should be able to be applied by persons who are managing the finances of an entity that is eligible to apply PBE SFR-A (PS).

BC6. The NZASB decided that PBE SFR-A (PS) should be a single, short, and relatively simple standard written in less technical language than is normally found in accounting standards. As a result, the Standard:

(a) Addresses only those transactions that are commonly undertaken by entities eligible to apply PBE SFR-A (PS);

(b) Contains simplified measurement of transactions where, taking the public sector as a whole, the costs of applying the requirements of Tier 1 and Tier 2 standards are likely to outweigh the benefits;

(c) Excludes the options contained in Tier 1 and Tier 2 standards such as the option to measure property, plant and equipment using the revaluation model; and

(d) Contains simplified presentation and disclosure requirements.

Omitted Transactions

BC7. The NZASB relied heavily on information in public sector financial statements prepared under previous requirements to assist it in identifying transactions which were undertaken very infrequently by public sector entities and therefore did not need to be addressed in this Standard. These transactions include:

(f) Financial instruments other than payables, receivables and term deposits; and

(g) Complex transactions such as service concession arrangements and insurance contracts.

Simplifications

BC8. The major simplifications in this Standard compared to the Tier 1 and Tier 2 PBE Accounting Standards are as follows:

(a) *Whether grants or donations are recorded*: Goods or services (and other non-cash assets) received in kind are not required to be recorded;

(b) *Treatment of donation/grant and government funding revenue:* Donations, grants and government funding are recorded as revenue when received unless there is a "use or return" condition attached to the revenue. In this Standard the key element that drives the recognition of a liability relating to the donation/grant or government funding received is the "use or return" condition.

BC9. The NZASB decided that the simplification in BC8(a) should not apply to significant donated assets, such as property. Any such donated assets are required to be recognised at a readily available current value (rather than requiring measurement at fair value as defined in the Tier 1 and Tier 2 PBE Accounting Standards). This is to ensure that the statement of financial position includes all significant assets regardless of whether they are purchased or donated.

BC10. The simplification set out in BC8(a) has the consequence that information about donated goods, services and assets (other than significant donated assets), including services provided by volunteers, will not be recorded in the performance report. To compensate for this, PBE SFR-A (PS) requires disclosure of significant donations in kind in the notes to the performance report.

BC11. In relation to the simplification set out in BC8(b) the NZASB chose not to fully apply to grants and donations and government funding the principles in PBE IPSAS 23 *Revenue from Non-Exchange Transactions.* The NZASB considered the requirements of PBE IPSAS 23 to be too costly and complex for entities likely to apply PBE SFR-A (PS) without a corresponding increase in the usefulness of the information that would be provided to users. The NZASB decided to simplify the principles to require a "use or return" condition before a liability is recorded.

BC12. The NZASB made a number of simplifications in order to reduce the amount of professional judgement required and to make the Standard simpler to apply. Those simplifications include the following:

(a) Financial instruments are measured at amounts receivable or payable, with interest revenue or expense recognised in accordance with the terms of the contract, rather than by applying the effective interest method;

(b) Any foreign currency transactions are to be translated using the spot rate at the transaction date or at the balance sheet date for monetary assets and liabilities;

(c) Basing the statement of cash flows on 'cash' rather than cash equivalents; and

(d) Allowing the direct method of preparing the statement of cash flows, on the assumption that most entities applying this Standard will use cash books as their primary source of information.

Option to Apply the Requirements in Tier 2 PBE Accounting Standards

BC13. The NZASB is aware that some entities may prefer not to apply certain of these simplifications or may wish to use an option that is available in the Tier 1 and Tier 2 PBE Accounting Standards. Accordingly, the NZASB included an option in this Standard that permits entities to elect to use the recognition and measurement requirements of Tier 2 PBE Accounting Standards for a specific type of transaction as long as the entity applies that same requirement to all transactions of that type. Entities are required to disclose the use of this option, where applied.

Financial Information

BC14. This Standard establishes minimum aggregated categories for the reporting of financial information. It also allows an entity to add additional categories applicable to that entity and to describe all categories using terminology appropriate to that entity. In doing so, the NZASB was seeking to achieve a balance between comparability and understandability on the one hand, and flexibility for entities to reflect their own circumstances on the other.

Non-Financial Information

BC15. To enhance financial reporting with non-financial information that explains the activities of the entity, this Standard requires:

(a) Disclosure of information about the entity's structure and objectives; and

(b) The preparation of a statement of service performance for entities required by law to produce such a statement (by whatever name called).

BC16. The NZASB is of the view that the reporting of this non-financial information is necessary for users to gain a full understanding of the entity's performance. It therefore encourages public entities not required by law to produce a statement of service performance to do so optionally.

Group Accounting

BC17. At the stage that PBE SFR-A (PS) was issued in November 2013, the NZASB indicated its intention to issue a separate exposure draft on accounting for groups (the entity together with any entities that it controls).

BC17.1 The NZASB subsequently considered this issue and issued ED NZASB 2014-2 *Interests in Other Entities* (Amendments to PBE SFR-A (PS)) in April 2014 (ED NZASB 2014-2). The NZASB noted that PBE SFR-A (PS) applied both to single entities and groups and required that an entity's performance report incorporate all the activities of the entity. However, it was silent as to how an entity applying the standard should account for significant interests in other entities, such as interests in controlled entities, associates and joint ventures.

BC17.2 The NZASB considered how to clarify this issue for Tier 3 public sector entities. The NZASB considered and rejected a disclosure only approach on the grounds that this would not result in an entity reporting the reality of its structures and arrangements. The NZASB was of the view that if a Tier 3 public sector entity has interests in other entities, those interests need to be appropriately accounted for in the performance report. The NZASB considered that the Tier 2 PBE Accounting Standards contain appropriate accounting requirements for accounting for significant interests in other entities and that those requirements should also apply to any Tier 3 public sector entity with such interests in other entities.

BC17.3 In considering how best to incorporate these requirements in PBE SFR-A (PS) the NZASB noted that:

(a) Relatively few Tier 3 public sector entities would be expected to have interests in controlled entities, associates or joint ventures;

(b) Most Tier 3 public sector entities with interests in controlled entities, associates or joint ventures would already be accounting for those interests in accordance with similar requirements to the Tier 2 PBE Accounting Standards; and

(c) Development of simplified group accounting requirements would be difficult to draft and would significantly increase the size of the Tier 3 public sector standard, thereby detracting from the usefulness of the standard for most public sector entities.

BC17.4 The NZASB agreed to require Tier 3 public sector entities to account for significant interests in other entities in accordance with the Tier 2 PBE Accounting Standards, and to give effect to this requirement by referring to the Tier 2 PBE Accounting Standards in the Tier 3 public sector standard. When applying the requirements of the Tier 2 PBE Accounting Standards an entity may use any RDR concessions available to Tier 2 entities in those standards.

Related Parties

BC18. The definition of related party in existing accounting practice includes both people (and close members of their families) and other entities that have significant influence over the entity. The NZASB considered whether to simplify that definition of related party for this Tier. After considering the importance of related party disclosures for accountability purposes, and the risks and opportunities inherent in these relationships, the NZASB decided to retain in the definition of related party both related people (and close members of their families) and other entities that have significant influence over the entity.

BC19. However, disclosure of related party transactions is only required if the transaction is significant to the entity (individually or in aggregate with similar transactions); and the transaction is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

Transition

BC20. The NZASB was aware that a range of pre-existing accounting policies were applied by entities that are now eligible for, and elect to apply, PBE SFR-A (PS). The NZASB was also concerned that some of those entities might have difficulty in restating their comparative information and measuring some existing purchased assets as required by this Standard. Rather than delay the application of the Standard, PBE SFR-A (PS) permits entities to:

(a) Apply PBE SFR-A (PS) in the first year without restating the comparative information. Entities taking this option are required to attach their prior period financial statements (including an explanation of the accounting policies applied) rather than having to restate the comparative financial information; and

(b) Only record pre-existing assets that are significant and that have values that are readily obtainable. Assets that are not significant or for which values are not readily obtainable need only be disclosed in the notes to the performance report. The NZASB concluded that disclosing reliable information about purchased pre-existing assets was sufficiently useful to users of financial statements rather than imposing the costs on entities to attempt to identify, recognise and measure the assets in accordance with the PBE SFR-A (PS).

History of Amendments

Tier 3 ~~Public Benefit Entity Simple Format~~ Reporting Standard ~~– Accrual~~ (Public Sector) – Annual Reporting Requirements (Tier 3 Reporting Standard ~~PBE SFR-A~~ (PS)) was issued in November 2013.

This table lists the pronouncements establishing and substantially amending Tier 3 Reporting Standard ~~PBE SFR-A~~ (PS). The table is based on amendments issued as at 31 January 2021.

Pronouncements	**Date issued**	**Early operative date**	**Effective date (annual financial statements … on or after …)**
Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) PBE SFR-A (PS)	Nov 2013	Early application is not permitted	1 July 2014
Interests in Other Entities (Amendments to PBE SFR-A (PS))	Sept 2014	Early application is not permitted	1 July 2014
Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1	Dec 2015	Early application is permitted	I Jan 2016
PBE IPSAS 34 *Separate Financial Statements*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 35 *Consolidated Financial Statements*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 36 *Interests in Associates and Joint Ventures*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 37 *Joint Arrangements*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 38 *Disclosure of Interests in Other Entities*	Jan 2017	Early application is permitted	1 Jan 2019
2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements	July 2018	Early application is permitted	1 Jan 2019
PBE IPSAS 41 *Financial Instruments*	Mar 2019	Early application is permitted	1 Jan 2022

Table of Amended Paragraphs in Tier 3 Reporting Standard ~~PBE SFR-A~~ (PS)		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 1	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 2	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 3	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 4	Amended	*Interests in Other Entities* [Sept 2014]
Paragraphs 4.1 to 4.6	Inserted	*Interests in Other Entities* [Sept 2014]
Paragraphs 4.1 to 4.6	Amended	PBE IPSAS 34 [Jan 2017]
Paragraph 4.5	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 6	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]

Table of Amended Paragraphs in Tier 3 Reporting Standard ~~PBE SFR-A~~ (PS)		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 6	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph 7 and preceding heading	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 7	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph 7	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 8	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 8	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph 9	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 9	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph 11	Added	*Interests in Other Entities* [Sept 2014]
Paragraph 12	Added	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph 13	Added	PBE IPSAS 34 [Jan 2017]
Paragraph 14	Added	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph 15	Added	PBE IPSAS 41 [Mar 2019]
Paragraph A11	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A13	Deleted	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A43	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Table 2: *Recording of Specific Types of Expenses* (follows paragraph A83)	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Table 3: *Recording of Specific Types of Asset* (follows paragraph A109)	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A109.1	Added	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A109.2	Added	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A115	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A116	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A117	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A150.1	Added	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]

Table of Amended Paragraphs in Tier 3 Reporting Standard ~~PBE SFR-A~~ (PS)		
Paragraph affected	**How affected**	**By … [date]**
Paragraph A150.2	Added	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A177(a)	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph A182	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph A184	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Section 11: Glossary Associate, Consolidated performance report, Control, Controlled entity, Controlling entity, Economic entity, Joint control, Joint venture, Significant influence	Added defined terms	*Interests in Other Entities* [Sept 2014]
Section 11: Glossary Associate, joint arrangement, joint control, joint venture, significant influence	Amended	PBE IPSAS 34 [Jan 2017]
Section 11: Glossary Control, Controlled entity, Controlling entity, Economic entity.	Amended	*2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* [July 2018]
Paragraph B2	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Heading preceding Paragraph B8	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]
Paragraph B9 and preceding heading	Amended	*Amendments to Simple Format Reporting Accounting Requirements* [Dec 2015]

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Note for Board

At this meeting we are seeking Board feedback on the draft ITC. For now, we have used the 'traditional' ITC document format, presentation style, and structure. After this meeting we will consider whether the presentation style of the ITC should be amended to encourage broader engagement with users of the Tier 4 Standard (especially smaller NFP entities).

We also note this is a first draft of the ITC for Board feedback. We expect an updated draft will be considered by the Board at a future meeting before we seek final approval to issue.

Tier 4 Simple Format Reporting Standards

Proposed amendments to Tier 4 (NFP) Standard and Tier 4 (PS) Standard)

NZASB Exposure Draft 2022-6

NZASB Exposure Draft 2022-7

Invitation to Comment

April 2022

PO Box 11250
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Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposals for amendments to Tier 4 Reporting Standard (NFP) and Tier 4 Reporting Standard (PS) (collectively 'the Tier 4 Standards').

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

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to 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 *ED Simple Format Reporting Standards for Tier 4 Entities* 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 **30 September 2022.**

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

We intend to publish all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to the 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
GPFS	General purpose financial statements
ITC	Invitation to Comment
NFP	Not-for-profit
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public benefit entity
PIR	Post-Implementation Review
PS	Public Sector

Questions for respondents

		Paragraphs
1	Do you agree with the proposed simplifications to the Tier 4 Standards?	
2	Do you agree with the proposal to introduce within the Tier 4 (NFP) Standard, reduced reporting requirements for small Tier 4 (NFP) entities?	
3	Are there any proposed reduced reporting requirements which you do not support – due to the usefulness of the information to all readers of Tier 4 (NFP) Performance Reports?	
4	Are there any additional reduced reporting requirements for small Tier 4 (NFP) entities that should be considered?	
5	Do you agree with the proposed amendments to the Entity Information requirements?	
6	Do you agree with the proposed amendments relating to service performance reporting?	
6	Do you agree with the proposed amendments to the Entity Information requirements?	
7	Do you agree with the proposals to amend the minimum revenue categories?	
8	Do you agree with the proposals to amend the minimum expense categories?	
9	Do you agree with the proposal to remove the Statement of Resources and Commitments from the Tier 4 Standards and instead require note disclosure about any significant assets or liabilities?	
10	Do you agree with the proposed effective date of 1 April 2023, with early adoption permitted?	
11	Do you have any other comments on the ED?	

1. Introduction

1.1 Background

1. The Simple Format Reporting Standards were first issued by the External Reporting Board (XRB) in 2013. These reporting standards are applied by Tier 3 and Tier 4 public benefit entities (PBEs), including registered charities, and other not-for-profit (NFP) entities in both the public and NFP sectors.

2. The Simple Format Reporting Standards were developed to set out the minimum annual reporting requirements for Tier 3 and Tier 4 PBEs – and are commonly referred to as the Tier 3 and Tier 4 Standards. The Tier 3 and Tier 4 Standards are short and relatively simple standards when compared to accounting standards in Tiers 1 and 2.

3. The Tier 3 and Tier 4 Standards have now been used by many PBEs for over six years and in late 2020 the XRB commenced a post-implementation review of these standards to ensure they remained fit-for-purpose.

4. The purpose of developing standardised reporting requirements through accounting standards is to improve the quality and consistency of the information reported by PBEs. PBEs play a vital role in supporting people and communities throughout Aotearoa New Zealand. The sector relies heavily on maintaining the trust and confidence of its funders and the broader public for which they serve.

5. The Tier 3 and Tier 4 Standards set out the requirements for preparing annual Performance Reports (often referred to as financial statements) that are transparent and informative. These annual reporting requirements are critical in maintaining trust and confidence and holding PBEs accountable for how they are spending public funding and providing information about how they have advanced their entity objectives.

6. The XRB recognises that many smaller PBEs are often run by volunteers who may not have an accountancy background, therefore the Tier 3 and Tier 4 Standards must be simple to apply. We appreciate that PBEs are focused on advancing their NFP objectives and serving those most in need in their communities and therefore the annual reporting requirements should not be overburdensome.

7. This ITC focuses on the proposed amendments to improve the Tier 4 Standards, which are simple format cash-based standards.

8. The Tier 4 Standards are fundamentally different from the accrual-based standards. For example, entities applying the cash standards are required to provide some information about assets and obligations but they do not prepare a balance sheet.

1.2 The 2021 post-implementation review

9. The XRB completed a post-implementation review (PIR) of the Tier 3 and Tier 4 Standards over the 2021 year to assess whether the Simple Format Standards were working as intended and achieving their original objectives.

10. Over 100 submissions[2] were received in response to the PIR which have been considered as the basis for developing proposed amendments to the Tier 4 Standards in this ITC.

11. Many respondents to the PIR considered that, in general, the Standards are working well. However, concerns were raised by many respondents about the difficulties faced by smaller Tier 4 entities when applying the Tier 4 Standard.

12. Some respondents considered that the existing Tier 4 requirements were disproportionate to the level of transparency and accountability needed for smaller PBEs. There was strong support from respondents for reducing the length and complexity of the Tier 4 Standard to support increased adoption and consistent application.

13. The XRB through this ITC and the accompanying EDs is proposing to significantly simplify and reduce the length of the Tier 4 Standards – this is best illustrated by the reduction in the page count of the Standard from the current 31 pages to 17 in the Tier 4 (NFP) ED.

14. In developing the proposed amendments to the Tier 4 Standards, the NZASB is seeking to strike an appropriate balance between making the standards as simple and as easy as possible to apply while also ensueing the resulting Performance Report continue to meet user needs – that is, the need for consistent and transparent reporting which provides useful information for accountability and decision-making purposes – and to support the retention of overall public trust and confidence across the NFP and public sector.

15. A separate ITC has been issued which proposes amendments to the Tier 3 Standard for NFP and public sector entities.

1.3 Purpose of this Invitation to Comment

16. The purpose of this ITC and the accompanying Exposure Drafts (EDs) is to seek comments on the proposed amendments to the Tier 4 Standards.

17. When finalised, the proposals will amend the requirements for PBEs applying Tier 4 Standards.

1.4 Timeline and next steps

18. Submissions on NZASB ED 2022-6 *Amendments to Tier 4 Reporting Standard (NFP)* and NZASB ED 2022-7 *Amendments to Tier 4 Reporting Standard (PS)* are due by **30 September 2022**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

19. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the amendments.

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[2] In August 2021, the NZASB published a Feedback Statement on its *Post-Implementation Review of Simple Format Reporting Standards.*

2. Overview of Invitation to Comment and ED

2.1 Summary

8. This Invitation to Comment (ITC) is organised as follows.

    (a) Approach taken in developing the EDs.

    (b) Overview of the proposed amendments to Tier 4 Standards.

    (c) Effective date and other comments.

9. Unless otherwise stated, the proposed amendments are the same for both Tier 4 NFP entities and Tier 4 public sector entities.

2.2 Approach taken in developing the EDs

10. As noted in the Feedback Statement the XRB received over 100 written submissions which have been considered as the basis for developing proposed amendments to the Tier 4 Standards.

11. Over the period from August to December 2021 the NZASB considered the feedback received on the Tier 4 Standards. The specific topics discussed in this ITC are as follows.

    (a) Simplification of the Tier 4 Standards

    (b) Reduced reporting requirements for 'small' Tier 4 entities

    (c) Entity information

    (d) Service performance reporting

    (e) Statement of Resources and Commitments

    (f) Minimum categories for presenting revenue and expenses

12. The EDs contain proposed amendments relating to each of the above topics.

2.3 Overview of the proposed amendments to Tier 4 Standards

Simplification of Tier 4 Standards

13. Many respondents to the PIR highlighted concerns that many Tier 4 entities were finding it difficult to comply with the Tier 4 Standard. Reasons included the following.

    (a) The Tier 4 Standard and guidance is too long and complex for many Tier 4 NFP entities.

    (b) The language used in the Tier 4 Standard is too technical for non-accountants and the smallest Tier 4 entities to understand .

    (c) Small NFP entities are often under resourced and find it difficult to attract and retain volunteers or staff who understand the reporting requirements.

14. Respondents noted that the Tier 4 Standard required simplification to promote increased adoption and consistent application by smaller NFP entities.

NZASB Response

15. In response to these concerns, the NZASB has completed a comprehensife review of the Tier 4 Standard to identify opportunities to simplify and re-express the existing requirements by using plan English and removing technical accounting terms as much as possible.

16. Optional disclosures as previously provided have been removed to allow the Standard to focus on the minimum reporting requirements for Tier 4 entities. This optional information for which a Tier 4 entity may wish to provide in their annual Performance Report will continue to be made available in separate XRB non-mandatory guidance documents.

17. The process of simplification has resulted in a significant number of changes in how the Standard is drafted and the removal of technical content. The outcomes of this process is best reflected in the page count of the Tier 4 (NFP) Standard being reduced from from 31 pages to 17.

18. Some of the specific changes proposd as part of this simplification process are discussed further below.

Use of the terms "cash" and "receipts"

19. The NZASB noted feedback to the PIR which highlighted that the use (and definition) of the terms "cash" and "receipts" in the Tier 4 Standards was resulting in challenges for preparers. For example, preparers and users often think:

    (a) *cash* refers to physical cash rather than all available cash held in bank accounts; and

    (b) *receipts* refer to a paper acknowledgment an entity may provide for a donation received, rather than relating to all amounts received by a Tier 4 entity during a reporting year.

20. The existing definition of "cash" in the Tier 4 Standard makes it clear that it is not restricted to physical currency. However, in light of the above, the NZASB is proposing the following amendment:

    (a) Including the following sentence on the first page of the Tier 4 Standard to make it clear that cash has a broader meaning than just physical notes and coins:

        Under the Tier 4 Standard, an entity is required to report the cash received and cash paid during the financial year (i.e. the transactions recorded in an entity's bank account(s)).

21. The NZASB is also proposing to rename the Statement of Receipts and Payments in the Tier 4 Standards to "Statement of Cash Received and Cash Paid" to help preparers understand that the statement should include all funding received, not just those for which receipts have been issued.

Removal of sections

22. The NZASB is proposing to remove the following technical sections from the Tier 4 Standard:

    (a) Transitional arrangements

    (b) Basis for Conclusions;

    (c) History of Amendments; and

    (d) Illustrative Examples

23. Links to the information above will be included on the Contents page of the EDs. Links to this information which will remain accessible through the XRB website. The Illustrative Examples will be included in the accompanying Tier 4 Explanatory Guide. This guide will be updated in due course.

Prior period errors

24. The NZASB noted feedback to the RFI which stated that the Tier 4 Standards were unclear about how to handle prior period errors. The NZASB is therefore proposing to amend the Tier 4 Standards to make it clearer that there is <u>no</u> requirement to adjust the prior period Performance Report to correct prior period errors, and that note disclosure will be sufficient to let readers know about the error.

Question for respondents

Q1. Do you agree with the proposed simplifications to the Tier 4 Standards?

(i.e. Do you have concerns about any content that has been removed and/or the rexpression of terms and requirements in the Tier 4 EDs?)

If you disagree, please explain why.

Reduced reporting requirements for 'small' Tier 4 entities

25. In addition to concerns raised through the XRB's PIR of the Tier 3 and Tier 4 Standards, the following recent legislative reforms have also highlighted concerns that many small NFP entities are having difficulty applying the Tier 4 reporting requirements as established by the XRB.

(a) Modernising the Charities Act 2005;[3] and

(b) Review of the Incorporated Societies Act 1908.[4]

26. Public submissions to the Charities Act review pointed to high levels of non-compliance by Tier 4 charities in relation to annual reporting requirements.[5] Respodents considered that this indicated the current reporting requirements were too burdensome and should be reduced for smaller charities. Respondents highlighted that smaller charities often:

(a) have insufficient resources (time and money) to meet annual reporting requirements;

(b) lack suitably experienced and qualified personnel or volunteers to apply the Standards; and

(c) have high personnel turnover leading to ongoing training costs.

3 In February 2019, DIA issued a discussion paper, *Modernising the Charities Act 2005* for public comment, which closed for comment 31 May 2019. The issues considered by the discussion paper included seeking views on the reporting requirements for small charities. Policy proposals to amend the Charities Act 2005 are currently expected to be considered by Cabinet in early 2022.

4 A draft Bill to replace the Incorporated Societies Act 1908 was introduced to Parliament on 17 March 2021. It had its first reading on 6 April 2021 and completed its second reading on 17 November 2021. A new legislation for incorporated is currently expected to be enacted in early 2022.

5 Charities Services data shows that in 2018, 100% of tier 1 charities, 91% of tier 2 charities, 81% of tier 3 charities, and 58% of tier 4 charities successfully met the minimum reporting requirements.

27. There was an overarching concern that the difficulties small Tier 4 NFP entities were experiencing when applying the Tier 4 (NFP) Standard was resulting in a loss of resources that would otherwise go towards achieving an entity's NFP objectives.

28. Respondents generally agreed that an appropriate level of minimum reporting requirements should be maintained for all entities who receive benefits from their NFP status and collect funding from the public, but considered some form of relief should be provided for small NFP entities from annual statutory reporting requirements.

29. These legislative reforms generally described 'small' NFP entities as those with annual operating expenditure less than $10,000.

NZASB response

30. The NZASB recognises and understands the compliance burden that smaller Tier 4 NFP entities face when applying accounting standards, given they often have fewer resources and accounting expertise available within their organisation to complete their annual reporting obligations.

31. To reduce the reporting burden for these smaller entities, the NZASB proposes to introduce reduced reporting requirements <u>within</u> the Tier 4 (NFP) Standard for 'small' Tier 4 NFP entities.

32. The NZASB proposes to defines a 'small' Tier 4 NFP entity as an entity:

    (a) That is eligible to report using the Tier 4 Standard; and

    (b) Has total annual payments less than $10,000 for the current and previous financial year.

33. The Tier 4 (NFP) ED defines 'Total annual payments' as the total amount of cash outflows for the year. Total annual payments encompass all cash outflows for the year, including operating, capital (i.e. asset purchases), and financing activities (i.e. repayment of borrowings). It includes any amount paid directly from an entity's bank account or by cash on hand.

34. A small Tier 4 (NFP) entity that elects to apply the reduced reporting requirements would not be required to comply with the reporting requirements in the Tier 4 Standard that are marked with a square cross symbol ☒ — please refer to the Tier 4 (NFP) ED.

35. Reduced reporting requirements have <u>not</u> been proposed for small Tier 4 public sector entities. We have not been made aware of any issues concerning public sector entities applying the existing Tier 4 (PS) Standard (except for specific issues addressed separately by this ITC).

Question for respondents

Q2. Do you agree with the proposal to introduce within the Tier 4 (NFP) Standard, reduced reporting requirements for small Tier 4 NFP entities?

If you disagree, please explain why.

Q3. Are there any proposed reduced reporting requirements that you do not support – due to the usefulness of the information to readers of all Tier 4 NFP Performance Reports?

Q4.	Are there any additional reduced reporting requirements for small Tier 4 NFP entities that should be considered?

Entity information

36. The Entity Information section of the Performance report is intended to provide context to help readers understand why the entity exists and how it operates.

37. As noted from PIR feedback, some respondents consider that the requirement to disclose all the entity information in the Performance Report is unnecessary, because it is often available in other reports that are made publicly available (e.g. Charities Services annual return). Another respondent noted that the entity information requirements are more onerous than those which apply to Tier 2 PBEs.

38. To address these concerns, the ED proposes to add a paragraph in the Tier 4 Standards, which would allow Tier 4 entities to incorporate the required information by cross-referencing to other documents, as long as the document is publicly available and prepared at the same time as the Performance Report.

39. The NZASB is also proposing amendments to:

    (a) remove those requirements in the Entity Information section that can be found in other sections of the performance report; and

    (b) reword the existing requirements to make them clearer.

Question for respondents	
Q5.	Do you agree with the proposed amendments to the Entity Information requirements? If you disagree, please explain why.

Service performance reporting

40. Many respondents on the PIR commented that they find the Tier 4 requirements concerning the reporting of service performance information (non-financial information about an entity's activities) difficult to apply and understand.

41. In particular, the NZASB notes that the requirement to report on "outputs" and "outcomes" in the Tier 3 Standard is causing confusion among PBEs, as the terms are not well understood by many preparers and others consider the application of the terms to be too prescriptive.

42. Taking into account this feedback, the NZASB is proposing to remove the language around "outcomes" and "outputs" but retain the requirement for a Tier 4 entity to report on what it is seeking to achieve over the medium to long term (i.e. its 'objectives') and the significant activities undertaken during the reporting period to achieve these objectives.

43. The NZAZB is also proposing to include examples of different formats that an entity could choose from to present its service performance information in a way that best supports an understanding of the entity's activities.

Question for respondents

Q6. Do you agree with the proposed amendments relating to service performance reporting? If you disagree, please explain why.

The minimum categories for presenting revenue and expenses

44. To improve the understandability, consistency and comparability of performance reports, the Tier 4 Standards require revenue and expenses to be aggregated and reported within a set of minimum categories. The required minimum categories and the general principles for applying them are similar across both the public sector and NFP versions of the Tier 4 Standards. However, there are some differences in the specific categories each version uses to reflect the public sector and NFP contexts.

45. While feedback received on the RFI was generally supportive of maintaining minimum categories, many respondents raised concerns about application and interpretation challenges for the specific minimum categories currently required. These respondents considered that the minimum categories could be improved by introducing additional disaggregation and simplifying the existing categories.

46. There were mixed views among respondents about how the minimum categories should be amended. Some respondents considered that they should be amended based on the nature of the underlying transactions while others considered that they should be amended based on their source.

47. After considering the views of respondents the NZASB decided to propose amendments to the minimum categories by disaggregating the required minimum categories based on a mixture of both the nature and source of the underlying transactions. The increase in the number of the minimum categories is expected to assist preparers in identifying the appropriate category for different types of transactions by being more specific and more clearly defined.

48. It is important to emphasise that the requirements in the Tier 4 Standards only require a minimum category to be used when it is applicable and relevant to the entity. Therefore, while there will be a greater number of minimum categories required by the Tier 4 Standards it is not expected that all of them will be relevant for most entities.

Commercial Activities

49. The proposed minimum categories include separating revenue and expenses from commercial activities from other revenue and expenses. To make this distinction the NZASB has included in both standards an explanation that commercial activities mean "activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes".

50. The distinction between commercial activities and non-commercial activities will not always be clear cut and will therefore require preparers to apply judgement. This is because some activities could be considered commercial activities depending on the intent of the entity and the approach it takes in conducting the activity.

51. For example, an entity may operate a baked goods stand at a gala event without intending to operate a commercial bakery. Although this type of activity involves the sale of goods or services, because the gala is not operating as a commercial business the associated income and expenses would be classified as fundraising activities.

Service delivery grants/contracts

52. The proposed minimum categories also involve separating revenue from grants that are in substance, a contract for the delivery of goods or services. This distinction already existed in the Tier 4 Standard, but the NZASB is now proposing that these should be separated from general grants where applicable.

53. Most grants made to Tier 4 entities are intended to support the advancement of their stated purpose, which may include the delivery of specific goods or services. A grant is considered to be in substance a contract for the delivery of goods or services where the funds are received in exchange for the provision of specific goods or services to a funder or agreed third party beneficiaries.

54. For example, if a Tier 4 entity has a funding arrangement under which it will receive an amount for each unit of a good delivered or each specific service provided this would likely be in substance a service delivery grant/contract. If the entity instead received a fixed amount of funding on the understanding that it would be used by the Tier 4 entity to support the delivery of its objectives, this would likely be classified as a general grant

Proposed minimum categories – Not-for-profit PBEs

55. The specific minimum categories proposed for revenue in the NFP version of the Tier 4 Standard are set out in the table below. The proposed categories have been aligned with the current categories to clarify how these categories have been amended and disaggregated.

Table 1 – Proposed minimum revenue categories (NFP)	
Current categories in the Tier 4 Standard (NFP)	**Proposed new categories in the Tier 4 Standard (NFP)**
Donations, fundraising, and other similar receipts.	Donations, koha, bequests, and other general fundraising activities
	Grants received [Excluding service delivery grants/contracts]
Receipts from providing goods or services.	Funding from service delivery grants/contracts
	Sale of goods or services [commercial activities]
Fees, subscriptions, and other receipts from members.	Membership fees or subscriptions
Interest, dividends, and other investment income receipts.	Interest, dividends, and other investment income
	Other revenue

56. The specific minimum categories proposed for expenses in the NFP version of the Tier 4 Standard are set out in the table below. The proposed categories have been aligned with the current categories to clarify how these categories have been amended and disaggregated.

Table 2 – Proposed minimum expense categories in the Tier 4 Standard (NFP)	
Current categories	**Proposed categories**
Payments related to public fundraising	Fundraising costs
Volunteer and employee related payments	Employee remuneration
	Other employee and volunteer costs
Payments related to providing goods and services	Costs related to the delivery of NFP activities (Excluding expenses related to the categories above)
	Costs related to the sale of goods or services [commercial activities]
Grants and donations paid	Grants and donations paid
	Other costs

Proposed minimum categories - Public sector PBEs

57. The specific minimum categories proposed for revenue in the public sector version of the Tier 4 Standard are set out in the table below. The proposed categories have been aligned with the current categories to clarify how these categories have been amended and disaggregated.

Table 3 – Proposed minimum revenue categories in the Tier 4 Standard (public sector)	
Current categories	**Proposed categories**
Donations and other similar receipts	Donations, koha, bequests, and other grants received
	Grants from non-governmental organisations
Funding from central or local government	General funding received from central or local government
	Funding from service delivery grants/contracts
Receipts from non-governmental sources for providing goods or services	Sale of goods or services [commercial activities]
Interest, dividends, and other investment income receipts	Interest, dividends, and other investment income
	Other revenue

58. The specific minimum categories proposed for expenses in the public sector version of the Tier 4 Standard are set out in the table below. The proposed categories have been aligned with the current categories to clarify how these categories have been amended and disaggregated.

Table 4 – proposed minimum expense categories in the Tier 4 Standard (public sector)	
Current Categories	**Staff recommendation**
Employee related payments	Employee remuneration
	Other employee and volunteer costs
Payments related to providing goods and services	Costs related to the sale of goods and services (commercial activities)
	Other costs related to the delivery of Public Sector activities
Grants paid	Grants and donations paid
	Other costs

Questions for respondents

Q7. Do you agree with the proposals to amend the minimum revenue categories? If you disagree, please explain why.

Q8. Do you agree with the proposals to amend the minimum expense categories? If you disagree, please explain why.

Statement of Resources and Commitments

59. The purpose of the Statement of Resources and Commitments is to provide a snapshot of the significant assets owned by the entity and any amounts owed to external parties at the balance date.

60. The PIR highlighted concerns from respondents concerning the purpose of a Statement of Resources and Commitments in Tier 4 Standards. Many respondents considered that it is not appropriate to impose accrual concepts (such as the reporting of assets and liabilities) onto preparers that are applying a cash-based standard.

61. The NZASB considers it important that the Tier 4 Standards continue to require the reporting of an entity's significant assets and liabilities to enable the reader to understand the significant assets available to deliver future services and the entity's ability to continue operating in the future. However, this information should be kept at a minimum to recognise the cash-basis of the Tier 4 Standards and the need to keep the requirements simple.

62. In response, the NZASB is proposing the following amendments to the Tier 4 Standards:

    (a) Removing the requirement to prepare a Statement of Resources and Commitments;

    (b) Requiring disclosure of significant assets and liabilities in the notes to the Performance Report;

    (c) Restricting the note disclosure to significant assets (such as land and buildings) and significant liabilities (such as borrowings from external parties); and

    (d) Requiring disclosure of either the amount paid for the asset or the estimated replacement cost of the asset (if easily available). The value of land and buildings may be estimated using rateable values.

Question for respondents

Q9. Do you agree with the proposal to remove the Statement of Resources and Commitments from the Tier 4 Standards and instead require note disclose information about any significant assets or liabilities?

If you disagree, please explain why.

2.4 Effective date and other comments

63. The proposed effective date in the EDs is 1 April 2023, with early adoption permitted. This date is tentative and would be reviewed prior to issuing any amendments.

Questions for respondents

Q10. Do you agree with the proposed effective date of 1 April 2023, with early adoption permitted? If you disagree, please explain why.

Q11. Do you have any other comments on the ED?

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

REPORTING REQUIREMENTS FOR TIER 4 (NOT FOR PROFIT) ENTITIES

TIER 4 REPORTING STANDARD (NFP)

This Standard sets out the annual reporting requirements for not-for-profit (NFP) entities (which includes registered charities and other NFP entities) who are permitted to prepare annual performance reports (also known as financial statements) in accordance with Tier 4 reporting requirements as issued by the XRB.

The Standard provides for simple format cash-based reporting requirements. Under the Tier 4 Standard, an entity is required to report the cash received and cash paid during the financial year (i.e. the transactions recorded in an entity's bank account(s)).

The Standard also an entity to report information about its broad objectives and the significant activities the entity has undertaken during the financial year to achieve these objectives.

Additional guidance material

For additional resources on applying this Standard to the preparation of Tier 4 Performance Reports, please refer to guidance material available the XRB website, including an optional Tier 4 Reporting Template and accompanying Explanatory Guide.

Opting up to a higher tier of reporting

For entities that want to report all the assets owned and all the liabilities owed by the reporting entity using a traditional balance sheet, we recommend using the Tier 3 Reporting Standard (NFP), which provides simple format accruals-based reporting requirements.

Effective Date

The Tier 4 Reporting Standard (NFP) was first issued in December 2013 and this version incorporates all amendments up until xx.

This Standard is effective for financial years beginning on or after 1 April XXXX. Earlier application is permitted, and the Standard is therefore available for Tier 4 (PS) entities to use from xx.

This Standard was issued by the New Zealand Accounting Standards Board of the XRB pursuant to section 12(a) of the Financial Reporting Act 2013. It is a non-GAAP Standard for the purposes of section 12 and section 18 of that Act.

This Standard applies for the purposes of the following enactments:

- Section 42A of the Charities Act 2005;
- Section 63 of the Friendly Societies and Credit Unions Act 1982; and
- Section 12 of the Agricultural and Pastoral Societies Act 1908.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2019.

ISBN

TIER 4 REPORTING STANDARD (NFP)

CONTENTS

Paragraph

Introduction

1. This Standard sets the minimum reporting requirements for NFP entities that are eligible, and elect, to apply the Tier 4 Reporting Standard (NFP).

2. The Charities Act 2005 requires registered charities to complete annual reporting to Charities Services. This includes completing an Annual Return accompanied by a copy of the charity's financial statements for the most recently completed financial year. This Standard sets out the minimum information that must be included in the financial statements (hence fourth referred to as the Performance Report) to meet this requirement.

3. This Standard also sets out the minimum information that must be included in the financial statements for other NFP entities (which are not registered charities), which are required under applicable legislation to prepare annual financial statements in accordance with XRB Standards are eligible to apply Tier 4 reporting requirements

4. This Standard requires entities to provide cash-based financial information (referred to as the "Statement of Cash Received and Cash Paid") and information about what the entity has done during the financial year (referred to as the "Statement of Service Performance"). These statements, and the corresponding Notes, are collectively known as the "Performance Report" (sometimes referred to as an entity's financial statements).

5. The Performance Report aims to provide its readers (such as members, funders, and the general public) with useful and relevant information about an entity's performance (in financial and non-financial terms) for the financial year and its ability to continue operating in the future.

6. Optional reporting templates and guidance material have also been developed to help the reporting entity meet the requirements of this Standard. In addition, terms used throughout the Standard have been included in the Glossary.

Who should use this Standard?

7. This Standard applies to NFP entities that are eligible, and elect, to apply this Standard.

8. The Standard is typically used by NFP entities with annual expenditure under $140,00.

9. NFP entities should first consider whether they are subject to any statutory requirements to report in accordance with accounting standards issued by the XRB and whether the legislation permits the use of this Standard (referred to in legislation as a non-GAAP Standard due to being cash-based).

10. The Charities Act 2005 for example, requires that a charity must prepare annual financial statements in accordance with generally accepted accounting practice (GAAP) or a Non-GAAP Standard (when additional criteria are met, refer to paragraph 11). GAAP is generally defined as accounting standards issued by the XRB (Tier 1 – Tier 3) and a non-GAAP Standard (Tier 4).

11. Registered charities can choose to report using this Standard if:

    (a) They do not have public accountability as defined for financial reporting purposes; and

    (b) They have annual operating payments under $140,000.

    Please refer to the Glossary for further information on how "annual operating payments" and "public accountability" are defined for financial reporting purposes.

12. In addition, a reporting entity is only permitted to use this Standard if it considered to be a public benefit entity (PBE) for reporting purposes. PBEs are defined 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 holder*"

13. Generally, most (but not all) NFP entities are considered to be PBEs for reporting purposes.

14. *XRB A1 Application of the Accounting Standards Framework* provides further information on how to work out if a reporting entity is eligible to apply this Standard.

The Tier 4 Performance Report

15. The Performance Report is required to include the following parts:

    (a) **Entity Information** which explains who the entity is and why it exists;

    (b) A **Statement of Service Performance** which explains what the entity is seeking to achieve over the medium to long term (i.e. its objectives), and the significant activities the entity has undertaken during the financial year to achieve these objectives;

    (c) A **Statement of Cash Received and Cash Paid** for the financial year; and

    (d) **Notes** to provide other useful information.

Reduced reporting requirements for smaller Tier 4 entities

16. In developing the Tier 4 (NFP) Standard the XRB recognised that smaller Tier 4 entities often have fewer resources and accounting expertise available within their organisation to help comply with their annual reporting obligations. To reduce the reporting burden for these smaller entities, this Standard includes reduced reporting requirements which a small Tier 4 (NFP) entity may elect to use.

17. A small Tier 4 (NFP) entity is defined as an entity:

    (a) That is eligible to report using this Standard; and

    (b) Has total annual payments less than $10,000 for the current and previous financial year.

18. 'Total annual payments' is defined as the total of all cash outflows for the year. Total annual payments encompass all cash outflows, including those related to operating , capital (i.e. asset purchases), and financing activities (i.e. repayment of borrowings). It includes any amount paid directly from an entity's bank account or by cash on hand.

19. Small Tier 4 (NFP) entities that elect to apply the reduced reporting requirements are not required to comply with the reporting requirements in this Standard that are marked with a square cross symbol ☒.

General Requirements

Period of reporting

20. The Performance Report is usually prepared for a twelve-month period that ends on the entity's "balance date" (commonly referred to as an entity's "year-end").[1] This is an entity's "financial year". The financial components of the Performance Report provide information about the cash received and the cash paid during the financial year.

Reporting entity

21. The Performance Report needs to include information on all the entity's activities, including any branches or other operating units. This is done by collating information from all the branches and operating units and excluding any internal transactions between these branches/units, so that the Performance Report treats the organisation as one entity.

Accounting for other entities

22. Where a reporting entity controls[2] one or more entities and the total combined operating payments[3] of the reporting entity and all its controlled entities are less than the legislative size threshold which permits the use of this Standard (i.e. for charities annual operating payments of $140,000), a reporting entity that elects to use this Standard is required to prepare a consolidated Performance Report.

23. Where the combined total operating payments exceed the legislative size threshold which permits the use of this Standard, the reporting entity is required to apply the criteria for other tiers to determine the appropriate tier for reporting – refer to XRB A1.

24. A consolidated Performance Report involves presenting the information required by this Standard for all the entities that are controlled (including the controlling entity) as if the group of entities were one reporting entity.

The Tier 4 (NFP) Performance Report

Required Information

25. The following information should be included at the top of each page of the Performance Report:
    (a) The name of the reporting entity; and
    (b) The financial year for which the Performance Report covers.

26. This Standard sets out the minimum information to be included in the Performance Reporting when reporting in accordance with Tier 4 (NFP) reporting requirements. Additional information should be included if the entity considers this would be useful to provide the reader with a full understanding of the entity's performance for the financial year.

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[1] The Performance Report may be prepared for a part year, but this is unusual and occurs only when an entity is first established or ceases to exist during a year, or changes its balance date

[2] Explanatory Guide A9 *Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes* provides guidance for not-for-profit entities in determining whether they have control over another entity.

[3] 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.

27. The Performance Report should be reported in amounts rounded to the dollar (i.e. the rounding of any cents). All amounts shall be reported in New Zealand dollars unless the entity's bank account is denominated in a foreign currency.

Comparatives

28. Comparative information for the previous financial year should be included for each balance or transaction and performance measure included in the Performance Report.

29. Budgets, or other forecast information, are not required to be included in the Performance Report.

Accounting for GST

30. Generally, the Performance Report should be prepared by reporting cash received and cash paid on a GST inclusive basis (i.e. the total amount of a transaction including any GST) because this will match the cash transaction recorded in the entity's bank account(s). The total balance of GST paid or refunded by the IRD for the financial year should be reported separately in the Statement of Cash Received and Cash Paid.

31. A reporting entity may choose to report on a GST exclusive basis so long as a consistent approach is taken.

Consistency of presentation

32. The way the information is presented in the Performance Report should be consistent from one financial year to the next unless the entity's operations have significantly changed, or a different format is considered to be more useful to the readers.

No offsetting amounts

33. Cash received and cash paid should not be netted off against each other, even if these relate to a similar activity (except for GST paid or refunded in the financial year). For example, the net proceeds from a school fair should not be reported as one balance. Instead, the Statement of Cash Received and Cash Paid should report separate amounts for the total cash received and the total cash paid for running the fair.

Prior period errors

34. Significant errors identified that relate to prior financial years should be disclosed in the notes in the financial year in which the errors were identified. There is no requirement to restate prior year figures. An example of a significant error would include the reporting of the wrong bank balance.

Signing the Performance Report

35. It is important that users can determine when and who authorised the Performance Report as it does not reflect any events after this date. The Performance Report is authorised when it is signed and dated by the body or individuals with the authority to do so.

Required Information

36. The Performance Report should include the date the Performance Report was approved, who gave that authorisation, and the relevant signature(s).

The Tier 4 Performance Report

Section 1: Entity Information

Purpose

37. The purpose of the Entity Information section is to provide general information about the entity.

Required Information

38. The following information should be included:

(a) the entity's name, type of entity, and its legal form (if any);

(b) the entity structure (i.e. whether it includes separate operating units, divisions or branches); ☒

(c) the names of any entities controlled by the reporting entity for financial reporting purposes; ☒

(d) the entity's governance arrangements (i.e. the governing body that makes the key operating decisions); and

(e) the entity's reliance on volunteers and donated goods or services.

39. The information required by paragraph 38 can be incorporated by cross-referencing from the Performance Report to other statements or reports (e.g. an annual return submitted to a regulator) that is prepared at the same time as the Performance Report and is made publicly available.

Section 2: Statement of Service Performance

Purpose

40. The purpose of the Statement of Service Performance is to provide information to help users understand what the entity did during the financial year to achieve its broader aims and objectives.

Required Information

41. The Statement of Service Performance should provide information about:

(a) What the entity is seeking to achieve over the medium to long term (i.e. its objectives, which should be aligned with the entity's purpose, mission, or vision); and

(b) The significant activities the entity has undertaken during the financial year to advance its objectives. The entity shall describe and quantity ☒ (refer to paragraph 43) to the extent practicable the significant activities undertaken during the financial year.

42. The information required by paragraph 41(a) can be provided by cross-referencing from the Performance Report to other publicly available reports that provide an overview of the entity's broad objectives.

43. In meeting the requirements of paragraph 41(b), a small Tier 4 (NFP) entity is not required to quantity the activities undertaken during the financial year. Instead, they are only required to provide a general description of activities undertaken.

44. In selecting the information to report in the Statement of Service Performance, the entity should consider the information needed to give the reader an overall understanding about what the entity is seeking to achieve over the medium to long term and the significant activities undertaken by the entity during the financial year.

45. The Statement of Service Performance is required to provide information about the activities undertaken that are significant to the performance of the entity. It is not expected to include a detailed account of everything the entity has done in the financial year.

46. A reporting entity may choose how to report the information provided in the Statement of Service Performance in whichever format is most helpful to the reader's understanding of the reporting entity's activities. For example, an entity may choose to present information using:

    (a) a numerical format

    (b) graphs;

    (c) tables;

    (d) narrative descriptions; or

    (e) images or infographics showing the entity's activities and achievements during the financial year.

    The Tier 4 (NFP) Reporting Template provides a simple example based on a numerical format.

Section 3: Statement of Cash Received and Cash Paid

Purpose

47. The purpose of the Statement of Cash Received and Cash Paid is to report all the cash received, and paid by the entity during the financial year (i.e. through transactions processed via the entity's bank account(s) and/or any direct cash transactions).

48. The Statement of Cash Received and Cash Paid should group transactions into two main categories, operating activities and other activities as shown in Table 1.

Required Information

49. The Statement of Cash Received and Cash Paid should be presented using the **applicable** line items as shown in **Table 1** below.

50. The Statement of Cash Received and Cash Paid should include additional information when required to help the readers understand:

    (a) the source and amount of cash received (funding) in the financial year; and

    (b) the nature and amount of cash paid (costs) in the financial year.

Table 1: Statement of Cash Received and Cash Paid	Previous financial year $	Current financial year $
Opening balance in bank account(s) — at the start of the financial year (refer to paragraph 51)		
Plus cash received from operating activities		
Donations, koha, bequests, and other fundraising		
Grants received		
Funding from service delivery grants/contracts		
Membership fees or subscriptions (if any)		
Sale of goods or services (commercial activities)		
Interest or dividend income received		
Other cash received		
Total		
Less cash paid for operating activities		
Fundraising costs		
Employee remuneration		
Other employee and volunteer costs		
Costs related to delivery of NFP activities		
Costs related to sale of goods or services (commercial activities)		
Grants and donations paid		
Other costs		
Total		
Total GST paid or refunded in the financial year[4]		
Cash surplus or (deficit) from operating activities		
Plus cash received from other activities		
Proceeds from sale of assets		
Proceeds from sale of investments		
Cash received from advance of loans and borrowings		
Total		
Less cash paid for other activities		
Purchase of investments		
Purchase of assets		
Repayment of loans and borrowings		
Total		
Cash surplus or (deficit) from other activities		

[4] If the Performance Report is prepared on a GST inclusive basis.

Income tax paid or refunded (if applicable) **Increase or (decrease) in cash for the financial year**		
Closing balance in bank account(s) — at the end of the financial year		
Represented by: Closing balance of bank account(s) Balance invested in term deposit(s) Cash on hand		
Total cash balances held		

Guidance

51. The opening and **closing balance in bank account(s)** should include all bank account balances (cheque or savings accounts), any term deposit balances held, and any undeposited cash held on hand. The balance would also include any bank account balances in overdraft.

52. **Cash received** should include all transactions that increase the reporting entity's bank account(s) balance during the financial year, including any undeposited cash held at the end of the financial year.

53. **Cash paid** should include all transactions that resulted in a decrease in the bank account(s) balance during the financial year, including any payments made directly from cash held on hand.

54. Transfers between bank accounts and/or term deposits held by the entity should not be recorded in the Statement of Cash Received and Cash Paid because this does not change the total balance of cash held by the entity.

55. **Operating activities** are the day-to-day activities of the reporting entity and include all transactions that are not classified as other activities.

56. **Other activities** include:

    (a) cash paid to purchase assets or cash received from the sale of assets. Assets are items of property, plant, or equipment with an expected life greater than twelve months (such as computer equipment) which is owned by the entity and used to support the delivery of its objectives;

    (b) cash paid to purchase investments or cash received from the sale of investments (investments may include such things as shares or government bonds); and

    (c) cash received from advances of loans or borrowings and cash paid to repay loans or borrowings (loans and borrowings include any cash owing to an external party as a result of a financing arrangement).

57. If there is difficulty determining whether a transaction relates to an operating or financing activity, the reporting entity shall include the transaction in 'other cash received/paid' under operating activities. If the balance in 'other cash received/paid' is significant, additional note disclosure is encouraged to describe the transaction(s) being allocated to this line item.

Other considerations

58. Headings (such as ‘cash received from other activities’ or ‘cash paid for other activities’) do not need to be included in the Statement of Cash Received and Cash Paid if the reporting entity does not have any line items that relate to this category in the current or previous financial year.

59. Line items (such as ‘purchase of assets’ or ‘proceeds from sale of assets’) do not need to be reported in the Statement of Cash Received or Cash Paid if the reporting entity does not have any transactions that relate to these line items in the current or previous financial year.

60. The operating and other activity headings should be retained and not renamed in the Statement of Cash Received or Cash paid when these are applicable. However, the reporting entity can use different wording for the line items if these are more appropriate for their activities.

61. Additional headings and line items may be included to help the readers of the Performance Report better understand the cash received and the cash paid in the financial year. Further breakdowns can be provided in the notes, although this is not required. For example, an entity may include a summary list of contributions from major donors and grant providers in the Notes, if the entity considers this would be useful to the readers of the Performance Report.

Section 4: Notes

Purpose

62. The purpose of the Notes to the Performance Report is to provide additional information that is relevant to the reader's understanding of the entity’s performance for the financial year.

Accounting policies

Required Information

Basis of Preparation

63. The Notes should include the following information about the basis for preparing the Performance Report:

    (a) The entity has prepared the Performance Report in accordance with the Tier 4 Reporting Standard (NFP) issued by the External Reporting Board (XRB);

    (b) Where applicable, the entity is permitted by its governing legislation and has elected to meet its statutory reporting requirements by applying the Tier 4 Reporting Standard (NFP); and

    (c) All transactions included in the Statement of Cash Received and Cash Paid and related Notes to the Performance Report have been reported on a cash basis.

64. Example note disclosure:

Basis of preparation — Tier 4 (NFP) Entity

ABC Charity is permitted by law to apply the Tier 4 Reporting Standard (NFP) issued by the External Reporting Board (XRB) and the Charity has elected to use the Standard. All transactions included in the Statement of Cash Received and Cash Paid and related Notes to the Performance Report have been reported on a cash basis.

Basis of preparation — Small Tier 4 (NFP) Entity

ABC Charity is permitted by law to apply the Tier 4 (NFP) Reporting Standard issued by the External Reporting Board (XRB) and the Board has elected to apply the reduced Tier 4 reporting requirements available for small Tier 4 (NFP) entities. All transactions included in the Statement of Cash Received and Cash Paid and related Notes to the Performance Report have been reported on a cash basis.

GST

Required Information

Goods and Services Tax (GST)

65. The Notes should include information about whether:

    (a) the entity is registered for GST; and

    (b) the Performance Report is prepared on a GST inclusive or GST exclusive basis.

66. Example note disclosure:

GST

All amounts recorded in the Performance Report are inclusive of GST (if any). The entity is GST registered and any GST payable or refunded by the IRD is recognised when paid or when a refund is received.

Or

All amounts recorded in the Performance Report are exclusive of GST (if any). The entity is GST registered and any GST payable or refunded by the IRD is recognised when paid or when a refund is received.

Significant assets

67. The purpose of this note is to provide information about any significant assets owned by the reporting entity. These assets may have been purchased or donated. The note is not expected to list all assets owned by the entity, just those assets that would be considered significant to the readers of the Performance Report.

68. The assessment of significance will at times require increased judgement and should be based on the consideration of the information that readers of the Performance Report will find useful when assessing the entity's ability to continue advancing its future NFP objectives.[5]

69. The total balance of bank accounts held at the end of the financial year is one type of asset. This note is focused on providing information about other significant assets an entity owns.

70. Significant assets held by the entity may include:

    (a) Physical assets owned by the entity that are available for use over future financial years, such as land and buildings, computers, or vehicles; and

    (b) Investments, such as shares, bonds, or units in managed funds.

[5] The assessment of significance requires judgement and will be based on several factors including the monetary value of the asset, the entity's ability to replace the asset, and whether the entity could continue operating without the asset. For example, the entity may hold items such as furniture or office equipment, but in many cases due to their low value and short useful lives these will not be considered significant.

Required information

71. The Notes should include information that describes the significant assets held at the end of the financial year.

72. Table 2 below provides an example disclosure. A reporting entity is not required to provide information about all assets owned, just those that are considered significant.

73. For each significant type of asset owned, the reporting entity should include, if easily available, either:

    (a) the amount paid to purchase the asset; ☒ or

    (b) the assets current value (i.e. an estimate of the assets replacement cost, rateable value, or market value) particularly if the asset was donated and the cost of the asset is unknown. ☒

74. Where an estimated value is provided the source of this estimate should be disclosed. ☒

Table 2: Example Note — Significant assets	**Previous financial year**	**Current financial year**
Significant amounts owed to the entity by external parties		
Land and buildings		
Investments (shares, bonds, units in managed funds)		
Other significant assets		

75. The note is not intended to list all assets owned by the reporting entity, as this would not be practical when recording transactions on a cash basis. For a reporting entity that wishes to fully account and report all assets owned, it is recommended that they use the Tier 3 Reporting Standard (NFP).

76. A small Tier 4 (NFP) entity is only required to provide a description of significant assets owned and is not required to provide any information about the monetary value of these assets.

Significant liabilities

77. The purpose of this note is to provide information about any significant liabilities, being amounts which the reporting entity owes to external parties (where the settlement of the liability cannot be avoided – i.e, the external party can enforce repayment).

78. Liabilities are obligations to transfer cash to individuals or other organisations at a future date as well as any significant funds the entity is holding on behalf of others (i.e. cash received by the reporting entity that belongs to another party).

79. The note is not expected to list all amounts owed by the reporting entity, just those liabilities that would be considered significant to readers of the Performance Report.

80. The assessment of significance will at times require judgement and should be based on consideration of the information that readers of the Performance Report will find useful when assessing the entity's ability to continue operating in the future.

Required information

81. The Notes should include information about any significant liabilities held at the end of the financial year.

82. Table 3 below provides an example note disclosure. A reporting entity is not required to provide information about all liabilities owed, just those that are considered significant.

83. For each significant amount owed to an external party, the reporting entity should include the amount expected to be paid in the future period to fully settle the liability.

84. Where an estimated value is provided the source of this estimate should be disclosed. ☒

Table 3: Example Note — Significant liabilities	Previous financial year	Current financial year
Loans and other borrowings		
Other significant amounts owed to external parties		
Money held on behalf of others		

85. The information in Table 3 is not intended to list all the reporting entity's liabilities, as this would not be practical when recording transactions on a cash basis. For an entity that wishes to fully account and report all amounts owing to external parties, it is recommended that they use the Tier 3 Reporting Standard (NFP).

Grants or donations received with expectations over use

86. The purpose of this note is to provide readers with information about any significant grants or donations received for which expectations over their use have not been met at the end of the financial year.

Required Information

87. If the reporting entity has received any significant grants or donations with an expectation that the funds received will be used for a specific purpose or in a particular way, and those expectations have not been fully met at the end of the financial year, it should report information about:

    (a) The amount of significant grants or donations received which are expected to be used in future financial years (i.e. the balance of grants or donations which have not been spent at the balance date); ☒ and

    (b) The nature of the expectations and conditions over future use, including whether the grant/donation provider can require the unspent funding to be returned. ☒

Related Party Transactions

88. The purpose of this note is to provide readers with information about any significant related party transactions that have occurred in the financial year.

89. The reporting of related party transactions provides important information to readers of the Performance Report because:

    (a) Related party relationships can influence how an entity operates; and

    (b) Related party relationships might expose an entity to risks, or provide opportunities, that would not have otherwise existed because related parties may enter into transactions on different terms and conditions than would normally be available to unrelated parties.

90. A related party transaction is a transfer of money, goods, or services between a reporting entity and a related party.

91. A related party comprises of:

    (a) People that have significant influence over the decisions of the reporting entity (such as officeholders, committee members, or others that are involved in the strategic management of the entity – including employees and volunteers);

    (b) Close family members of those people described above (such as a parent, partner, sibling, or child); and

    (c) Other entities that have significant influence over the reporting entity's operations.

Required information

92. The Notes should include information about any significant transactions with related parties that have occurred during the financial year.

93. The note shall include for each significant related party transaction:

    (a) A description of the related party relationship;

    (b) A description of the transaction (e.g. the services provided by the related party);

    (c) The total amount paid to (or received from) the related party during the financial year; and

    (d) The balance of any significant amounts owed to (or owing from) a related party at the end of the financial year (including any amounts loaned).

94. Examples of related party transactions that would be disclosed are:

    (a) the sale of a significant asset (such as a building or vehicle) to the spouse of a board member;

    (b) the provision of free services to the child of the board chair;

    (c) loaning cash at below market rates to a related party; and

    (d) a member of the board/trust providing professional services (e.g. accounting or legal services) to the entity at no cost.

Events after the financial year

95. Events after the financial year are those significant events, both favourable and unfavourable, that occur between the end of the financial year and the date when the Performance Report is signed as approved by the governing body.

Required information

96. An entity should report the following for each significant event after the financial year:

    (a) The nature of the event;

    (b) An estimate of any associated cash expected to be received, or cash paid; ☒ and

    (c) How, if at all, the event is likely to affect the entity's ability to continue operating over the subsequent 12 months. ☒

97. An example of an event requiring disclosure is a fire that destroys the premises of an NFP entity a week after the end of the financial year. The notes to the Performance Report would report the fact that the fire occurred, the extent of the damage, the extent to which the damage is covered by insurance, and the likely impact on the charity's ability to continue operating over the short and long term.

Additional Information

Required information

98. The Notes should include any additional information considered necessary for readers to understand the overall performance of the entity.

Correcting Errors

Required information

99. The Notes should include information about any significant errors relating to past financial years that have been corrected in the current Performance Report. The note shall state what the error was, how the error arose, and how the error has been correct in the current financial year.

Glossary

This Glossary contains terms used in this Standard.

Annual operating payments	Means the total amount of any payments (including grant payments, other than a capital payment), made by the entity during the financial year. A capital payment is a payment during the financial year for the purchase of a resource (commonly referred to as an asset) with an expected life greater than twelve months.
Assets	Assets are resources owned by the entity at the balance date that will be used in future financial years to help satisfy the entity's objectives.
Balance date	The date to which the Performance Report is prepared. It is usually an end of month date, for example, 31 March 202X.
Cash paid	Payments comprise all money paid during the financial year by cash, cheque, bank transfer, or other method. Payments can be either operating payments (relating to day-to-day activities) or related to the purchase of assets or the repayment of borrowings.
Cash received	Cash received comprise all money received during the financial year. This includes all funds deposited into the entity's bank accounts. Most cash received will relate to the normal operating activities of the entity (for example, cash received from a fundraising event). However, some cash received might result from other transactions, such as receipts from the sale of assets or proceeds from borrowings).
Entity	An organisation may take any of a number of forms, including but not limited to, registered charity, company, incorporated association, unincorporated association, or trust. Depending on organisational structure, this may be a legal entity, a unit within a wider organisation, or it may comprise one or more units.
Financial year	A twelve month period ending on the reporting entity's balance date.
Investments	Any other financial asset held by the entity in addition to money held in bank accounts or term deposits. This would include investments in fixed interest bonds or shares.
Loans and borrowings	Funds owing to an external party as a result of a financing arrangement (such as a bank or finance company).
Performance Report	Information that collectively tells the story of the reporting entity over the financial year. This includes the Entity Information, Statement of Service Performance, Statement of Cash Received and Cash Paid, and Notes to the Performance Report.
Public accountability	While NFP entities are generally considered to be publicly accountable, "public accountability" has a specific meaning in the accounting standards issued by the XRB. Entities are considered to have public accountability for financial reporting purposes when they have issued debt or equity instruments through a public offering or their main activity is holding cash or other assets on behalf of others (e.g. a superannuation scheme). The full definition of "Public Accountability" is included in XRB A1.
Public benefit entity (PBE)	A reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided to support that primary objective rather than for a financial return to equity holders.

Related party	People or entities that have significant influence over the entity, such as officeholders, committee members, or others that are involved in the strategic management of the entity (whether employed or volunteer) and close members of their families.
Reporting entity	An entity preparing a Performance Report in accordance with this Standard. In the New Zealand reporting environment, it is an organisation that is required by law, or elects to apply, standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB. To apply this Standard, the entity is required to be a not-for-profit entity.
Significant	An item is significant if disclosure of the particular item, whether financial or non-financial, could influence a reader's understanding of the entity's overall performance.
Statement of cash received and cash paid	A summary of all the cash received, and all the cash paid out, by the entity during the financial year.
Statement of Service Performance	A statement that provides information to help users understand what the entity did during the financial year to achieve its broader aims and objectives. These are particularly useful in the not-for-profit sector when the focus is on achieving objectives, rather than making a profit.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

REPORTING REQUIREMENTS FOR TIER 4 (PUBLIC SECTOR) ENTITIES

TIER 4 REPORTING STANADRD (PS)

This Standard sets out the annual reporting requirements for public sector (PS) entities who are permitted to annual performance reports (also known as financial statements) in accordance with Tier 4 reporting requirements as issued by the XRB.

The Standard provides for simple format cash-based reporting requirements. Under the Tier 4 Standard, an entity is required to report the cash received and cash paid during the financial year (i.e. the transactions recorded in an entity's bank account(s)).

The Standard also requires an entity to report information about its broad objectives and the significant activities the entity has undertaken during the financial year to achieve these objectives.

Additional guidance material

For additional resources on applying this Standard to the preparation of Tier 4 Performance Reports, please refer to guidance material available on the XRB website, including an optional Tier 4 Reporting Template and accompanying Explanatory Guide.

Opting up to a higher tier of reporting

For entities that want to report all the assets owned and all the liabilities owed by the reporting entity using a traditional balance sheet, we recommend using the Tier 3 Reporting Standard (PS), which provides simple format accruals-based reporting requirements.

Effective Date

The Tier 4 Reporting Standard (PS) was first issued in December 2013 and this version incorporates all amendments up until xx.

This Standard is effective for financial years beginning on or after 1 April XXXX. Earlier application is permitted, and the Standard is therefore available for Tier 4 (PS) entities to use from xx.

This Standard was issued by the New Zealand Accounting Standards Board of the XRB pursuant to section 12(a) of the Financial Reporting Act 2013. It is a non-GAAP Standard for the purposes of section 12 and section 18 of that Act.

This Standard applies for the purposes of the following enactments:

- Section 29A of the Burial and Cremation Act 1964;
- Section 6 of the Maori Purposes Fund Act 1934-35;
- Section 40A of the Patriotic and Canteen Funds Act 1947;
- Section 39B and section 88 of the Reserves Act 1977; and
- Section 10 of the Reserves and Other Lands Disposal Act 1995.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2019.

ISBN

TIER 4 REPORTING STANDARD (PUBLIC SECTOR)

CONTENTS

Introduction

1. This Standard sets the minimum reporting requirements for public sector entities that are eligible, and elect, to apply the Tier 4 Reporting Standard (PS).

2. This Standard requires entities to provide cash-based financial information (referred to as the "Statement of Cash Received and Cash Paid") and information about what the entity has done during the financial year (referred to as the "Statement of Service Performance"). These statements, and the corresponding Notes, are collectively known as the "Performance Report" (often referred to as the entity's financial statements).

3. The Performance Report aims to provide its readers (such as those charged with governance, other public sector officials, and other general purpose users) with useful and relevant information about an entity's performance (in financial and non-financial terms) for the financial year and its ability to continue operating in the future.

4. Optional reporting templates and guidance material have also been developed to help the reporting entity to meet the requirements of this Standard. In addition, terms used throughout the Standard have been included in the Glossary.

Who should use this Standard?

5. This Standard applies to eligible public sector public benefit entities (PBEs), and elect, to apply this Standard.

6. The Standard is typically used by smaller public sector entities (i.e. those with annual expenditure under $140,00).

7. Public sector entities are defined in the Public Audit Act 2001 and include all Offices of Parliament.

8. PBEs are defined by XRB A1 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 holder*".

9. Public sector entities should first consider whether they are subject to any statutory requirements to report in accordance with accounting standards issued by the XRB and whether the legislation permits the use of this Standard (referred to in legislation as a non-GAAP Standard). Public Sector entities may also want to seek advice from central Government agencies to confirm their annual reporting obligations.

10. A public sector PBE may elect to report in accordance with this standard if it is permitted by an Act to report in accordance with a non-GAAP standard (i.e., the cash basis of accounting).

11. Public sector PBEs are typically permitted by an Act to use this Standard if:

    (a) They do not have public accountability (as defined by XRB A1); and

    (b) They have annual operating payments under $140,000.

    Please refer to the Glossary for further information on how "annual operating payments" and "public accountability" are defined for financial reporting purposes.

12. *XRB A1 Application of the Accounting Standards Framework* provides further information on how to work out if a reporting entity is eligible to apply this Standard.

The Tier 4 Performance Report

13. The Performance Report is required to include the following parts:

    (a) **Entity Information** which explains who the entity is and why it exists;

    (b) A **Statement of Cash Received and Cash Paid** for the financial year; and

    (c) **Notes** to provide other useful information.

14. In addition, a **Statement of Service Performance** which explains the significant activities the entity has undertaken during the financial year to achieve its medium to long term objectives is also required where this is required by law (regardless of the name by which it is called). This statement is optional for other public sector entities.

General Requirements

Period of reporting

15. The Performance Report is usually prepared for a twelve-month period that ends on the entity's "balance date" (commonly referred to as an entity's "year-end")[1]. This is an entity's "financial year". The financial components of the Performance Report provide information about the cash received and the cash paid during the financial year.

Reporting entity

16. The Performance Report needs to include information on all the entity's activities, including any branches or other operating units. This is done by collating information from all the branches and operating units and excluding any internal transactions between these branches/units, so that the Performance Report treats the organisation as one entity.

Accounting for other entities

17. When a reporting entity controls[2] one or more entities and the total combined operating payments[3] of the entity and all its controlled entities are less than the legislative size threshold which permits the use of this Standard, a reporting entity that elects to use this Standard is required to prepare a consolidated Performance Report.

18. Where the combined total operating payments exceed the legislative size threshold which permits the use of this Standard, the reporting entity is required to apply the criteria for other tiers to determine the appropriate tier for reporting – refer to XRB A1.

19. A consolidated Performance Report involves presenting the information required by this Standard for all the entities that are controlled (including the controlling entity) as if the group of entities was one reporting entity.

The Tier 4 Performance Report

Required Information

20. The following information should be included at the top of each page of the Performance Report:
    (a) The name of the reporting entity; and
    (b) The financial year for which the Performance Report covers.

21. This Standard sets out the minimum information to be included in the Performance Reporting when reporting in accordance with Tier 4 (PS) reporting requirements. Additional information should be included if the entity considers this would be useful to provide the reader with a full understanding of the entity's performance for the financial year.

22. The Performance Report should be reported in amounts rounded to the dollar (i.e. the rounding of any cents). All amounts shall be reported in New Zealand dollars, unless the entity's bank account is denominated in a foreign currency.

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1 The Performance Report may be prepared for a part year, but this is unusual and occurs only when an entity is first established or ceases to exist during a year, or changes its balance date

2 Explanatory Guide A9 *Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes* provides guidance for not-for-profit entities in determining whether they have control over another entity.

3 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.

Comparatives

23. Comparative information for the previous financial year should be included for each balance or transaction and performance measure included in the Performance Report.

24. Budgets, or other forecast information, are not required to be included in the Performance Report.

Accounting for GST

25. Generally, the Performance Report should be prepared by reporting cash received and cash paid on a GST inclusive basis (i.e. the total amount of a transaction including any GST) because this will match the cash transaction recorded in the entity’s bank account. The total balance of GST paid or refunded by the IRD for the financial year should be reported separately in the Statement of Cash Received and Cash Paid.

26. A reporting entity may choose to report on a GST exclusive basis so long as a consistent approach is taken.

Consistency of presentation

27. The way the information is presented in the Performance Report should be consistent from one financial year to the next unless the entity’s operations have significantly changed, or a different format is considered to be more useful to the readers.

No offsetting amounts

28. Cash received and cash paid should not be netted off against each other, even if these relate to a similar activity (except for GST paid or refunded in the financial year). For example, the net proceeds from a school fair should not be reported as one balance. Instead, the Statement of Cash Received and Cash Paid should include separate amounts for the total cash received and the total cash paid for running the fair.

Prior period errors

29. Significant errors identified that relate to prior financial years should be disclosed in the notes in the financial year in which the errors were identified. There is no requirement to restate prior year figures. An example of a significant error would include the reporting of the wrong bank balance.

Signing the Performance Report

30. It is important that users can determine when and who authorised the Performance Report as it does not reflect any events after this date. The Performance Report is authorised when it is signed and dated by the body or individuals with the authority to do so.

Required Information

31. Entities should include in the Performance Report the date the Performance Report was approved, who gave that authorisation, and the relevant signature(s).

The Tier 4 Performance Report

Section 1: Entity Information

Purpose

32. The purpose of the Entity Information section is to provide general information about the entity.

Required Information

33. The following information should be included:
    (a) the entity's name, type of entity, and its legal form;
    (b) the entity structure (i.e. whether it includes separate operating units, divisions or branches);
    (c) the names of any entities controlled by the reporting entity for financial reporting purposes;
    (d) the entity's governance arrangements (i.e. the governing body that makes the key decisions); and
    (e) the entity's reliance on volunteers and donated goods or services.

34. The information required by paragraph 33 can be incorporated by cross-referencing from the Performance Report to other statements or reports (e.g. the annual report) that are prepared at the same time as the Performance Report and are made publicly available.

Section 2: Statement of Service Performance

Purpose

35. The purpose of the Statement of Service Performance is to provide information to help users understand what the entity did during the financial year to achieve its broader aims and objectives.

Required Information

36. The Statement of Service Performance should provide information about:
    (a) what the entity is seeking to achieve over the medium to long term (i.e. its objectives, which should be aligned with the entity's purpose, mission, or vision); and
    (b) the significant activities the entity has undertaken during the financial year to advance its objectives. The entity shall describe and quantity to the extent practicable the significant activities undertaken during the financial year.

37. The information required by paragraph 36(a) can be provided by cross-referencing from the Performance Report to other publicly available reports that provide an overview of the entity's broad objectives.

38. In selecting the information to report in the Statement of Service Performance, the entity should consider the information needed to give the reader an overall understanding about what the entity is seeking to achieve over the medium to long term and the significant activities undertaken by the entity during the financial year.

39. The Statement of Service Performance is required to provide information about the activities undertaken that are significant to the performance of the entity. It is not expected to include a detailed account of everything the entity has done in the financial year.

40. A reporting entity may choose how to report the information provided in the Statement of Service Performance in whichever format is most helpful to the reader's understanding of the reporting entity's activities. For example, an entity may choose to present information using:

    (a) a numerical format

    (b) graphs;

    (c) tables;

    (d) narrative descriptions; or

    (e) images or infographics showing the entity's activities and achievements during the financial year.

    The Tier 4 Reporting Template (PS) provides a simple example based on a numerical format.

Section 3: Statement of Cash Received and Cash Paid

Purpose

41. The purpose of the Statement of Cash Received and Cash Paid is to report all the cash received and paid by the entity during the financial year (i.e. through transactions processed via the entity's bank account(s) and/or any direct cash transactions).

42. The Statement of Cash Received and Cash Paid should group transactions into two main categories, operating activities and other activities as shown in Table 1.

Required Information

43. The Statement of Cash Received and Cash Paid should be presented using the **applicable** line items as shown in **Table 1** below.

44. The Statement of Cash Received and Cash Paid should include additional information when required to help the readers understand:

    (a) the source and amount of cash received (funding) in the financial year; and

    (b) the nature and amount of cash paid (costs) in the financial year.

Table 1: Statement of Cash Received and Cash Paid	**Previous financial year** $	**Current financial year** $
Opening balance in bank account(s) — at the start of the financial year (refer to paragraph 45)		
Plus cash received from operating activities		
General funding received from central or local government		
Donations, koha, bequests, and other grants received		
Funding from service delivery grants/contracts		
Sale of goods or services (commercial activities)		
Interest or dividend income received		
Other cash received		
Total		
Less cash paid for operating activities		
Fundraising costs		
Employee remuneration		
Other employee and volunteer costs		
Other costs related to delivery of Public Sector activities		
Costs related to sale of goods or services (commercial activities)		
Grants and donations paid		
Other costs		
Total		
Total GST paid or refunded in the financial year[4]		
Cash surplus or (deficit) from operating activities		
Plus cash received from other activities		
Proceeds from sale of assets		
Proceeds from sale of investments		
Cash received from advance of loans and borrowings		
Total		
Less cash paid for other activities		
Purchase of investments		
Purchase of assets		
Repayment of loans and borrowings		
Total		
Cash surplus or (deficit) from other activities		
Income tax paid or refunded (if applicable)		
Increase or (decrease) in cash for the financial year		

[4] If the Performance Report is prepared on a GST inclusive basis.

Closing balance in bank account(s) — at the end of the financial year		
Represented by: Closing balance of bank account(s) Balance invested in term deposit(s) Cash on hand		
Total cash balances held		

Guidance

45. The opening and **closing balance in bank account(s)** should include all bank account balances (cheque or savings accounts), any term deposit balances held, and any undeposited cash held on hand. The balance would also include any bank account balances in overdraft.

46. **Cash received** should include all transactions that increase the bank account(s) balance during the financial year, including any undeposited cash held at the end of the financial year.

47. **Cash paid** should include all transactions that resulted in a decrease in the bank account(s) balance during the financial year, including any payments made directly from cash held on hand.

48. Transfers between bank accounts and/or term deposits held by the entity should not be recorded in the Statement of Cash Received and Cash Paid because this does not change the total balance of cash held by the entity.

49. **Operating activities** are the day-to-day activities of the reporting entity and include all transactions that are not classified as other activities.

50. **Other activities** include:

    (a) cash paid to purchase assets or cash received from the sale of assets. Assets are items of property, plant, or equipment with an expected life greater than twelve months (such as computer equipment) which is owned by the entity and used to support the delivery of its objectives;

    (b) cash paid to purchase investments or cash received from the sale of investments (investments may include such things as shares or government bonds); and

    (c) cash received from advances of loans or borrowings and cash paid to repay loans or borrowings (loans and borrowings include any cash owing to an external party as a result of a financing arrangement).

51. If there is difficulty determining whether a transaction relates to an operating or financing activity, the reporting entity shall include the transaction in ‘other cash received/paid’ under operating activities. If the balance in ‘other cash received/paid’ is significant, additional note disclosure is encouraged to describe the transaction(s) being allocated to this line item.

Other considerations

52. Headings (such as ‘cash received from other activities’ or ‘cash paid for other activities’) do not need to be included in the Statement of Cash Received and Cash Paid if the reporting entity does not have any line items that relate to this category in the current or previous financial year.

53. Line items (such as 'purchase of assets' or 'proceeds from sale of assets') do not need to be reported in the Statement of Cash Received or Cash Paid if the reporting entity does not have any transactions that relate to these line items in the current or previous financial year.

54. The operating and other activity headings should be retained and not renamed in the Statement of Cash Received or Cash paid when these are applicable. However, the reporting entity can use different wording for the line items if these are more appropriate for their activities.

55. Additional headings and line items may be included to help the readers of the Performance Report better understand the cash received and the cash paid in the financial year. Further breakdowns can be provided in the notes, although this is not required.

Section 4: Notes

Purpose

56. The purpose of the Notes to the Performance Report is to provide additional information that is relevant to the reader's understanding of the entity's performance for the financial year.

Accounting policies

Required Information

Basis of Preparation

57. The Notes should include the following information about the basis for preparing the Performance Report:

(a) The entity has prepared the Performance Report in accordance with the Tier 4 Reporting Standard (PS) issued by the External Reporting Board (XRB);

(b) Where applicable, the entity is permitted by its governing legislation and has elected to meet its statutory reporting requirements by applying the Tier 4 Reporting Standard (PS); and

(c) All transactions included in the Statement of Cash Received and Cash Paid and related Notes to the Performance Report have been reported on a cash basis.

58. Example Note disclosure:

Basis of preparation

ABC Trust is permitted by law to apply the Tier 4 Reporting Standard (PS) issued by the External Reporting Board (XRB) and the Trust has elected to use the Standard. All transactions included in the Statement of Cash Received and Cash Paid and related Notes to the Performance Report have been reported on a cash basis.

GST

Required Information

Goods and Services Tax (GST)

59. The Notes should include information about whether:

(a) the entity is registered for GST; and

(b) the Performance Report is prepared on a GST inclusive or GST exclusive basis.

60. Example Note disclosure:

> GST
>
> All amounts recorded in the Performance Report are inclusive of GST (if any). The entity is GST registered and any GST payable or refunded by the IRD is recognised when paid or when a refund is received.
>
> Or
>
> All amounts recorded in the Performance Report are exclusive of GST (if any). The entity is GST registered and any GST payable or refunded by the IRD is recognised when paid or when a refund is received.

Significant assets

61. The purpose of this note is to provide information about any significant assets owned by the reporting entity. These assets may have been purchased or donated. The note is not expected to list all assets owned by the entity, just those assets that would be considered significant to the readers of the Performance Report.

62. The assessment of significance will at times require increased judgement and should be based on the consideration of the information that readers of the Performance Report will find useful when assessing the entity's ability to continue advancing its future objectives.[5]

63. The total balance of bank accounts held at the end of the financial year is one type of asset. This note is focused on providing information about other significant assets an entity owns.

64. Significant assets held by the entity may include:

    (a) Physical assets owned by the entity that are available use over future financial years, such as land and buildings, computers, or vehicles; and

    (b) Investments in shares, bonds, or units in managed funds.

> **Required information**
>
> 65. The Notes should include information that describes the significant assets held at the end of the financial year.
>
> 66. **Table 2** below provides an example disclosure. A reporting entity is not required to provide information about all assets owned, just those assets that are considered significant.
>
> 67. For each significant type of asset owned, the reporting entity should include, if easily available, either:
>
>   (a) the amount paid to purchase the asset; or
>
>   (b) the asset's current value (i.e. an estimate of the asset's replacement cost, rateable value, or market value) particularly if the asset was donated and the cost of the asset is unknown.
>
> 68. Where an estimated value is provided the source of this estimate should be disclosed.

[5] The assessment of significance requires judgement and will be based on several factors including the monetary value of the asset, the entity's ability to replace the asset, and whether the entity could continue operating without the asset. For example, the entity may hold items such as furniture or office equipment, but in many cases due to their low value and short useful lives these will not be considered significant.

Table 2: Example Note — Significant assets	Previous financial year	Current financial year
Significant amounts owed to the entity by external parties Land and buildings Investments (shares, bonds, units in managed funds) Other significant assets		

69. The note is not intended to list all assets owned by the reporting entity, as this would not be practical when recording transactions on a cash basis. For a reporting entity that wishes to fully account and report all assets owned, it is recommended that they use the Tier 3 Reporting Standard (PS).

Significant liabilities

70. The purpose of this note is to provide information about any significant liabilities, being amounts which the reporting entity owes to external parties (where the settlement of the liability cannot be avoided – i.e, the external party can enforce repayment).

71. Liabilities are obligations to transfer cash to individuals or other organisations at a future date as well as any significant funds the entity is holding on behalf of others (i.e. cash received by the reporting entity that belongs to another party).

72. The note is not expected to list all amounts owed by the reporting entity, just those liabilities that would be considered significant to readers of the Performance Report.

73. The assessment of significance will at times require increased judgement and should be based on consideration of the information that readers of the Performance Report will find useful when assessing the entity's ability to continue operating in the future.

Required information

74. The Notes should include information about any significant liabilities held at the end of the financial year.

75. Table 3 below provides an example note disclosure. A reporting entity is not required to provide information about all liabilities owed, just those liabilities that are considered significant.

76. For each significant amount owed to an external party, the reporting entity should include the amount expected to be paid in the future period to fully settle the liability.

77. Where an estimated value is provided the source of this estimate should be disclosed.

Table 3: Example Note — Significant liabilities	Previous financial year	Current financial year
Loans and other borrowings Other significant amounts owed to external parties Money held on behalf of others		

78. The information in Table 3 is not intended to list all the reporting entity's liabilities, as this would not be practical when recording transactions on a cash basis. For an entity that wishes to fully account and report all amounts owing to external parties, it is recommended that they use the Tier 3 Reporting Standard (PS).

Grants or donations with expectations over use

79. The purpose of this note is to provide readers with information about any significant grants or donations received for which expectations over their use have not been met at the end of the financial year.

Required Information

80. If the reporting entity has received any significant grants or donations with an expectation that the funds received will be used for a specific purpose or in a particular way, and those expectations have not been fully met at the balance date, it should report information about:

(a) The amount of significant grants or donations received which are expected to be used in future financial years (i.e. the balance of grants or donations which have not been spent at the balance date); and

(b) The nature of the expectations and conditions over use, including whether the grant/donation provider can require the unspent funding to be returned.

Related Party Transactions

81. The purpose of this note is to provide readers with information about any significant related party transactions that have occurred in the financial year.

82. The reporting of related party transactions provides important information to readers of the Performance Report because:

(a) Related party relationships can influence how an entity operates; and

(b) Related party relationships might expose an entity to risks, or provide opportunities, that would not have otherwise existed because related parties may enter into transactions on different terms and conditions than would normally be available to unrelated parties.

83. A related party transaction is a transfer of money, goods, or services between a reporting entity and a related party.

84. A related party comprises of:

(a) People that have significant influence over the decisions of the reporting entity (such as officeholders, committee members, or others that are involved in the strategic management of the entity – including employees and volunteers);

(b) Close family members of those people described above (such as a parent, partner, sibling, or child); and

(c) Other entities that have significant influence over the reporting entity's operations.

Required information

85. The Notes should include information about any significant transactions with related parties that have occurred during the financial year.

86. The note shall include for each significant related party transaction:

(a) A description of the related party relationship;

(b) A description of the transaction (e.g. the services provided by the related party);

(c) The total amount paid to (or received from) the related party during the financial year; and

(d) The balance of any significant amounts owed to (or owing from) a related party at the end of the financial year (including any amounts loaned).

87. Examples of related party transactions that would be disclosed are:

(a) the sale of a significant asset (such as a building or vehicle) to the spouse of a board member;

(b) the provision of free services to the child of the board chair;

(c) loaning cash at below market rates to a related party; and

(d) a member of the board/trust providing professional services (e.g. accounting or legal services) to the entity at no cost.

Events after the financial year

88. Events after the financial year are those significant events, both favourable and unfavourable, that occur between the end of the financial year and the date when the Performance Report is signed as approved by the governing body.

Required information

89. A reporting entity should report the following for each significant event after the financial year:

(a) The nature of the event;

(b) An estimate of any associated cash expected to be received, or cash paid; and

(c) How, if at all, the event is likely to affect the entity’s ability to continue operating over the subsequent 12 months.

90. An example of an event requiring disclosure is a fire that destroys the premises of an entity a week after the end of the financial year. The notes to the Performance Report would report the fact that the fire occurred, the extent of the damage, the extent to which the damage is covered by insurance, and the likely impact on the entity’s ability to continue operating over the short and long term.

Additional Information

Required information

91. The Notes should include any additional information considered necessary for readers to understand the overall performance of the entity.

Correcting Errors

Required information

92. The Notes should include information about any significant errors relating to past financial years that have been corrected in the current Performance Report. The note shall state what the error was, how the error arose, and how the error has been correct in the current financial year.

Glossary

This Glossary contains terms used in this Standard.

Annual operating payments	Means the total amount of any payments (including grant payments, other than a capital payment), made by the entity during the financial year. A capital payment is a payment during the financial year for the purchase of a resource (commonly referred to as an asset) with an expected life greater than twelve months.
Assets	Assets are resources owned by the entity at the balance date that will be used in future financial years to help satisfy the entity's objectives.
Balance date	The date to which the Performance Report is prepared. It is usually an end of month date, for example, 31 March 202X.
Cash paid	Payments comprise all money paid during the financial year by cash, cheque, bank transfer, or other method. Payments can be either operating payments (relating to day-to-day activities) or related to the purchase of assets or the repayment of borrowings.
Cash received	Cash received comprise all money received during the financial year. This includes all funds deposited into the entity's bank accounts. Most cash received will relate to the normal operating activities of the entity (for example, cash received from a fundraising event). However, some cash received might result from other transactions, such as receipts from the sale of assets or proceeds from borrowings).
Entity	An organisation may take any of a number of forms, including but not limited to, a public entity, company, incorporated association, unincorporated association, or trust. Depending on organisational structure, this may be a legal entity, a unit within a wider organisation, or it may comprise one or more units.
Financial year	A twelve month period ending on the entity's balance date.
Investments	Any other financial asset held by the entity in addition to money held in bank accounts or term deposits. This would include investments in fixed interest bonds or shares.
Loans and borrowings	Funds owing to an external party as a result of a financing arrangement (such as a bank or finance company).
Performance Report	Information that collectively tells the story of the reporting entity over the financial year. This includes the Entity Information, Statement of Service Performance, Statement of Cash Received and Cash Paid, and Notes to the Performance Report.
Public accountability	While public sector entities are generally considered to be publicly accountable, "public accountability" has a specific meaning in the accounting standards issued by the XRB. Entities are considered to have public accountability for financial reporting purposes when they have issued debt or equity instruments through a public offering or their main activity is holding cash or other assets on behalf of others (e.g. a superannuation scheme). The full definition of "Public Accountability" is included in XRB A1.
Public benefit entity (PBE)	A reporting entity 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.
Related party	People or entities that have significant influence over the entity, such as officeholders, committee members, or others that are involved in the strategic management of the entity (whether employed or volunteer) and close members of their families.
Reporting entity	An entity preparing a Performance Report in accordance with this Standard. In the New Zealand reporting environment it is an organisation that is required by law, or elects to apply, standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB. For the purposes of applying this Standard, the entity is required to be a public sector entity.
Significant	An item is significant if disclosure of the particular item, whether financial or non-financial, could influence a reader's understanding of the entity's overall performance.
Statement of cash received and cash paid	A summary of all the cash received, and all the cash paid out, by the entity during the financial year.
Statement of Service Performance	A statement that provides information to help users understand what the entity did during the financial year to achieve its broader aims and objectives. These are particularly useful in the public sector when the focus is on achieving objectives, rather than making a profit.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date:	4 February 2022
To:	NZASB Members
From:	Gali Slyuzberg
Subject:	***2022 Omnibus Amendments to PBE Standards***

Introduction[1]

1. At this meeting we are seeking Board approval to issue NZASB Exposure Draft 2022-2 *2022 Omnibus Amendments to PBE Standards* (the ED).

2. The ED contains proposals to amend PBE Standards. The proposed amendments arise from recent improvements and other narrow-scope amendments issued by the IPSASB and the IASB, as well as comments from New Zealand constituents.

Recommendations

1. With respect to draft ED *2022 Omnibus Amendments to PBE Standards*, we recommend that the Board:

   (a) CONSIDERS the application of the *Policy Approach to the Development of PBE Standards* (the PBE Policy Approach) to:[2]

      (i) *Improvements to IPSAS, 2021*;

      (ii) an amendment to PBE IPSAS 28 *Agriculture* based on a recent IASB amendment that was not included in *Improvements to IPSAS, 2021*, and

      (iii) an amendment to a domestic appendix of PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, in response to a matter raised by a constituent.

   (b) CONSIDERS and APPROVES for issue NZASB ED 2022-2 *2022 Omnibus Amendments to PBE Standards* (agenda item 4.3) and the accompanying Invitation to Comment (agenda item 4.2); and

   (c) AGREES a comment period of 90 days, with comments due by 27 May 2022.

Background

2. The Board issued *2018 Omnibus Amendments to PBE Standards* in November 2018. There have been no omnibus amendments to PBE Standards since then. We propose to issue for comment ED *2022 Omnibus Amendments to PBE Standards*, to update PBE Standards for the IPSASB's *Improvements to IPSAS* amendments issued since 2018 and for certain other amendments, as explained in this memo (and as set out in the attached draft ITC and ED).

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

[2] The link for downloading the PBE Policy Approach is found at the very bottom of the Accounting Standards Framework page on the XRB website.

3. The Invitation to comment (ITC) and ED include the following proposed amendments to PBE Standards.

   (a) amendments arising from *Improvements to IPSAS, 2018*, *Improvements to IPSAS, 2019* and *Improvements to IPSAS, 2021*;

   (b) amendments arising from *Amendments to IPSAS 5, Borrowing Costs – Non-authoritative Guidance*;

   (c) amendments arising from IASB amendments; and

   (d) other New Zealand amendments.

4. The Board has already applied the PBE Policy Approach to most, but not all, of the amendments that we have included in the draft ED. Therefore, the next section of this memo asks the Board to consider the PBE Policy Approach for those amendment where this was not yet done. The remainder of the memo then focuses on the ITC and ED.

Application of the PBE Policy Approach

5. The Board applies the PBE Policy Approach when deciding whether an IPSASB amendment, IASB amendment or domestically developed amendment should be proposed for incorporation into PBE Standards.

6. The Board is asked to apply the PBE Policy Approach to the amendments listed in this section of the memo (the Board has already done this this for the rest of the amendments in the ED).

Improvements to IPSAS, 2021

7. As the IPSASB issued *Improvements to IPSAS, 2021* in January 2022, the Board has not yet considered the PBE Policy Approach with respect to those amendments.

8. Paragraph 22 of the PBE Policy Approach notes that there is a rebuttable presumption that the NZASB will adopt a new or amended IPSAS. Paragraph 23 explains that it is presumed that a new or amended IPSAS will lead to higher quality financial reporting by PBEs in New Zealand in accordance with the development principle set out in the PBE Policy Approach, in the absence of evidence to the contrary.

9. Consistent with the PBE Policy Approach, the amendments in *Improvements to IPSAS, 2021* are generally recommended for inclusion in PBE Standards via the ED *2022 Omnibus Amendments to PBE Standards*, except when there is a reason not to do so (for examples, if the amendments have already been included in PBE Standards or if they are not relevant).

10. Table 1 summarises the amendments in *Improvements to IPSAS, 2021* and our recommendations. Those amendments that we recommend including in PBE Standards have been included in Part C of draft ED 2002 *Omnibus Amendments to PBE Standards*.

Table 1 Application of the PBE Policy Approach to Improvements to IPSAS, 2021

IPSAS amended	Description of IPSAS amendment	Recommended action
General improvements to IPSAS		
IPSAS 22 *Disclosure of Financial Information About the General Government Sector*	Amendments to refer to the latest edition of the *System of National Accounts, 2008* (2008 SNA).	**INCLUDE** in *2022 Omnibus Amendments to PBE Standards*. Amendments proposed to PBE IPSAS 22 *Disclosure of Financial Information About the General Government Sector.*
IPSAS 39 *Employee Benefits*	Amendment to delete the word 'composite' from the term 'composite social security programs', as this is no longer an IPSAS defined term.	**Not applicable.** PBE IPSAS 39 *Employee Benefits* does not include these references to composite social security programmes.
General improvements to IPSAS (continued)		
RPG 1 *Reporting on the Long-Term Sustainability of an Entity's Finances*	Amendment to the Basis for Conclusions on the IPSASB's Recommended Practice Guidance (RPG) RPG 1.	**Not applicable.** The RPG is not part of PBE Standards and we do not issue equivalent RPGs.
IPSAS 29 *Financial Instruments: Recognition and Measurement* (as applicable prior to the adoption of IPSAS 41 *Financial Instruments*)	Amendments to bring into IPSAS 29 (as applicable to entities that have not yet adopted IPSAS 41) the IASB amendments *Interest Rate Benchmark Reform* and *Interest* and *Rate Benchmark Reform – Phase 2* ('the IBOR amendments').	**Not applicable.** We have already incorporated IBOR amendments into PBE Standards. The NZASB issued *PBE Interest Rate Benchmark Reform* in February 2020 and *PBE Interest Rate Benchmark Reform – Phase 2* in November 2020.
Improvements to IPSAS in relation to IFRS alignment		
Interest Rate Benchmark Reforms (Phase 1 and Phase 2)		
IPSAS 41 *Financial Instruments;* IPSAS 29 *Financial Instruments: Recognition and Measurement* (as amended by IPSAS 41 when it was first published in 2018); and IPSAS 30, *Financial Instruments: Disclosures*	Amendments to bring the IASB's IBOR amendments into IPSAS	**Not applicable.** We have already incorporated the IBOR-related amendments into PBE Standards. See above.

IPSAS amended	**Description of IPSAS amendment**	**Recommended action**
Improvements to IPSAS in relation to IFRS alignment (continued)		
Annual Improvements to IFRS Standards 2018–2020 Cycle		
IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs).*	Amendments to extend the exemption available to an entity transitioning to IPSAS later than its controlling entity. The existing exemption relates to the measurement of assets and liabilities, and the amendments extend the exemption so that it also applies to cumulative foreign exchange translation differences in net assets/equity. (Based on an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*)	**INCLUDE** in *2022 Omnibus Amendments to PBE Standards*. Amendments proposed to PBE FRS 47 *First-time Adoption of PBE Standards.* While there is no PBE Standard directly equivalent to IPSAS 33, the amendments are relevant to PBE FRS 47. PBE FRS 47 is largely based on NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards.* The amendments are based on the IASB's amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. PBE FRS 47 contains similar requirements to those that are subject to this amendment.
IPSAS 41, *Financial Instruments.*	Amendments to clarify which fees an entity includes when it applies the '10 percent' test for the derecognition of a financial liability. (Based on an amendment to IFRS 9 *Financial Instruments*)	**INCLUDE** in *2022 Omnibus Amendments to PBE Standards*. Amendments to be proposed to PBE IPSAS 41 *Financial Instruments*.
Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37) – issued May 2020		
IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*	Amendments to clarify the costs of fulfilling a contract that an entity includes when assessing whether a contract will be loss-making or onerous (and therefore whether a provision needs to be recognised).	**INCLUDE** in *2022 Omnibus Amendments to PBE Standards*. Amendments proposed to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*
Property, Plant and Equipment – Proceeds before Intended Use – issued May 2020		
IPSAS 17 *Property, Plant, and Equipment*	Amendments to prohibit proceeds from selling items produced before an asset is available for use to be deducted from the cost of property, plant, and equipment.	**INCLUDE** in *2022 Omnibus Amendments to PBE Standards*. Amendments proposed to PBE IPSAS 17 *Property, Plant and Equipment.*

Additional proposed amendment to PBE IPSAS 27 Agriculture (based on IASB amendment to IAS 41)

11. The IASB issued *Annual Improvement to IFRS Standards 2018–2020* in May 2020. These amendments were incorporated into NZ IFRS in June 2020. When applying the PBE Policy Approach at the time, the Board had agreed to wait for the IPSASB to consider these amendments.

12. Most of the amendments in *Annual Improvement to IFRS Standards 2018–2020* were included in *Improvements to IPSAS, 2021*. However, one amendment was not included. This was an amendment to IAS 41 *Agriculture*, which removed the mandatory exclusion of taxation cash flows when measuring fair value in IAS 41. The IASB noted that without this amendment, IAS 41 requires the use of pre-tax cash flows, but does not require the use of a pre-tax discount rate, when calculating fair value. As noted in the IASB's Basis for Conclusions relating to the amendment, an entity applying a present value technique might measure fair value by discounting after-tax cash flows (using an after-tax discount rate) or pre-tax cash flows (at a rate consistent with those cash flows).

13. The extent of the amendment is minor and consists of the deletion of a single word – 'taxation' in paragraph 22 of IAS 41 (and in NZ IAS 41).

14. Paragraph 31 of the PBE Policy Approach notes that there is a rebuttable presumption that minor limited-scope amendments to IFRS Standards will not be incorporated into PBE Standards in advance of the IPSAS considering the change. However, the paragraph also notes that "the NZASB may issue an exposure draft that proposes the incorporation of these minor amendments into the equivalent PBE Standards at the same time as the IPSASB issues an exposure draft that proposes the incorporation of these minor amendments into IPSAS".

15. The IPSASB has already proposed the inclusion of abovementioned amendment into IPSAS 27 *Agriculture*. The IPSASB did this by including the amendment in the consequential amendments of ED 77 *Measurement*, published in 2021. However, we note that a standard based on ED 77 is expected to be approved by the IPSAS in September 2022, and equivalent proposals would be published in New Zealand at a later date.

16. In light of the above consideration, we recommend including a proposed amendment to PBE IPSAS 27 in *2022 Omnibus Amendments to PBE Standards* – rather than waiting for the development of New Zealand proposals for a standard based on a future IPSAS to be based on ED 77. Given the minor nature of the amendment to PBE IPSAS 27, there would not be a risk in moving ahead of the IPSASB, and this will allow PBEs to benefit from the amendment and from closer alignment with NZ IFRS. Also, given that the IPSASB has proposed similar amendments in ED 77 last year, we think that proposing this amendment at this stage would be consistent with paragraph 31 of the PBE Policy Approach (see paragraph 14 of this memo).

17. The amendment has been included in Part E of the draft ED ('Amendments arising from IASB amendments').

Amendment to PBE IPSAS 19 with respect to Appendix A (which is not included in IPSAS 19)

18. PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* includes Appendix A: Application Guidance Changes in Existing Decommissioning, Restoration and Similar Liabilities. Appendix A is based on IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

19. The IPSASB has not incorporated IFRIC 1 into IPSAS. However, in New Zealand PBEs had applied the guidance in IFRIC 1 before the introduction of PBE Standards. Therefore, when PBE Standards were introduced in New Zealand, the guidance in IFRIC 1 was included in PBE IPSAS 19, to allow the continuation of current practice in an area not covered by IPSAS.

20. Appendix A of PBE IPSAS 19 provides guidance on how to account for the effect of changes in the measurement of decommissioning, restoration and similar liabilities – including the effect on the related asset. In response to a matter raised by a constituent, we propose to amend Appendix A of PBE IPSAS 19, to:

    (a) clarify that the Appendix applies to related assets that are property, plant and equipment, and;

    (b) align the requirements for such assets measured using the revaluation model with the requirements in PBE IPSAS 17 *Property, Plant and Equipment* (in particular, with the requirement in PBE IPSAS 17 to revalue assets on a class-by-class basis, rather than on an asset-by-asset basis).

21. Paragraph 43 of the PBE Policy Approach says the following about the domestic development of PBE Standards and amendments to PBE Standard.

    > In determining whether to initiate the development of a domestic standard for inclusion in the suite of PBE Standards, the NZASB will consider the factors in the development principle. Assuming the NZASB determines that the development of a domestic standard would improve the quality of financial reporting by PBEs, the NZASB will first consider whether there is an international pronouncement addressing the relevant issue that is applicable in the New Zealand context, or whether such an international pronouncement is expected to be developed within an acceptable timeframe.

22. We think the proposed amendments to Appendix A of PBE IPSAS 19 as described in paragraph 20 above are consistent with the discussion in paragraph 43 of the PBE Policy Approach. The clarifications in the proposed amendments are likely to improve the quality of financial reporting. The fact that we are proposing the amendments in response to a matter raised by a consistent indicates that the amendments are applicable in the New Zealand context. The amendments are New Zealand-specific, but they draw on international standards where possible (i.e. IFRIC 1, as well as IPSAS 17 on which PBE IPSAS 17 is based).

23. Table 2 below describes the proposed amendments to Appendix A of PBE IPSAS 19 and the explanation for these amendments. The amendments are shown in full in Part F of ED *2022 Omnibus Amendments to PBE Standards* (agenda item 4.3).

Table 2 Proposed domestic amendment Appendix A of PBE IPSAS 19

Appendix A paragraph	Comment
Introduction: New paragraph A1 is added. The paragraph: • notes examples of obligations in the scope of the Appendix; • explains that under PBE IPSAS 17 *Property, Plant and Equipment*, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and; • explains that this Appendix provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities	The proposed new paragraph is based on IFRIC 1 paragraph 1 before consequential amendments from IFRS 16 *Leases*. While it is not critical to have this paragraph, it provides a useful lead-in.
Scope: New paragraph A2 is added to set out the scope of Appendix A. The paragraph notes that the Appendix applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both: (a) recognised as part of the cost of an item of property, plant and equipment in accordance with PBE IPSAS 17 *Property, Plant and Equipment*; and (b) recognised as a liability in accordance with this Standard. Some examples are provided.	The proposed new paragraph is based on IFRIC 1 paragraph 2, before consequential amendments from IFRS 16. We think it is necessary to include this paragraph. Without this paragraph it would be possible to read this appendix as applying to other types of assets, other than those intended to be covered by Appendix A.
Consensus (i.e. guidance on accounting treatment): Paragraph A4, which provides guidance on the accounting for changes in a decommissioning/restoration liability where the related asset is revalued, is amended to align with PBE IPSAS 17 (including references to classes of assets).	A constituent noted that the existing guidance in paragraph A4 refers to assets revalued individually, whereas PBE IPSAS 17 requires assets to be revalued on a class basis. The proposed amendments aim to address this matter. The proposed amendments are aligned with PBE IPSAS 17, paragraph 55.

Definition of Accounting Estimates – continuing to wait for the IPSASB

24. In February 2021, the IASB issued *Definition of Accounting Estimates*, which amended IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Equivalent amendments were made to NZ IAS 8. The amendments clarify the definition of accounting estimates to help distinguish changes in accounting estimates from changes in accounting policies. The amendments can be viewed here (under *Definition of Accounting Estimates*).

25. IPSASB staff originally planned to propose similar amendments in the ED *Improvements to IPSAS, 2021*. However, these amendments were ultimately excluded from the ED. IPSASB staff noted that the amendments will be reconsidered at a later date, after the final IPSAS based on ED 77 *Measurement* is approved as a pronouncement. We understand that this was because *Definition of Accounting Estimates* mentions fair value measurement, and the equivalent

amendments would need to include references to the final IPSAS based on ED 77, but that final IPSAS has not yet been issued.

26. When the Board considered the application of the PBE Policy Approach to *Definition of Accounting Estimates* in March 2021, we noted that the IPSASB was expected to consider these amendments in the future, that the amendments are not extensive, and that we were not aware of pressing issues relating to the amendments. The Board agreed to wait for the IPSASB to consider the amendments, and not to make equivalent amendments to PBE Standards ahead of the IPSASB.

27. However, given that the amendments were originally expected to be included in *Improvements to IPSAS, 2021*, but were ultimately not included, we would like to re-confirm that the Board still prefers to wait for the IPSASB to consider these amendments. The IPSASB is likely to consider these amendments after an IPSAS based on ED 77 is issued, which is expected to happen in September 2022.

28. We note that unlike the abovementioned amendment to IAS 41 (see paragraphs 11–17 above), *Definition of Accounting Estimates* was not yet included in an IPSASB ED (and while the amendments are not extensive, they are not as minor as the amendment to IAS 41).

29. We think the reasons for waiting for the IPSASB as identified in March 2021 (see paragraph 26 above) are still valid now. For this reason, we have <u>not</u> included *Definition of Accounting Estimates* in *2022 Omnibus Amendments to PBE Standards*.

Questions for the Board

Q1. Does the Board AGREE with our recommendations above in relation to the application of the PBE Policy Approach?

Draft ITC and ED

30. The draft ED *2022 Omnibus Amendments to PBE Standards* is attached as agenda item 4.3. The accompanying Invitation to Comment is attached as agenda item 4.2.

Amendments proposed in the ED

31. The ITC and ED include the following proposed amendments to PBE Standards.

    (a) amendments arising from *Improvements to IPSAS, 2018*, *Improvements to IPSAS, 2019* and *Improvements to IPSAS, 2021* (Part C of the ED, Section 2.2 of the ITC);

    (b) amendments arising from *Amendments to IPSAS 5, Borrowing Costs – Non-authoritative Guidance* (Part D of the ED, Section 2.3 of the ITC);

    (c) amendments arising from IASB amendments (Part E of the ED, Section 2.4 of the ITC); and

    (d) other New Zealand amendments (Part F of the ED, section 2.5 of the ITC).

32. The proposed amendments included in the ED are explained in the ITC. We ask the Board to refer to the explanations in the ITC, including the footnotes, as we have not repeated these explanations in this memo (except in the context of applying the PBE Policy Approach).

33. For the Board's information, Appendix 1 of this memo provides a summary of those amendments in *Improvements to IPSAS, 2019* that were excluded from the ED (based on the Board's application of the PBE Policy Approach to *Improvements to IPSAS, 2019* in March 2019). The parts of *Improvements to IPSAS, 2021* that were not included in the ED are listed in Table 1 under paragraph 10 above.

<u>Note on the proposed amendments to PBE IAS 12 *Income Taxes* (part E of the ED)</u>

34. The amendments to PBE IAS 12 in Part E of the ED are based on the IASB amended *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, which amended IAS 12 *Income Taxes*. An equivalent amendment was made to NZ IAS 12 *Income Taxes* in 2021.

35. The amendments to IAS 12 included references to requirements in IFRS 16 *Leases*, whereby a lessee recognises a right-of-use asset and a lease liability. As the requirements of IFRS 16 are currently not included in PBE Standards, we have modified the amendments so that they refer to a lessee in a *finance lease*, as per PBE IPSAS 13 *Leases*.

36. The modifications to the amendments to PBE IAS 12 are shown in Appendix 2 of this memo. In modifying the amendments, we have used wording based on paragraph 28 of PBE IPSAS 13, which explains that a lessee in a finance lease typically recognises assets acquired under finance leases as assets and the associated lease obligations as liabilities in their statements of financial position.

Effective date

37. The international amendments on which the amendments in the ED are based have effective dates of 1 January 2023 or earlier (except for amendments to non-authoritative material, which does not have an effective date). Therefore, in the effective date paragraphs in the individual amendments (where relevant), we have referred to the amendments being effective for annual reporting periods beginning on or after 1 January 2023.

38. As *2022 Omnibus Amendments to PBE Standard* would be an amending standard in its own right, the overall amending standard also needs an effective date. We have used 1 January 2023 as the effective date for *2022 Omnibus Amendments to PBE Standard* – see Part G of the ED.

39. We have also permitted early application in the individual effective date paragraphs in Part G, as this is aligned with the international amendments on which the amendments in the ED are based.

Consultation period

40. We propose the standard comment period of 90 days for the ED, with comments due by 27 May 2022.

Questions for the Board

Q2. Does the Board have any comments on NZASB ED 2022-2 *Omnibus Amendments to PBE Standards* and accompanying ITC, including the proposed amendments and the effective date?

Q3. Does the Board APPROVE NZASB ED 2022-2 *Omnibus Amendments to PBE Standards* and accompanying ITC for issue?

Q4. Does the Board AGREE to a 90-day comment period?

Attachments

Agenda item 4.2: ITC for *2022 Omnibus Amendments to PBE Standards*

Agenda item 4.3: ED NZASB 2022-2 *2022 Omnibus Amendments to PBE Standards*

Appendix 1: Amendments in *Improvements to IPSAS, 2019* that were not included in ED 2022-2

IPSAS amended	**Comment**
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	
IPSAS 5 *Borrowing Costs*	The amendments update the guidance related to the components of borrowing costs. The amendments to IPSAS 5 were inadvertently omitted by the IPSASB when IPSAS 41 was issued. These amendments are not included in ED 2022-2 because the NZASB included equivalent amendments to PBE IPSAS 5 *Borrowing Costs* when issuing PBE IPSAS 41.
IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*	The amendments update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS. This amendment to IPSAS 33 was inadvertently omitted by the IPSASB when IPSAS 41 was issued. These amendments are not included in ED 2022-2. There is no PBE Standard based on IPSAS 33, and the NZASB included similar amendments to PBE FRS 47 *First-time Adoption of PBE Standards* when issuing PBE IPSAS 41.
Other Improvements to IPSAS	
IPSAS 13 *Leases;* IPSAS 17 *Property, Plant, and Equipment*	Amendments to remove transitional provisions which should have been deleted when the IPSASB issued IPSAS 33. These amendments are not included in ED 2022-2 because there is no PBE Standard based on IPSAS 33.
IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*	Amendments to clarify the implementation guidance on deemed cost to make it consistent with the core principles in the Standard. These amendments are not included in ED 2022-2 because there is no PBE Standard based on IPSAS 33.
IPSAS 40 *Public Sector Combinations*	Amendments to add an effective date paragraph for when an entity adopts IPSAS 33. This was inadvertently omitted by the IPSASB when IPSAS 40 was issued. These amendments are not included in ED 2022-2 because the transitional provisions in IPSAS 40 are not included in PBE IPSAS 40 *PBE Combinations*.

Appendix 2: Modifications to the amendments to PBE IAS 12 *Income Taxes*

Amendments to NZ IAS 12	Amendments to PBE IAS 12
22A A transaction that is not a business combination may lead to the initial recognition of an asset and a liability and, at the time of the transaction, affect neither accounting profit nor taxable profit. For example, at the commencement date of a lease, a lessee typically recognises a lease liability and the corresponding amount as part of the cost of a right-of-use asset. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of the asset and liability in such a transaction. The exemption provided by paragraphs 15 and 24 does not apply to such temporary differences and an entity recognises any resulting deferred tax liability and asset.	22A A transaction that is not a PBE combination may lead to the initial recognition of an asset and a liability and, at the time of the transaction, affect neither accounting profit nor taxable profit. For example, at the commencement date of a lease classified as a finance lease, a lessee typically recognises assets acquired under finance leases as assets and the associated lease obligations as liabilities in their statements of financial position. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of the asset and liability in such a transaction. The exemption provided by paragraphs 15 and 24 does not apply to such temporary differences and an entity recognises any resulting deferred tax liability and asset.
98L An entity applying *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* shall also, at the beginning of the earliest comparative period presented: (a) recognise a deferred tax asset […] and a deferred tax liability for all deductible and taxable temporary differences associated with: (i) right-of-use assets and lease liabilities; and […]	98.13 An entity applying *2022 Omnibus Amendments to PBE Standards* shall also, at the beginning of the earliest comparative period presented: (a) Recognise a deferred tax asset […] and a deferred tax liability for all deductible and taxable temporary differences associated with: (i) Assets acquired under finance leases and liability for the associated lease obligations; and […]
Amendments to NZ IFRS 1 (consequential)	Amendments to PBE FRS 47 (consequential)
B1 An entity shall apply the following exceptions: […] (i) deferred tax related to leases and decommissioning, restoration and similar liabilities (paragraph B14).	A1. An entity shall apply the following exceptions: […] (g) Deferred tax related to finance leases and decommissioning, restoration and similar liabilities (paragraph A10).
B14 Paragraphs 15 and 24 of NZ IAS 12 *Income Taxes* exempt an entity from recognising a deferred tax asset or liability in particular circumstances. Despite this exemption, at the date of transition to NZ IFRS, a first-time adopter shall recognise a deferred tax asset […] and a deferred tax liability for all deductible and taxable temporary differences associated with: (a) right-of-use assets and lease liabilities; […]	A10. Paragraphs 15 and 24 of PBE IAS 12 *Income Taxes* exempt an entity from recognising a deferred tax asset or liability in particular circumstances. Despite this exemption, at the date of transition to PBE Standards, a first-time adopter shall recognise a deferred tax asset […] and a deferred tax liability for all deductible and taxable temporary differences associated with: (a) Assets acquired under finance leases and liability for the associated lease obligations; […]

Agenda item 4.2

NZASB Exposure Draft 2022-2

2022 Omnibus Amendments to PBE Standards

(NZASB ED 2022-2)

Invitation to Comment

February 2022

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Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposals for *2022 Omnibus Amendments to PBE Standards*.

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

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

Comments should be submitted electronically using our 'Accounting Standards open for consultation' page (under 'Domestic consultations') at: https://xrb.govt.nz/consultations/accounting-standards-open-for-consultation/.

Please include *2022 Omnibus Amendments to PBE Standards* 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 **27 May 2022.**

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

Questions for respondents

		Paragraphs
1	Do you agree with the proposed amendments to PBE Standards in Part C of ED 2022-2? If you disagree, please provide reasons. Part C proposes to amend the following standards. PBE IPSAS 16 *Investment Property* PBE IPSAS 30 *Financial Instruments: Disclosures* PBE IPSAS 13 *Leases* PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* PBE IPSAS 26 *Impairment of Cash-Generating Assets* PBE IPSAS 22 *Disclosure of Information about the General Government Sector* PBE FRS 47 *First-time Adoption of PBE Standards* PBE IPSAS 41 *Financial Instruments* PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* PBE IPSAS 17 *Property, Plant and Equipment*	9–14
2	Do you agree with the proposed amendments to PBE IPSAS 5 *Borrowing Costs* in Part D of ED 2022-2? If you disagree, please provide reasons.	15–17
3	Do you agree with the proposed amendments arising from IASB amendments in Part E of ED 2022-2? If you disagree, please provide reasons. Part E proposes to amend the following standards. PBE IAS 12 *Income Taxes* PBE FRS 47 *First-time Adoption of PBE Standards* PBE IPSAS 27 *Agriculture*	18
4	Do you agree with the proposed amendments to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* in Part F of ED 2022-2? If you disagree, please provide reasons.	19–21
5	Do you agree with the proposed effective date of 1 January 2023? If you disagree, please provide reasons.	22
6	Do you have any other comments on ED 2022-2?	22

1. Introduction

1.1 Background

1. NZASB Exposure Draft 2022-2 *2022 Omnibus Amendments to PBE Standards* (subsequently referred to as ED 2022-2 or the ED) contains proposals to amend PBE Standards. The proposed amendments arise from recent improvements and other narrow-scope amendments issued by the IPSASB and the IASB, as well as comments from New Zealand constituents.

2. The NZASB regularly considers the improvements and narrow scope amendments made by the IASB and IPSASB to their standards and forms a view on whether those amendments should be incorporated in PBE Standards. In cases where amendments made by the IASB will subsequently be considered by the IPSASB, the NZASB generally waits until the IPSASB has completed its consideration of those amendments.

3. The NZASB also periodically considers other non-urgent matters for which amendments to standards are required.

1.2 Purpose of this Invitation to Comment

4. The purpose of this ITC is to seek comments on the proposed amendments set out in the ED.

1.3 Timeline and next steps

5. Submissions on NZASB ED 2022-2 are due by **27 May 2022**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

6. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the amendments.

2. Overview of ED 2022-2

2.1 Summary of the amendments

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

    (a) amendments arising from *Improvements to IPSAS, 2018*, *Improvements to IPSAS, 2019* and *Improvements to IPSAS, 2021*;

    (b) amendments arising from *Amendments to IPSAS 5, Borrowing Costs – Non-authoritative Guidance*;

    (c) amendments arising from IASB amendments; and

    (d) other New Zealand amendments.

2.2 Amendments arising from *Improvements to IPSAS, 2018*, *Improvements to IPSAS, 2019* and *Improvement to IPSAS, 2021*

9. The IPSASB periodically issues improvements to IPSAS, the standards on which many PBE Standards are based. The IPSASB's improvements include amendments based on the IASB's annual improvements and narrow scope amendments, and other amendments identified by the IPSASB.

10. In accordance with the NZASB's *Policy Approach to Developing the Suite of PBE Standards* the NZASB generally proposes to incorporate the IPSASB's improvements in PBE Standards. The NZASB seeks feedback on such amendments through its normal due process.

Improvements to IPSAS, 2018 (amendment not yet incorporated into PBE Standards)

11. The IPSASB issued *Improvements to IPSAS, 2018* in October 2018. The NZASB incorporated most of these improvements into PBE Standards in October 2018, by issuing *2018 Omnibus Amendments to PBE Standards*.

12. However, one of the amendments to IPSAS 16 *Investment Property* was not included in *2018 Omnibus Amendments to PBE Standards*. The IPSASB added that amendment into *Improvements to IPSAS, 2018* after the NZASB had already completed its public consultation on *2018 Omnibus Amendments to PBE Standards*. The NZASB has considered the amendment to IPSAS 16 and is proposing an equivalent amendment to PBE IPSAS 16 at this time. The amendment is described in Table 1 below.

Table 1: Amendments arising from *Improvements to IPSAS, 2018*

PBE Standard	Nature of the amendments
PBE IPSAS 16 *Investment Property*	Amendments to paragraph 76, to clarify that fair value measurement of self-constructed investment property could commence before the completion of construction. A heading is also added above paragraph 76. The new heading clarifies that paragraph 76 provides guidance on initially measuring self-constructed investment property at fair value, rather than guidance on the *transfer* of such assets upon completion of their construction. Investment property under construction is within the scope of IPSAS 16, and therefore is not transferred from another class of asset on completion of its construction.

Improvements to IPSAS, 2019 and *Improvements to IPSAS, 2021*

13. The IPSASB has also issued *Improvements to IPSAS, 2019* in January 2020, and *Improvements to IPSAS, 2021* in January 2022.

14. The NZASB has considered these amendments and is proposing equivalent amendments to PBE Standards where appropriate. Some of the amendments were already incorporated into PBE Standards ahead of the IPSASB (for example, PBE IBOR) or are not applicable in New Zealand. Tables 2–3 set out the amendments that are proposed in this ED. Table 2 includes amendments arising from *Improvements to IPSAS, 2019*, and Table 3 includes amendments arising from *Improvements to IPSAS, 2022*. The equivalent proposed amendments to PBE Standards are in Part C of ED 2022-2.

Table 2: Amendments arising from *Improvements to IPSAS, 2019*

PBE Standard	Nature of the amendments
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	
PBE IPSAS 30 *Financial Instruments: Disclosures*	Amendments to examples on credit risk in the Implementation Guidance of PBE IPSAS 30, to include references to types of loans that are more common in the public sector.[2]
PBE IPSAS 30 *Financial Instruments: Disclosures*	Amendments to paragraph AG5(h) of PBE IPSAS 30, to update the guidance on disclosures for financial guarantee contracts issued through non-exchange transactions. The amendment specifically refers to disclosing the circumstances that result in fair value not being determinable, whereas the current disclosure requirement in paragraph AG5(h) of PBE IPSAS 30 is more generic.[3]
Other Improvements to IPSAS	
PBE IPSAS 13 *Leases*	Amendments to paragraph 76, to include the appropriate references to the PBE Standards on impairment, in place of the current references to other international and/or national accounting frameworks.[4]
PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets.*	Amendments to clarify that the guidance on the impairment of revalued assets applies to assets revalued individually in the scope of IPSAS 31 *Intangible Assets* and to assets revalued by class in the scope of IPSAS 17 *Property, Plant, and Equipment*.[5]

[2] The IPSASB's amendments to IPSAS 30 also added new illustrative examples on hedging and credit risk, which were inadvertently omitted by the IPSASB when issuing IPSAS 41. However, the NZASB had already included similar amendments in PBE IPSAS 30 when issuing PBE IPSAS 41 in 2019 – albeit without the abovementioned public sector-specific references in the credit risk-related examples.

[3] The main purpose of the IPSASB's amendment is to replace the reference to measuring financial guarantee contracts issued in a non-exchange transaction under IPSAS 19 with a reference to measuring such contracts under IPSAS 41. The IPSASB inadvertently omitted this amendment when issuing IPSAS 41. The NZASB had made a similar amendment to PBE IPSAS 30 when issuing PBE IPSAS 41 in 2019. However, the wording used by the NZASB at the time was more generic compared to the IPSASB's amendment.

[4] The IPSASB's amendment also amended paragraph 67 of IPSAS 13, but this amendment to paragraph 67 is already reflected in PBE IPSAS 13.

[5] The main purpose of the IPSASB's amendments to the guidance on the impairment of revalued assets is to clarify that this guidance relates not only to assets that are revalued on a class basis, but also to assets that are revalued individually. The equivalent guidance in PBE Standards already refers to both individually revalued assets and assets revalued by assets. However, the NZASB considers that the wording of the IPSASB amendments is clearer.

Table 3: Amendments arising from *Improvements to IPSAS, 2021*

PBE Standard	Nature of the amendments
Part I – General Improvements to IPSAS	
PBE IPSAS 22 *Disclosure of Financial Information about the General Government Sector.*	Amendments to refer to the latest edition of the *System of National Accounts, 2008* (2008 SNA).
Part II – IFRS Alignment amendments	
Annual Improvements to IFRS Standards 2018–2020 Cycle	
PBE FRS 47 *First-time adoption of PBE Standards*	Amendments to extend the exemption available to an entity transitioning to PBE Standards later than its controlling entity. The existing exemption relates to the measurement of assets and liabilities, and the amendments extend the exemption so that it also applies to cumulative foreign exchange translation differences in net assets/equity.[6]
PBE IPSAS 41 *Financial Instruments*	Amendments to clarify which fees an entity includes when it applies the '10 percent' test for the derecognition of a financial liability.
Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)	
PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*	Amendments to clarify the costs of fulfilling a contract that an entity includes when assessing whether a contract will be loss-making or onerous (and therefore whether a provision needs to be recognised).
Property, Plant and Equipment—Proceeds before Intended Use (Amendments to IAS 16)	
PBE IPSAS 17 *Property, Plant, and Equipment*	Amendments to prohibit proceeds from selling items produced before an asset is available for use to be deducted from the cost of property, plant, and equipment.

Question for respondents

1. Do you agree with the proposed amendments to PBE Standards in Part C of ED 2022-2? If you disagree, please explain why.

2.3 Amendments arising from *Amendments to IPSAS 5, Borrowing Costs – Non-authoritative Guidance*

15. In its 2019 Consultation Paper *Measurement*, the IPSASB asked constituents whether it should remove the option to capitalise borrowing costs in IPSAS 5. Feedback on this issue was mixed. The IPSASB decided to retain the existing accounting policy option in IPSAS 5 to either capitalise eligible borrowing costs or to treat them as an expense. Further information on the IPSASB's decision to retain this accounting policy choice can be found in the IPSASB's Basis for

[6] The IPSASB's amendments amended IPSAS 33 *First-time Adoption of Accrual Basis IPSAS*. There is no PBE Standard based on IPSAS 33. However, this amendment is relevant to PBE FRS 47 *First-time adoption of PBE Standards*, which is largely based on NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards.* The amendments are based on the IASB's amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, and PBE FRS 47 contains similar requirements to those that are subject to this amendment.

Conclusions to *Amendments to IPSAS 5, Borrowing Costs – Non-authoritative Guidance* (paragraphs BC8–BC14), available on the IPSASB website.

16. However, given that some respondents to the Consultation Paper identified practical public sector challenges in capitalising borrowing costs, the IPSASB developed additional implementation guidance and illustrative examples to assist entities in determining the extent to which borrowing costs can be capitalised. In November 2021, the IPSASB issued *Amendments to IPSAS 5, Borrowing Costs – Non-authoritative Guidance*, to include the abovementioned guidance and examples in the non-authoritative material accompanying IPSAS 5.

17. The NZASB considered *Amendments to IPSAS 5, Borrowing Costs – Non-authoritative Guidance* and is proposing equivalent amendments to the non-authoritative material accompanying PBE IPSAS 5 *Borrowing Costs*. The proposed amendments are in part D of ED 2022-2.

Question for respondents

2. Do you agree with the proposed amendments to PBE IPSAS 5 *Borrowing Costs* in Part D of ED 2022-2? If you disagree, please explain why.

2.4 Amendments arising from IASB amendments

18. Table 3 summarises other proposed amendments to PBE Standards arising from recent IASB improvements and narrow scope amendments, and the reasons for proposing these amendments in ED 2022-2.

Table 4: Amendments arising from IASB amendments

PBE Standard	Nature of the amendments
Deferred Tax related to Assets and Liabilities arising from a Single Transaction	
PBE IAS 12 *Income Taxes* and PBE FRS 47 *First-time Adoption of PBE Standards* (the latter is a consequential amendment)	Amendment to narrow the scope of the recognition exemption for deferred tax assets and deferred tax liabilities, so that the recognition exemption would not apply to transactions that give rise to equal and offsetting temporary differences. The amendment is based on the IASB amendment *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, which amended IAS 12 *Income Taxes*. The NZASB incorporated equivalent amendments into NZ IAS 12 *Income Taxes* by issuing *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* in July 2021. The IPSASB does not plan to consider these amendments, as there is no IPSAS equivalent to IAS 12. However, in New Zealand the amendments are relevant to PBE IAS 12 *Income Taxes*. Therefore, the NZASB proposes an equivalent amendment to PBE IAS 12. The proposed amendments are included in part E of ED 2022-2.

Table 4: Amendments arising from IASB amendments (continued)

PBE Standard	Nature of the amendments
Annual Improvements to IFRS 2018-2020	
PBE IPSAS 27 *Agriculture*	Amendments to remove the mandatory exclusion of taxation cash flows when measuring fair value in PBE IPSAS 27, given that PBE IPSAS 27 does not require the use of a pre-tax discount rate. This amendment is based on the IASB amendment to IAS 41 *Agriculture*, which the NZASB incorporated into NZ IAS 41 *Agriculture*. As noted in the IASB's Basis for Conclusions relating the amendment, an entity applying a present value technique might measure fair value by discounting after-tax cash flows (using an after-tax discount rate) or pre-tax cash flows (at a rate consistent with those cash flows). In April 2021, the IPSASB included a similar amendment to IPSAS 27 within ED 77 *Measurement*. The IPSASB is expected to finalise the standard based on ED 77 in September 2022, and an equivalent PBE Standard would be proposed at a later date. The NZASB proposes to include the amendment in PBE Standards at this stage, rather than waiting for the IPSASB to issue a standard based on ED 77. Given the minor nature of the amendment, there would not be a risk in moving ahead of the IPSASB, and this will allow PBEs to benefit from the amendment and from closer alignment with NZ IFRS.

Question for respondents

3. Do you agree with the proposed amendments in Part E of ED 2022-2? If you disagree, please explain why.

2.5 Other New Zealand amendments

19. PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* includes Appendix A: Application Guidance Changes in Existing Decommissioning, Restoration and Similar Liabilities. Appendix A is based on IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The IPSASB has not incorporated IFRIC 1 into IPSAS. However, in New Zealand PBEs had applied the guidance in IFRIC 1 before the introduction of PBE Standards. Therefore, when PBE Standards were introduced in New Zealand, the NZASB included the guidance from IFRIC 1 in PBE IPSAS 19 to allow the continuation of current practice in an area not covered by IPSAS.

20. Appendix A of PBE IPSAS 19 provides guidance on how to account for the effect of changes in the measurement of decommissioning, restoration and similar liabilities – including the effect on the related asset. In response to a matter raised by a constituent, the NZASB proposes to amend Appendix A of PBE IPSAS 19, to:

    (a) clarify that the Appendix applies to related assets that are property, plant and equipment, and;

    (b) align the requirements for such assets measured using the revaluation model with the requirements in PBE IPSAS 17 *Property, Plant and Equipment*(in particular, with the requirement in PBE IPSAS 17 to revalue assets on a class-by-class basis, rather than on an asset-by-asset basis).

21. The proposed amendments are included in Part F of ED 2022-2.

Question for respondents

4. Do you agree with the proposed amendments to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* in Part F of ED 2022-2? If you disagree, please explain why.

2.6 Effective date and other comments

22. The proposed effective date in the ED is 1 January 2023, with early adoption permitted. This date is tentative and would be reviewed prior to issuing the finalised amendments.

Questions for respondents

5. Do you agree with the proposed effective date of 1 January 2023, with early adoption permitted? If you disagree, please explain why.

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

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB EXPOSURE DRAFT 2022-2

2022 Omnibus Amendments to PBE Standards

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 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

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

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

This [draft] Standard has been issued to amend the relevant Tier 1 and Tier 2 PBE Standards as a result of:

(a) amendments arising from *Improvements to IPSAS, 2018* , *Improvements to IPSAS, 2019* and *Improvements to IPSAS, 2021*;

(b) amendments arising from *Amendments to IPSAS 5*, *Borrowing Costs – Non-authoritative Guidance*;

(c) amendments arising from IASB® amendments, and;

(d) other New Zealand amendments.

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

ISBN

CONTENTS

Part A – Introduction

This Standard [draft] includes amendments for the following.

(a) Amendments arising from *Improvements to IPSAS, 2018*, *Improvements to IPSAS, 2019* and *Improvements to IPSAS, 2021*.

(i) The following Standards are amended as a result of *Improvements to IPSAS, 2018*:

PBE IPSAS 16 *Investment Property*

(ii) The following Standards are amended as a result of *Improvements to IPSAS, 2019*:

PBE IPSAS 30 *Financial Instruments: Disclosures*

PBE IPSAS 13 *Leases*

PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets*

PBE IPSAS 26 *Impairment of Cash-Generating Assets*

(iii) The following Standards are amended as a result of *Improvements to IPSAS, 2021*:

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

PBE FRS 47 *First-time Adoption of PBE Standards*

PBE IPSAS 41 *Financial Instruments*

PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

PBE IPSAS 17 *Property, Plant and Equipment*

(b) Amendments arising from *Amendments to IPSAS 5, Borrowing Costs – Non-authoritative Guidance*. The amendments relate to PBE IPSAS 5 *Borrowing Costs*.

(c) Amendments arising from IASB® amendments, relating to the following standards

PBE IAS 12 *Income Taxes*

PBE FRS 47 *First-time Adoption of PBE Standards*

PBE IPSAS 27 *Agriculture*

(d) New Zealand amendment to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

Part B – Scope

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

Part C – Amendments arising from *Improvements to IPSAS, 2018*, *Improvements to IPSAS, 2019* and *Improvements to IPSAS, 2021*

C1 – Amendments arising from *Improvements to IPSAS, 2018*

PBE IPSAS 16 *Investment Property*

Paragraph 76 is amended and paragraph 102.9 is added. A new heading is inserted before paragraph 76. New text is underlined.

Guidance on Initially Measuring Self-Constructed Investment Property at Fair Value

76. **When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, or when its fair value becomes reliably measurable (whichever is earlier), any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in surplus or deficit.**

...

Effective Date

...

102.9. ***2022 Omnibus Amendments to PBE Standards*****, issued in [Date], amended paragraph 76 and added the heading above paragraph 76. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2023. Earlier application is permitted.**

...

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

Basis for Conclusions

...

2022 Omnibus Amendments to PBE Standards

BC10. In October 2018, the IPSASB issued *Improvements to IPSAS, 2018*, which amended paragraph 76 of IPSAS 16 *Investment Property.* The amendments to paragraph 76 clarify that fair value measurement of self-constructed investment property could commence before the completion of construction. A heading was also added above paragraph 76. The new heading clarifies that paragraph 76 provides guidance on initially measuring self-constructed investment property at fair value, rather than guidance on the transfer of such assets upon completion of their construction. Investment property under construction is within the scope of IPSAS 16, and therefore is not transferred from another class of asset on completion of its construction. The NZASB amended PBE IPSAS 16 in *2022 Omnibus Amendments to PBE Standards*.

C2 – Amendments arising from *Improvements to IPSAS, 2019*

PBE IPSAS 30 *Financial Instruments: Disclosures*

Paragraph 53.14 is added and paragraph AG5(h) is amended. New text is underlined and deleted text is struck through.

Effective Date

...

53.14. ***2022 Omnibus Amendments to PBE Standards*, issued in [Date], amended paragraph AG5. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2023. Earlier application is permitted.**

...

Application Guidance

This Appendix is an integral part of PBE IPSAS 30.

Classes of Financial Instruments and Level of Disclosure (paragraph 9)

...

Other Disclosure—Accounting Policies (paragraph 25)

AG5. Paragraph 25 requires disclosure of 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:

…

(h) ~~The nature of~~ For financial guarantee contracts issued through a non-exchange transaction, where no fair value could be determined and on initial recognition the financial guarantee contract is measured at the amount of the loss allowance in accordance with paragraph AG136 of PBE IPSAS 41, disclosure of the circumstances that result in fair value not being determinable.

Paragraphs BC6 and BC7 and the related headings are added. New text is underlined

Basis for Conclusions

...

2022 Omnibus Amendments to PBE Standards

BC6. In August 2020 the IPSASB issued *Improvements to IPSAS, 2019*, which amended IPSAS 30 *Financial Instruments: Disclosures*. The amendments updated the guidance in paragraph AG5(h) on disclosure for financial guarantee contracts issued in non-exchange transactions. These amendments were inadvertently omitted by the IPSASB when issuing IPSAS 41 *Financial Instruments*. The NZASB included similar amendments in paragraph AG5(h) of PBE IPSAS 30 when issuing PBE IPSAS 41 *Financial Instruments* in 2019. However, the IPSASB's amendment specifically refers to disclosing the circumstances that result in fair value not being determinable, whereas the wording that the NZASB had used was more generic. In *2022 Omnibus Amendments to PBE Standards*, the NZASB amended paragraph AG5(h) in PBE IPSAS 30 to align with the wording used in *Improvements to IPSAS, 2019*.

BC7. *Improvements to IPSAS, 2019* also amended the Implementation Guidance of IPSAS 30 by adding and amending illustrative examples relating to hedging and credit risk. These amendments were inadvertently omitted by the IPSASB when issuing IPSAS 41. The NZASB included similar amendments to the Implementation Guidance of PBE IPSAS 30 when issuing PBE IPSAS 41 in 2019. The only difference was that the IPSASB's amendments in relation to the credit risk-related examples contained references to types of loans that are more common in the public sector, whereas the equivalent examples in PBE IPSAS 30 did not, as they were developed based on IFRS 9 *Financial Instruments*. In 2022 *Omnibus Amendments to PBE Standards*, the NZASB amended the relevant credit risk-related examples Implementation Guidance of PBE IPSAS 30 to align with the wording used in *Improvements to IPSAS, 2019*.

Implementation Guidance paragraphs IG22B–IG22D and IG23 are amended. New text is underlined and deleted text is struck through.

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 30.

...

Illustrating the Application of Paragraphs 42H and 42I

IG22B. The following example illustrates one way of providing information about the changes in the loss allowance and the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance as required by paragraphs 42H–42I. This example does not illustrate the requirements for financial assets that are purchased or originated credit-impaired.

...

Significant changes in the gross carrying amount of mortgage loans that contributed to changes in the loss allowance were:

- The acquisition of ~~the ABC~~ Region Y's prime mortgage portfolio increased the residential mortgage book by x percent, with a corresponding increase in the loss allowance measured on a 12-month basis.
- The write off of the CUXX ~~DEF~~ Region Z's mortgage portfolio following the collapse of the local market in the region reduced the loss allowance for financial assets with objective evidence of impairment by CUX.
- The expected increase in unemployment in Region X caused a net increase in financial assets whose loss allowance is equal to lifetime expected credit losses and caused a net increase of CUX in the lifetime expected credit losses allowance.

...

Illustrating the Application of Paragraphs 42M and 42N

IG22C. The following example illustrates some ways of providing information about an entity's credit risk exposure and significant credit risk concentrations in accordance with paragraph 42M of PBE IPSAS 30. The number of grades used to disclose the information in accordance with paragraph 42M of PBE IPSAS 30 shall be consistent with the number that the entity uses to report internally to key management personnel for internal credit risk management purposes. However, if information about credit risk rating grades is not available without undue cost or effort and an entity uses past due information to assess whether credit risk has increased significantly since initial recognition in accordance with paragraph 83 of PBE IPSAS 41, the entity shall provide an analysis by past due status for those financial assets.

~~Consumer loan~~ Loan credit risk exposure by internal rating grades				
20XX	~~Consumer – credit card~~ Mortgage loans		~~Consumer – automotive~~ Agriculture loans	
CU'000	Gross carrying amount		Gross carrying amount	
	Lifetime	12-month	Lifetime	12-month
Internal Grade 1–2	X	X	X	X
Internal Grade 3–4	X	X	X	X
Internal Grade 5–6	X	X	X	X
Internal Grade 7	X	X	X	X
Total	**X**	**X**	**X**	**X**

~~Corporate loan~~ Loan credit risk profile by external rating grades				
20XX	~~Corporate – equipment~~ Mortgage loans		~~Corporate – construction~~ Agriculture loans	
CU'000	Gross carrying amount		Gross carrying amount	
	Lifetime	12-month	Lifetime	12-month
AAA-AA	X	X	X	X
A	X	X	X	X
BBB-BB	X	X	X	X
B	X	X	X	X
CCC-CC	X	X	X	X
C	X	X	X	X
D	X	X	X	X
Total	**X**	**X**	**X**	**X**

~~Corporate loan~~ Loan risk profile by probability of default				
20XX	~~Corporate – unsecured~~ Mortgage loans		~~Corporate – secured~~ Agriculture loans	
CU'000	Gross carrying amount		Gross carrying amount	
	Lifetime	12-month	Lifetime	12-month
0.00 – 0.10	X	X	X	X
0.11 – 0.40	X	X	X	X
0.41 – 1.00	X	X	X	X
1.01 – 3.00	X	X	X	X
3.01 – 6.00	X	X	X	X
6.01 – 11.00	X	X	X	X
11.01 – 17.00	X	X	X	X
17.01 – 25.00	X	X	X	X
25.01 – 50.00	X	X	X	X
50.01+	X	X	X	X
Total	**X**	**X**	**X**	**X**

IG22D. ~~Entity A manufactures cars and~~ The Department of Agriculture provides short-term financing to both ~~dealers and end customers~~ small-scale and large-scale farmers. The purpose of the financing is to purchase inputs such as fertilizers, seeds and pesticides. ~~Entity A~~ The Department of Agriculture discloses its ~~dealer~~ small-scale farmers financing and ~~customer~~ large-scale farmers financing as separate classes of financial instruments and applies the simplified approach to its trade receivables so that the loss allowance is always measured at an amount equal to lifetime expected credit losses. The following table illustrates the use of a provision matrix as a risk profile disclosure under the simplified approach:

20XX CU'000	**Trade receivables days past due**				
~~Dealer~~ Small-scale farmer financing Expected credit loss rate Estimated total gross carrying amount at default	**Current** 0.10% CU20,777	**More than 30 days** 2% CU1,416	**More than 60 days** 5% CU673	**More than 90 days** 13% CU235	**Total** CU23,101
Lifetime expected credit losses— ~~dealer~~ small-scale farmer financing	CU21	CU28	CU34	CU31	CU114
~~Customer~~ Large-scale farmer financing Expected credit loss rate Estimated total gross carrying amount at default	0.20% CU19,222	3% CU2,010	8% CU301	15% CU154	CU21,687
Lifetime expected credit losses— ~~customer~~ large-scale farmer financing	CU38	CU60	CU24	CU23	CU145

IG23. Paragraph 43 requires an entity to disclose information about its exposure to credit risk by class of financial instrument. Financial instruments in the same class share economic characteristics with respect to the risk being disclosed (in this case, credit risk). For example, an entity might determine that residential mortgages, unsecured ~~consumer~~ agricultural loans, and ~~commercial~~ research and development loans each have different economic characteristics.

PBE IPSAS 13 *Leases*

Paragraph 76 is amended and paragraph 86.7 is added. New text is underlined and deleted text is struck through.

Sale and Leaseback Transactions

...

76. For finance leases, no such adjustment is necessary unless (a) there has been an impairment in value, and (b) that impairment is required to be recognised ~~by any international and/or national accounting standard on impairment that has been adopted by the entity~~ in accordance with PBE IPSAS 21 or PBE IPSAS 26, where appropriate.

...

Effective Date

...

86.7. *2022 Omnibus Amendments to PBE Standards*, issued in [Date], amended paragraph 76. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2023. Earlier application is permitted.

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

Basis for Conclusions

...

2022 Omnibus Amendments to PBE Standards

BC3. In January 2020, the IPSASB issued *Improvements to IPSAS, 2019*. Paragraph 76 of IPSAS 13 *Leases* was amended to include the appropriate references to the IPSASs on impairment in place of the references to other international and/or national accounting frameworks. The NZASB amended paragraph 76 of PBE IPSAS 13 in *2022 Omnibus Amendments to PBE Standards*.

PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets*

Paragraphs 54A and 69A are amended and paragraph 83.9 is added. New text is underlined and deleted text is struck through.

Recognising and Measuring an Impairment Loss

...

54A An impairment loss on a non-revalued asset is recognised in surplus or deficit. However, an impairment loss on a revalued asset is recognised in other comprehensive revenue and expense to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with PBE IPSAS 31 or class of assets in accordance with PBE IPSAS 17 ~~class of assets or asset in accordance with the relevant standard~~. Such an impairment loss on a revalued asset reduces the revaluation surplus for that class of assets or asset.

...

Reversing an Impairment Loss

...

69A A reversal of an impairment loss on a revalued asset is recognised in other comprehensive revenue and expense and increases the revaluation surplus for that individual asset in accordance with PBE IPSAS 31 or class of assets in accordance with PBE IPSAS 17 ~~class of assets or asset in accordance with the relevant standard~~. However, to the extent that an impairment loss on the same individual revalued asset or class of revalued assets ~~class of revalued assets or asset~~ was previously recognised in surplus or deficit, a reversal of that impairment loss is also recognised in surplus or deficit in accordance with PBE IPSAS 31 or PBE IPSAS 17.

...

Effective Date

...

83.9. *2022 Omnibus Amendments to PBE Standards*, issued in [Date], amended paragraphs 54A and 69A. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2023. Earlier application is permitted.

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

Basis for Conclusions

...

2022 Omnibus Amendments to PBE Standards

BC5. In January 2020, the IPSASB issued *Improvements to IPSAS, 2019*, which included amendments IPSAS 21 *Impairment of Non-Cash-Generating Assets*. The amendments clarified that the guidance on the impairment of revalued assets in paragraphs 54A and 69A applied not only to assets that are revalued on a class-by-class basis (i.e. assets in the scope of IPSAS 17), but also to assets that are revalued individually (i.e. assets in the scope of IPSAS 31). The NZASB had clarified that paragraphs 54A and 69A applied to both assets that are revalued individually and assets revalued by class, by issuing *Impairment of Revalued Assets* (Amendments to PBE IPSASs 21 and 26) in April 2017. However, the NZASB considered that the wording used by the IPSASB in *Improvements to IPSAS, 2019* is clearer. The NZASB therefore amended paragraphs 54A and 69A of PBE IPSAS 21 to align the wording with paragraphs 54A and 69A of IPSAS 21 in *2022 Omnibus Amendments to PBE Standards*.

PBE IPSAS 26 *Impairment of Cash-Generating Assets*

Paragraphs 73A and 108A and the related headings are amended and paragraph 127.11 is added. New text is underlined and deleted text is struck through.

Recognising and Measuring an Impairment Loss ~~of an Individual Asset~~

...

73A An impairment loss on a non-revalued asset is recognised in surplus or deficit. However, an impairment loss on a revalued asset is recognised in other comprehensive revenue and expense to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with PBE IPSAS 31 or class of assets in accordance with PBE IPSAS 17 ~~class of assets or asset in accordance with the relevant standard~~. Such an impairment loss on a revalued asset reduces the revaluation surplus for individual asset in accordance with PBE IPSAS 31 or class of assets in accordance with PBE IPSAS 17 ~~that class of assets or asset~~.

...

Reversing an Impairment Loss

...

Reversing an Impairment Loss for an Individual Asset or Class of Asset

...

108A. A reversal of an impairment loss on a revalued asset is recognised in other comprehensive revenue and expense and increases the revaluation surplus for that individual asset in accordance with PBE IPSAS 31 or class of assets in accordance with PBE IPSAS 17 ~~class of assets or asset in accordance with the relevant standard~~. However, to the extent that an impairment loss on the same class of revalued assets or asset was previously recognised in surplus or deficit, a reversal of that impairment loss is also recognised in surplus or deficit in accordance with PBE IPSAS 31 or PBE IPSAS 17.

...

Effective Date

...

127.11. *2022 Omnibus Amendments to PBE Standards*, issued in [Date], amended paragraphs 73A and 108A. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2023. Earlier application is permitted.

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

Basis for Conclusions

...

2022 Omnibus Amendments to PBE Standards

BC10. In January 2020, the IPSASB issued *Improvements to IPSAS, 2019*, which included amendments IPSAS 26 *Impairment of Cash-Generating Assets*. The amendments clarified that the guidance on the impairment of revalued assets in paragraphs 73A and 108A applied not only to assets that are revalued on a class-by-class basis (i.e. assets in the scope of IPSAS 17), but also to assets that are revalued individually (i.e. assets in the scope of IPSAS 31). The NZASB had already clarified that paragraphs 73A and 108A applied to both assets that are revalued individually and assets revalued by class, by issuing *Impairment of Revalued Assets* (Amendments to PBE IPSASs 21 and 26) in April 2017. However, the NZASB considered that the wording used by the IPSASB in *Improvements to IPSAS, 2019* is clearer. The NZASB therefore amended paragraphs 73A and 108A of PBE IPSAS 26 in *2022 Omnibus Amendments to PBE Standards*.

C3 – Amendments arising from *Improvements to IPSAS, 2021*

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

Paragraphs 5, 18 and 28 are amended and paragraph 47.5 is added. New text is underlined and deleted text is struck through.

Scope

...

5. In some jurisdictions, financial statements and budgets for the government, or sectors thereof, may also be issued in accordance with statistical bases of financial reporting. These bases reflect requirements consistent with, and derived from, the ~~System of National Accounts 1993 (SNA 93)~~ *System of National Accounts, 2008* (2008 SNA) prepared by the United Nations and other international organisations. ...

...

Definitions

...

General Government Sector

...

18. The GGS is defined in the ~~SNA 93 (and updates)~~ 2008 SNA as consisting of (a) all resident central, state, and local government units, (b) social security funds at each level of government, and (c) non-market non-profit institutions controlled by government units. …

...

Accounting Policies

...

28. Financial statements prepared consistent with statistical bases of financial reporting portray the impact of the GGS on the public sector as a whole and, in the context of the ~~SNA 93 (and updates)~~ 2008 SNA, on a national economy. …

...

Effective Date

...

47.5. *2022 Omnibus Amendments to PBE Standards*, issued in [Date], amended paragraphs 5, 18 and 28. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2023. Earlier application is permitted.

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

Basis for Conclusions

...

2022 Omnibus Amendments to PBE Standards

BC5. *Improvements to IPSAS, 2021* amended paragraphs 5, 18 and 28 of IPSAS 22 *Disclosure of Financial Information about the General Government Sector* to refer to the latest edition of the System of National Accounts, 2008 (2008 SNA). The NZASB amended PBE IPSAS 22 in *2022 Omnibus Amendments to PBE Standards*.

PBE FRS 47 *First-time Adoption of PBE Standards*

Paragraphs 42.14 and C10A are added and paragraph C1 is amended. New text is underlined and deleted text is struck through.

Effective Date

...

42.14. *2022 Omnibus Amendments to PBE Standards*, issued in [Date], amended paragraph C1 and added paragraph C10A. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2023. Earlier application is permitted.

...

Appendix C

Exemptions from other PBE Standards

This Appendix is an integral part of PBE FRS 47.

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

...

(d) Cumulative translation differences (paragraphs C9–C10A ~~and C10~~)

...

C10A. Instead of applying paragraph C9 or C10, a controlled entity that uses the exemption in paragraph C13(a) may elect, in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the controlling entity's consolidated financial statements, based on the controlling entity's date of transition to PBE Standards, if no adjustments were made for consolidation procedures and for the effects of the public sector PBE combination in which the controlling entity acquired the controlled entity. A similar election is available to an associate or joint venture that uses the exemption in paragraph C13(a).

Paragraph BC18 and the related heading are added. New text is underlined.

Basis for Conclusions

...

2022 Omnibus Amendments to PBE Standards

BC18. *Annual Improvements to IFRS® Standards* (2018-2020), issued by the IASB in May 2010, amended IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendments to IFRS 1 extended the exemption available to an entity transitioning to IFRS Standards later than its controlling entity. The exemption previously related to the measurement of assets and liabilities, and the amendments extend the exemption so that it also applies to cumulative foreign exchange translation differences in net assets/equity. The IPSASB subsequently amended IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, by issuing *Improvements to IPSAS, 2021* in January 2022. The amendments are relevant to PBE FRS 47. The NZASB amended PBE FRS 47 in *2022 Omnibus Amendments to PBE Standards*.

PBE IPSAS 41 *Financial Instruments*

Paragraphs 136.5, 184B and AG46A are added and paragraph AG46 is amended. A new heading is inserted above paragraph 184B. New text is underlined and deleted text is struck through.

Effective Date

...

136.5. *2022 Omnibus Amendments to PBE Standards*, issued in [Date], added paragraphs 184B and AG46A and amended paragraph AG46. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

Transition for *2022 Omnibus Amendments to PBE Standards*

184B. An entity shall apply the amendments in *2022 Omnibus Amendments to PBE Standards* to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

...

Appendix A

Application Guidance

This Appendix is an integral part of PBE IPSAS 41.

...

Recognition and Derecognition

...

Derecognition of Financial Liabilities

...

AG46. For the purpose of paragraph 36, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. ~~If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.~~ In determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

AG46A. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability

Paragraph BC17 and the related heading are added. New text is underlined.

Basis for Conclusions

...

2022 Omnibus Amendments to PBE Standards

BC17. *Annual Improvements to IFRS® Standards (2018-2020)*, issued by the IASB in May 2020, amended IFRS 9 *Financial Instruments*. The amendments clarify which fees an entity includes when it applies the '10 percent' test for the derecognition of a financial liability. The IPSASB subsequently amended IPSAS 41 *Financial Instruments*, by issuing *Improvements to IPSAS, 2021* in January 2022. The NZASB amended PBE IPSAS 41 in 2022 *Omnibus Amendments to PBE Standards*.

PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 79A ,110A and 112.10 are added and paragraph 80 is amended. Paragraph 79 has been included for ease of reference but is not amended. New text is underlined and deleted text is struck through.

Application of the Recognition and Measurement Rules

...

Onerous Contracts

...

79. This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it, which includes amounts recoverable. Therefore, it is the present obligation net of recoveries that is recognised as a provision under paragraph 76. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

79A. The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:

(a) The incremental costs of fulfilling that contract—for example, direct labour and materials; and

(b) An allocation of other costs that relate directly to fulfilling contracts—for example, an allocation of the depreciation charge for an item of property, plant, and equipment used in fulfilling that contract among others.

80. Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets ~~dedicated to that~~ used in fulfilling the contract (see IPSAS 21 and IPSAS 26).

...

Transitional Provisions

...

110A. *2022 Omnibus Amendments to PBE Standards*, issued in [Date], added paragraph 79A and amended paragraph 80. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of accumulated comprehensive revenue and expense or other component of net assets/equity, as appropriate, at the date of initial application.

...

Effective Date

...

112.10. *2022 Omnibus Amendments to PBE Standards*, issued in [Date], added paragraphs 79A and 110A and amended paragraph 80. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

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

Basis for Conclusions

...

2022 Omnibus Amendments to PBE Standards

BC6. *Onerous Contracts—Cost of Fulfilling a Contract*, issued by the IASB in May 2020, amended IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The amendments clarify the costs of fulfilling a contract that an entity includes when assessing whether a contract will be loss-making or onerous (and therefore whether a provision needs to be recognised). The IPSASB subsequently amended IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, by issuing *Improvements to IPSAS, 2021* in January 2022. The NZASB subsequently amended PBE IPSAS 19 in 2022 *Omnibus Amendments to PBE Standards.*

PBE IPSAS 17 *Property, Plant and Equipment*

Paragraphs 31 and 89 are amended and paragraphs 34A, 89A, 106B and 108.13 are added. New text is underlined and deleted text is struck through.

Measurement at Recognition

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Elements of Cost

...

31. Examples of directly attributable costs are:

    (a) Costs of employee benefits (as defined in PBE IPSAS 39 *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;

    (b) Costs of site preparation;

(c) Initial delivery and handling costs;

(d) Installation and assembly costs;

(e) Costs of testing whether the asset is functioning properly (i.e., assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes)~~, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)~~; and

(f) Professional fees.

...

34A. Items may be produced while bringing an item of property, plant, and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly). An entity recognises the proceeds from selling any such items, and the cost of those items, in surplus or deficit in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of PBE IPSAS 12.

...

Disclosure

...

89. **The financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements:**

(a) **The existence and amounts of restrictions on title, and property, plant and equipment pledged as securities for liabilities;**

*(b) **The amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction; and**

(c) **The amount of contractual commitments for the acquisition of property, plant and equipment~~; and~~.**

~~*(d) **If it is not disclosed separately on the face of the statement of comprehensive revenue and expense, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.**~~ [Deleted by IPSASB]

89A. **If not presented separately in the statement of comprehensive revenue and expense, the financial statements shall also disclose:**

(a) **The amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in surplus or deficit; and**

(b) **The amounts of proceeds and cost included in surplus or deficit in accordance with paragraph 34A that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive revenue and expense include(s) such proceeds and cost.**

...

Transitional Provisions

...

106B. *2022 Omnibus Amendments to PBE Standards*, issued in [Date], amended paragraphs 31 and 89 and added paragraphs 34A and 89A. An entity shall apply those amendments retrospectively, but only to items of property, plant, and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of accumulated comprehensive revenue and expense (or other component of net assets/equity, as appropriate) at the beginning of that earliest period presented.

...

Effective Date

...

108.13. *2022 Omnibus Amendments to PBE Standards*, issued in [Date], amened paragraphs 31 and 89 and added paragraphs 34A, 89A and 106B. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

Paragraph BC22 and the related heading are added. New text is underlined.

Basis for Conclusions

...

2022 Omnibus Amendments to PBE Standards

BC22. *Property, Plant and Equipment—Proceeds before Intended Use*, issued by the IASB in May 2020, amended IAS 16 *Property, Plant and Equipment*. The amendments prohibit proceeds from selling items produced before an asset is available for use to be deducted from the cost of property, plant, and equipment. The IPSASB subsequently amended IPSAS 17 *Property, Plant and Equipment*, by issuing *Improvements to IPSAS, 2021* in January 2022. The NZASB subsequently amended PBE IPSAS 17 in 2022 *Omnibus Amendments to PBE Standards*.

Part D – Amendments arising from *Amendments to IPSAS 5, Borrowing Costs – Non-authoritative Guidance*

PBE IPSAS 5 *Borrowing Costs*

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

Basis for Conclusions

...

2022 Omnibus Amendments to PBE Standards

BC3. In November 2021 the IPSASB issued *Amendments to IPSAS 5, Borrowing Costs – Non-Authoritative Guidance*, which added non-authoritative guidance material to IPSAS 5. The guidance material includes implementation guidance and illustrative examples, to illustrate the extent to which borrowing costs can be capitalised. The NZASB amended PBE IPSAS 5 in *2022 Omnibus Amendments to PBE Standards*.

Implementation Guidance A.1 to A.6 is added. For ease of reading, new text is not underlined.

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 5.

A.1 Period of Borrowing Cost Capitalisation

When applying the allowed alternative treatment, as described in paragraphs 17–18, when can an entity begin to include borrowing costs in the cost of the qualifying asset?

Where outlays and borrowings have been incurred specifically to fund a qualifying asset's acquisition, construction, or production, the costs of those borrowings should be capitalised when the activities necessary to prepare the asset for its intended use or sale begin. The activities necessary to get the asset ready for use encompass more than the asset's physical acquisition, construction, or production. The activities include technical and administrative work prior to the commencement of physical acquisition, construction, or production, but exclude holding the asset when no development that changes the asset's condition is being undertaken.

The activities (i.e., technical and administrative work) undertaken prior to commencement of the physical acquisition, construction, or production of a qualifying asset should contribute to the actual development or construction of that asset.

A.2 Limit on Capitalisation

When applying the allowed alternative treatment, as described in paragraphs 17–18, to specific borrowings, are borrowing costs included in the cost of the qualifying asset in that period limited to the borrowing costs incurred in that period?

Yes. If a borrowing can be specifically associated with outlays on acquisition, construction, or production of a qualifying asset, the amount of borrowing costs capitalised during that period is limited to the borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

A.3 Asset Funded through Transfers

In many jurisdictions, the acquisition, construction, or production of a qualifying asset is funded through a transfer from another public benefit entity. Does the entity acquiring, constructing, or producing the qualifying asset consider the transferor's underlying source of the funds, i.e., whether the funds are generated by tax revenues, general cash holdings or borrowings, when it determines the amount that can be included in the cost of the qualifying asset when applying the allowed alternative treatment, as described in paragraphs 17–18?

No. When the acquisition, construction, or production of a qualifying asset is fully funded through a transfer, there will be no directly attributable borrowing costs to capitalise. The entity may include in the cost of the qualifying asset only those borrowing costs which it has incurred.

A.4 Asset Funded through a Centralised Lending Programme – Interest Rates

A centralised lending agency may fund its activities by borrowings through several separate loan instruments. Each instrument may have a different interest rate. An entity may borrow funds from the centralised lending agency and use these funds for the acquisition, construction, or production of a qualifying asset. If the entity is using the allowed alternative treatment, as described in paragraphs 17–18, does the entity apply the weighted average interest rate incurred by the centralised lending agency when including borrowing costs in the cost of the qualifying asset?

No. The weighted average interest rate incurred by the centralised lending agency is not relevant in the preparation of the financial statements of the entity acquiring, constructing, or producing the qualifying asset. The entity can include in the cost of the qualifying asset only those borrowing costs which it itself has incurred.

The entity must consider all facts and circumstances when determining the borrowing costs incurred in its arrangement with the centralised lending agency. In some cases, the interest rate stated in the terms of the arrangement may not reflect the true borrowing costs associated with the funds received. When the entity identifies concessionary terms, the entity should apply the requirements in PBE IPSAS 41 *Financial Instruments* paragraphs

AG118–AG127[2] and capitalise borrowing costs based on a market related interest rate that the entity would have incurred on a similar loan (see PBE IPSAS 41 paragraphs IE153–IE172 for examples illustrating how to determine the interest rate in a concessionary loan). Interest expense calculated using the effective interest rate method is eligible for inclusion in the cost of the qualifying asset in accordance with this Standard.

If the centralised lending agency and the entity to which it lends funds are part of the same economic entity, in the financial statements of the consolidated entity, the borrowing costs incurred by the centralised lending agency can be capitalised to the qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalised by the controlled entity.

A.5 Asset Funded through an Entity's Own General Borrowing – Borrowings are not Specific to Qualifying Asset

When an entity acquiring, constructing, or producing a qualifying asset manages its own borrowing programme, but borrowings are not specific to the qualifying asset, how does the entity determine the borrowing costs directly attributable to the qualifying asset? This may occur when an entity uses cash on hand to fund the cost of a qualifying asset. This cash on hand is funded from general borrowings, tax revenue and other fees and transfers.

The amount of borrowing costs eligible for inclusion in the cost of the qualifying asset is determined using the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period. The weighted average of borrowing costs is then applied to the outlays on the qualifying asset incurred during the period in determining the amount eligible for capitalisation.

The entity shall exclude from the weighted average calculation those borrowings that are made specifically for the purpose of obtaining another qualifying asset until substantially all the activities necessary to prepare that asset for its intended use are complete. The amount of borrowing costs capitalised during a period shall not exceed the amount of borrowing costs incurred during that period.

A.6 Asset Funded through General Borrowings – Range of Debt Instruments

Does an entity apply a weighted average of borrowing costs when multiple debt instruments are used to fund the cost of a qualifying asset?

Yes. An entity may not be able to fund the cost of a qualifying asset with a single debt instrument. When multiple debt instruments are used (and the funds are borrowed generally), the cost of borrowing is determined by calculating the weighted average of the borrowing costs applicable to all the debt instruments outstanding during the period, excluding borrowings that are made specifically for the purpose of obtaining another qualifying asset (until substantially all the activities necessary to prepare that asset for its intended use are complete).

Illustrative Examples IE1–IE16 and the related headings are added. For ease of reading, new text is not underlined.

Illustrative Examples

These examples accompany, but are not part of, PBE IPSAS 5.

Qualifying Asset Constructed Over a Period of Time

IE1. On 31 March 20X1, Municipality XYZ begins construction of a tunnel to accommodate transit between two commercial hubs. The construction period is 5 years and the project is budgeted to cost CU100 million (CU20 million is paid to the construction company on the date the construction begins and on 31 March of each subsequent year during the construction period). Municipality XYZ issues a 25-year CU100 million bond on 31 March 20X1 that yields a fixed coupon of 5 per cent per annum. This bond was issued specifically to finance the construction of this project. The Municipality has a 31 December year-end and earns a rate of interest of 3 percent on the temporary investment of any excess borrowings.

[2] Where an entity has not yet adopted PBE IPSAS 41, the requirements in either PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* paragraphs AG84-AG90 or, if early adopted, PBE IFRS 9 *Financial Instruments* paragraphs B5.1.2A–B5.1.2G, are applied. Similar to the PBE IPSAS 41 requirements, an entity should capitalise borrowing costs based on a market related interest rate that the constructing entity would have incurred on a similar loan.

IE2. On 31 December 20X1, the Municipality has accrued borrowing costs of CU3.75 million (CU100 million x 5 percent x 9/12 months).

IE3. In determining the borrowing costs that can be included in the cost of the tunnel, the Municipality is limited to capitalising the borrowing costs incurred during the period less any investment income on the temporary investment of those borrowings.

IE4. On 31 December 20X1, Municipality XYZ recognises its tunnel asset as a work in progress. The amount capitalised is CU21.95 million (CU20 million + [CU100 million x 5 percent x 9/12 months] – [CU80 million x 3 percent x 9/12 months]). This represents the funds transferred to the construction company and the borrowing costs incurred during the period less the investment income earned on the CU80 million invested.

Centralised Borrowing Programme – Eligible Borrowing Costs

IE5. The Department of Infrastructure begins construction of a new road network on 15 June 20X1. The project costs are budgeted to be CU500 million. All financing required by the Department of Infrastructure, and all other government departments, is secured centrally by the Department of Finance.

IE6. The Department of Finance estimates its cash flow needs on an annual basis in order to determine the most appropriate source of funding to meet its internal lending needs. These sources include tax revenue, fee revenue, bonds issuances and loans.

IE7. The Department of Infrastructure negotiates a 10-year loan from the Department of Finance. The Department of Finance requires the Department of Infrastructure to pay borrowing costs of 3 percent per annum. This is consistent with the market rate of interest the Department of Infrastructure would incur if the arrangement was negotiated at arm’s length.

IE8. When the Department of Infrastructure secures financing from the Department of Finance, the Department of Infrastructure is aware that the borrowings comprise various sources, but has no visibility of how the Department of Finance sources the funds, nor of the weighted average borrowing costs the Department of Finance incurs.

IE9. In determining the borrowing costs eligible for inclusion in the cost of the road network, the Department of Infrastructure includes only those borrowing costs which it itself has incurred. Because the loan is at market terms, the Department of Infrastructure concludes there are no concessionary elements and determines borrowing costs eligible for inclusion in the cost of the road network are based on the interest rate of 3 percent stated in the contract.

General Borrowing – Weighted Average Cost of Borrowing

IE10. State Government T has begun construction of a new airport. The cost of this airport is budgeted to be CU500 million. State Government T manages its own borrowings; however, it does not borrow for specific projects. In determining its borrowing needs, State Government T budgets its cash shortfall over a given period and ensures borrowings will cover its liquidity needs.

IE11. Over the construction period, State Government T held three instruments that were open for the entire construction period:

- State Bonds – CU1 billion, yielding an annual rate of 5 percent;
- Loan with Financial Institution A – CU300 million, with an annual interest rate of 7 percent; and
- Loan with Financial Institution B – CU600 million, with an annual interest rate of 9 percent.

IE12. In determining the amount of borrowing costs eligible for inclusion in the cost of the airport, State Government T calculates the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period.

	A Principal	B Interest Rate	C Proportion of Debt	D = B x C Weighted Average
State Bonds	CU1,000 million	5 percent	1,000 / 1,900	2.63
Loan A	CU300 million	7 percent	300 / 1,900	1.11
Loan B	CU600 million	9 percent	600 / 1,900	2.84
Weighted Average Interest Rate				**6.58 percent**

IE13. State Government T calculates the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period to be 6.58 percent.

Specific Borrowing – Borrowing for Part of Qualifying Asset's Amount

IE14. State Government C began construction of a new road network on 1 January 20X1. The cost of this road network is budgeted to be CU750 million. State Government C funds this project with amounts received on 1 January 20X1 from two sources:

- Federal grant in the amount of CU500 million; and
- Loan from a financial institution of CU250 million, with an annual interest rate of 5 percent.

In order to receive the federal grant, State Government C was required to show it was able to secure financing. It is State Government C's policy to allocate borrowed funds to the construction of the qualifying asset first. State Government C earns a rate of interest of 3 percent on the temporary investment of any excess borrowings.

IE15. As at 31 December 20X1, State Government C has incurred outlays of CU200 million as part of the construction of the asset. These outlays were transferred in one lump sum payment to the construction company at the commencement of construction on 1 January 20X1. In addition to the outlays of CU200 million, State Government C capitalises CU11 million ([CU250 million x 5 percent] – [CU50 million x 3 percent]) in borrowing costs, against the qualifying asset.

IE16. Because State Government C borrowed CU250 million for the purposes of obtaining the road network, but has only incurred outlays related to that qualifying asset in the amount of CU200 million, State Government C was able to earn interest revenue on the excess funds borrowed. State Government C capitalised borrowing costs incurred during the period of CU12.5 million less the investment income of CU1.5 million on the temporary investment of those borrowings.

Part E – Amendments arising from IASB amendments

PBE IAS 12 *Income Taxes*

Paragraphs 15, 22 and 24 are amended. Paragraphs 22A and 98.11–98.13 are added. New text is underlined and deleted text is struck through.

Recognition of Deferred Tax Liabilities and Deferred Tax Assets

...

Taxable Temporary Differences

15. **A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:**

    (a) **The initial recognition of goodwill; or**

(b) **The initial recognition of an asset or liability in a transaction which:**

(i) **Is not a PBE combination; ~~and~~**

(ii) **At the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)~~.~~; and**

(iii) **at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.**

...

Initial Recognition of an Asset or Liability

22. A temporary difference may arise on initial recognition of an asset or liability, for example if part or all of the cost of an asset will not be deductible for tax purposes. The method of accounting for such a temporary difference depends on the nature of the transaction that led to the initial recognition of the asset or liability:

(a) In a PBE combination, an entity recognises any deferred tax liability or asset and this affects the amount of goodwill or bargain purchase gain it recognises (see paragraph 19);

(b) If the transaction affects either accounting profit or taxable profit, or gives rise to equal taxable and deductible temporary differences, an entity recognises any deferred tax liability or asset and recognises the resulting deferred tax expense or income in surplus or deficit (see paragraph 59);

(c) If the transaction is not a PBE combination, ~~and~~ affects neither accounting profit nor taxable profit and does not give rise to equal taxable and deductible temporary differences, an entity would, in the absence of the exemption provided by paragraphs 15 and 24, recognise the resulting deferred tax liability or asset and adjust the carrying amount of the asset or liability by the same amount. Such adjustments would make the financial statements less transparent. Therefore, this Standard does not permit an entity to recognise the resulting deferred tax liability or asset, either on initial recognition or subsequently. Furthermore, an entity does not recognise subsequent changes in the unrecognised deferred tax liability or asset as the asset is depreciated.

...

22A A transaction that is not a PBE combination may lead to the initial recognition of an asset and a liability and, at the time of the transaction, affect neither accounting profit nor taxable profit. For example, at the commencement date of a lease classified as a finance lease, a lessee typically recognises assets acquired under finance leases as assets and the associated lease obligations as liabilities in their statements of financial position. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of the asset and liability in such a transaction. The exemption provided by paragraphs 15 and 24 does not apply to such temporary differences and an entity recognises any resulting deferred tax liability and asset.

...

Deductible Temporary Differences

24. **A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:**

(a) **Is not a PBE combination; ~~and~~**

(b) **At the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)~~.~~; and**

(c) **at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.**

...

Effective Date

...

98.11 *2022 Omnibus Amendments to PBE Standards*, issued in [Date], amended paragraphs 15, 22 and 24 and added paragraph 22A. An entity shall apply these amendments in accordance with paragraphs 98.12–98.13 for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

98.12 An entity shall apply *2022 Omnibus Amendments to PBE Standards* to transactions that occur on or after the beginning of the earliest comparative period presented.

98.13 An entity applying *2022 Omnibus Amendments to PBE Standards* shall also, at the beginning of the earliest comparative period presented:

(a) Recognise a deferred tax asset—to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised—and a deferred tax liability for all deductible and taxable temporary differences associated with:

(i) Assets acquired under finance leases and liability for the associated lease obligations; and

(ii) Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset; and

(b) Recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

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

Basis for Conclusions

...

BC10. *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, issued by the IASB in May 2021, amended IAS 12 *Income Taxes*. This amendment narrowed the scope of the recognition exemption for deferred tax assets and deferred tax liabilities, so that the recognition exemption would not apply to transactions that give rise to equal and offsetting temporary differences. The NZASB subsequently amended NZ IAS 12 *Income Taxes* by issuing *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* in July 2021. PBE IAS 12 is based on NZ IAS 12. The NZASB therefore amended PBE IAS 12 in *2022 Omnibus Amendments to PBE Standards*.

PBE FRS 47 *First-time Adoption of PBE Standards*

Paragraphs 42.15 is added. In Appendix A, paragraph A1 is amended and paragraph A14 and its heading are added. New text is underlined and deleted text is struck through.

Effective Date

...

42.15. *2022 Omnibus Amendments to PBE Standards*, issued in [Date], amended paragraph A1 and added paragraph A14. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

...

Appendix A

Exceptions to the Retrospective Application of other PBE Standards

This Appendix is an integral part of PBE FRS 47.

A1. An entity shall apply the following exceptions:

...

(e) Impairment of financial assets (paragraphs A8D–A8G); ~~and~~

(f) Embedded derivatives (paragraph A9); and~~.~~

(g) Deferred tax related to finance leases and decommissioning, restoration and similar liabilities (paragraph A10).

Deferred tax related to leases and decommissioning, restoration and similar liabilities

A10. Paragraphs 15 and 24 of PBE IAS 12 *Income Taxes* exempt an entity from recognising a deferred tax asset or liability in particular circumstances. Despite this exemption, at the date of transition to PBE Standards, a first-time adopter shall recognise a deferred tax asset—to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised—and a deferred tax liability for all deductible and taxable temporary differences associated with:

(a) Assets acquired under finance leases and liability for the associated lease obligations; and

(b) Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.

Paragraph BC19 and the related heading are added. New text is underlined.

Basis for Conclusions

...

2020 Omnibus Amendments to PBE Standards

BC19. *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, issued by the IASB in May 2021, amended IAS 12 *Income Taxes*. This amendment narrowed the scope of the recognition exemption for deferred tax assets and deferred tax liabilities, so that the recognition exemption would not apply to transactions that give rise to equal and offsetting temporary differences. Consequential amendments were made to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The NZASB subsequently amended NZ IAS 12 *Income Taxes* and NZ IFRS *1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* by issuing *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* in July 2021. PBE IAS 12 is based on NZ IAS 12. The NZASB therefore amended PBE IAS 12, as well as PBE FRS 47 in relation to the consequential amendments, in *2022 Omnibus Amendments to PBE Standards*.

PBE IPSAS 27 *Agriculture*

Paragraphs 26 is amended and paragraph 57.6 is added. New text is underlined and deleted text is struck through.

Recognition and Measurement

...

26. An entity does not include any cash flows for financing the assets~~, taxation,~~ or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).

...

Effective Date

...

57.6. *2022 Omnibus Amendments to PBE Standards*, issued in [Date], amended paragraph 26. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

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

Basis for Conclusions

...

2020 Omnibus Amendments to PBE Standards

BC4. *Annual Improvements to IFRS® Standards (2018-2020)*, issued by the IASB in May 2020, amended IAS 41 *Agriculture*. The amendments removed the exclusion of taxation cash flows when measuring fair value in IAS 41. The IASB noted in its Basis for Conclusions that before this amendment, IAS 41 had required an entity to use pre-tax cash flows when measuring fair value but did not require the use of a pre-tax discount rate to discount those cash flows. In 2021, the IPSASB had proposed to include a similar amendment in IPSAS 27 *Agriculture* as part of its project on *Measurement*. Given the minor nature of the abovementioned amendment, the NZASB amended PBE IPSAS 27 in *2022 Omnibus Amendments to PBE Standards*, ahead of the IPSASB completing its project on *Measurement*.

Part F – Other New Zealand amendments

PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 112.11 is added. In Appendix A, paragraphs A1–A6 are renumbered as paragraphs A3–A8, new paragraphs A1 and A2 are added, and re-numbered paragraph A6 (previously numbered as paragraph A4) is amended. New text is underlined and deleted text is struck through.

Effective Date

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112.11. *2022 Omnibus Amendments to PBE Standards*, issued in [Date], amended Appendix A by adding paragraphs A1 and A2, amending paragraph A6 (originally numbered as paragraph A4). An entity shall apply those amendments for annual financial statements covering periods beginning on or after 1 January 2023. Early application is permitted.

...

Appendix A

Application Guidance *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

This Appendix is an integral part of PBE IPSAS 19.

Introduction

A1. Many entities have obligations to dismantle, remove and restore items of property, plant and equipment. In this Appendix such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. Under PBE IPSAS 17 *Property, Plant and Equipment*, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. This Standard contains requirements on how to measure decommissioning, restoration and similar liabilities. This Appendix provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities.

Scope

A2. This Appendix applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

(a) Recognised as part of the cost of an item of property, plant and equipment in accordance with PBE IPSAS 17 *Property, Plant and Equipment*; and

(b) Recognised as a liability in accordance with this Standard.

For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant, rehabilitating environmental damage in extractive industries, or removing equipment.

Issue

A~~1~~3. This Appendix addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

(a) A change in the estimated outflow of resources embodying economic benefits (e.g., cash flows) required to settle the obligation;

(b) A change in the current market-based discount rate as defined in paragraph 56 of this Standard (this includes changes in the time value of money and the risks specific to the liability); and

(c) An increase that reflects the passage of time (also referred to as the unwinding of the discount).

Consensus

A~~2~~4. Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for in accordance with paragraphs A~~3~~5–A~~5~~7 below.

A~~3~~5. If the related asset is measured using the cost model:

(a) Subject to (b), changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period.

(b) The amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in surplus or deficit.

If the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount, and shall account for any impairment loss, in accordance with PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Cash-Generating Assets.*

A~~4~~6. If the related asset is measured using the revaluation model:

(a) Changes in the liability alter the revaluation surplus or deficit previously recognised on that ~~asset, so that:~~ class of assets.

~~(i) A decrease in the liability shall (subject to (b)) be recognised in other comprehensive revenue and expense and increase the revaluation surplus within net assets/equity, except that it shall be recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit;~~

~~(ii) An increase in the liability shall be recognised in surplus or deficit, except that it shall be recognised in other comprehensive revenue and expense and reduce the revaluation surplus within net assets/equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.~~

(i) If the carrying amount of a class of assets is increased as a result of changes in the liability, the increase shall be recognised in other comprehensive revenue and expense and accumulated in net assets/equity under the heading of revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in surplus or deficit;

(ii) If the carrying amount of a class of assets is decreased as a result of changes in the liability, the decrease shall be recognised in surplus or deficit. However, the decrease shall be recognised in other comprehensive revenue and expense to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.

(b) In the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess shall be recognised immediately in surplus or deficit.

(c) A change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation shall be taken into account in determining the amounts to be recognised in surplus or deficit or in other comprehensive revenue and expense under (a). If a revaluation is necessary, all assets of that class shall be revalued.

(d) PBE IPSAS 1 *Presentation of Financial Reports* requires disclosure in the statement of comprehensive revenue and expense of each item of other comprehensive revenue/expense. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.

A~~5~~7. The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability shall be recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

A~~6~~8. The periodic unwinding of the discount shall be recognised in surplus or deficit as a finance cost as it occurs. Capitalisation under PBE IPSAS 5 *Borrowing Costs* is not permitted.

Paragraph BC7 and the related heading are added. New text is underlined.

Basis for Conclusions

...

2020 Omnibus Amendments to PBE Standards

BC7. The NZASB decided to amend Appendix A *Changes in Existing Decommissioning, Restoration and Similar Liabilities* to clarify that the Appendix applies to related assets that are property, plant and equipment, and to align the requirements for such assets measured using the revaluation model with the requirements in PBE IPSAS 17.

Part G – Effective Date

This [draft] Standard shall be applied for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

Australian Government
Australian Accounting Standards Board

XRB Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 7.1

Cover Memo

Project:	**Insurance Activities in the Public Sector**	**Meeting:**	AASB February 2022 (M185) NZASB February 2022
Topic:	Ballot draft Exposure Draft	**Agenda item:**	AASB 6.1 NZASB 7.1
		Date:	4 February 2022
Contacts:	Angus Thomson athomson@aasb.gov.au Vanessa Sealy-Fisher vanessa.sealy-fisher@xrb.govt.nz Patricia Au pau@aasb.gov.au	**Project priority**	Medium
		Decision-making	High
		Project status	Consider ballot draft Exposure Draft

Objectives of this agenda item

1. The objectives of this agenda item are for the AASB and the NZASB to:

   (a) **note the information gathered from field testing** by stakeholders about the proposed indicators for determining whether a public sector entity's arrangements would be accounted for as insurance contracts;

   (b) **consider a ballot draft Exposure Draft and approve for issue** proposing the public-sector-specific modifications to AASB 17/PBE IFRS 17 *Insurance Contracts* agreed by the Boards at their meetings between April and December 2021;

   (c) ***NZASB only*: consider and approve for issue an Invitation to Comment (ITC)** to accompany the Exposure Draft identified in (b) above;

   (d) ***AASB only*: consider and approve for issue a Fatal-Flaw Review (FFR) version of a Standard** proposing consequential amendments to various AASB pronouncements in respect of:

      (i) repealing AASB 1038 *Life Insurance Contracts* and superseding Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations* that are no longer needed for annual reporting periods beginning on or after 1 January 2023; and

      (ii) amending AASB pronouncements that mention AASB 17, AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts* to clarify that AASB 4 and AASB 1023 continue to apply to public sector entities for annual periods beginning after 1 January 2023 and before 1 July 2025 (AASB)/1 January 2025 (NZASB).

2. The papers in this agenda item are being presented to the 16 February 2022 NZASB meeting and the 23-24 February 2022 AASB meeting.

Reasons for bringing this agenda item to the Boards

3. The Boards asked staff to undertake field testing of the proposed indicators for determining whether an entity's arrangements would be accounted for as insurance contracts.[1]

4. The field testing was undertaken in December 2021–January 2022. The most significant matter arising from the field testing is whether the indicators should be assigned a ranking, or whether some indicators should be regarded as pre-requisites for identifying whether an entity's arrangements would be accounted for as insurance contracts. This is discussed in AASB Agenda Paper 6.2/NZASB Agenda Paper 7.2.

5. The marked-up changes to the ballot draft Exposure Draft (AASB Agenda Paper 6.3 and NZASB Agenda Paper 7.3) relate to matters raised by Board members at their November/December 2021 meetings and matters arising from the field testing by stakeholders.

Proposed next steps and timeline

6. The following table outlines the proposed next steps and timeline needed to progress the project.

Activity / Topic	AASB	NZASB
Issue Exposure Draft (and related NZASB ITC and AASB FFR draft Standard) With 60-day comment period until 6 May 2021, in view of other (earlier) stakeholder outreach	Planned 7 March 2022	Planned 7 March 2022
Consider feedback on ED and proposals for addressing issues raised	Planned June 2022	Planned June 2022
Address any sweep issues and agree on revised Standards	Planned July–Aug 2022	Planned July–Aug 2022
Issue revised Standards	Planned Sept 2022	Planned Sept 2022

Papers for this agenda item

AASB	NZASB	Document title
Agenda Paper 6.2	Agenda Paper 7.2	Staff paper: Report on field test of proposed indicators of activities within the scope of AASB 17/PBE IFRS 17
Agenda Paper 6.3	N/A	Ballot draft Exposure Draft *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector*
N/A	Agenda Paper 7.3	Ballot draft Exposure Draft *Insurance Contracts in the Public Sector*
Agenda Paper 6.4	N/A	Ballot draft of the Fatal-Flaw Review version of *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments*
N/A	Agenda Paper 7.4	Ballot draft Invitation to Comment on draft Exposure Draft *Insurance Contracts in the Public Sector*

1 The AASB project summary is available here.

Australian Government
Australian Accounting Standards Board

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EXTERNAL REPORTING BOARD

Agenda Item 7.2

Staff Paper

Project	**Insurance Activities in the Public Sector**	**Meeting**	AASB February 2022 (M185) NZASB February 2022
Topic	Feedback on field test of proposed indicators of activities within the scope of AASB 17/PBE IFRS 17	**Agenda item**	AASB 6.2 NZASB 7.2
		Date	4 February 2022
Contacts	Angus Thomson athomson@aasb.gov.au Vanessa Sealy-Fisher vanessa.sealy-fisher@xrb.govt.nz Patricia Au pau@aasb.gov.au	**Project priority**	Medium
		Decision-making	High
		Project status	Consider stakeholder feedback

Objective of this paper

1. The objective of this paper is for the AASB and the NZASB to be briefed on the field testing conducted among key stakeholders on applying the proposed indicators to be considered in determining whether an entity's arrangements fall within AASB 17/PBE IFRS 17 *Insurance Contracts* or a different Standard (such as AASB 137/PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*).

2. The revised draft Exposure Draft *Insurance Contracts in the Public Sector – Proposed Amendments to AASB 17/PBE IFRS 17* Insurance Contracts [agenda paper X.2] includes staff recommended amendments based on the feedback.

3. There are two questions for Board members on page 8 of this paper.

Field test approach

4. Staff requested feedback on applying the proposed indicators to the activities undertaken by a range of entities that may fall within the scope of AASB 17/PBE IFRS 17. Most of the 25 stakeholders contacted are members of the Public Sector Focus Group of the AASB 17 Transition Resource Group (which includes Australian and New Zealand stakeholders).

5. Nine responses were received – some of which were joint responses from among the 25 stakeholders contacted. Accordingly, the response rate was roughly 50%. Some stakeholders noted they were unable to respond due to other commitments at this time of year.

6. A suggested format for providing feedback was tailored to the circumstances of each stakeholder. Board members wishing to read the material sent to stakeholders are welcome to contact staff who will provide copies for the relevant entities.

7. Based on stakeholder feedback on the proposed indicators, it appears that there are some arrangements for which stakeholders did not have consensus as to whether AASB 17/PBE IFRS 17 would apply. The following table outlines, in general terms, the types of arrangements:

   (a) stakeholders regard as being clearly within scope of AASB 17/PBE IFRS 17;

(b) stakeholders regard as being clearly outside the scope of AASB 17/PBE IFRS 17; and

(c) on which stakeholders have differing views in terms of whether AASB 17/PBE IFRS 17 would apply.

Clearly within AASB 17/PBE IFRS 17	***Clearly not within AASB 17/PBE IFRS 17***	***Lack of consensus***
• Workers' compensation arrangements relating to *non-government employees*	• Compensation arrangements for victims of a disaster with the funds sourced from appropriations/donations	• Workers' compensation arrangements relating to *government employees* • Industrial diseases risks – *no underwriting performed* [typically serious disease/disability]
• Compulsory Third Party personal transport accident relating to *non-government vehicles – some underwriting performed* [typically non-serious/non-catastrophic injury]	• Public hospital systems	• Compulsory Third Party personal transport accident relating to *non-government vehicles – no underwriting performed* (levy-based) [typically serious/catastrophic injury]
• Schemes covering *non-government parties* funded from proportionate levies on insurance contracts issued by private sector insurers [typically property risks]		• Property and liability risks relating to *government property damage or malpractice by government employees*
• Domestic builders' insurance (risk of faults)		

8. In general, the lack of consensus is on schemes that involve no underwriting of specific risks and risks associated with a government's own assets/employees.

9. The staff suggested changes to the draft ED noted in the table below are expected to clarify the manner in which certain indicators would be applied, which may assist in assessing the arrangement types noted in the third column of the above table.

Key points received from field test feedback

10. The table below shows the key points received from field test feedback and the suggested changes to the draft ED (or reasons for not making changes) suggested by staff.

Indicators	Response	Staff suggestions
Overall approach: Proposed that indicators be considered collectively so that a balanced judgement can be made	There was general support for this proposal. Support appears to have been stronger among entities that had little doubt their activities are within AASB 17/PBE IFRS 17. Some noted there can be an element of conflict when interpreting individual indicators, and a collective assessment gives the best chance of achieving a balanced view.	Suggest no change
Overall approach: Proposed that individual indicators would not necessarily be regarded as definitive in determining whether public sector arrangements would be accounted for as insurance contracts	There was general support for this proposal. Support appears to have been stronger among entities that had little doubt their activities are within AASB 17/PBE IFRS 17. While agreeing with considering indicators collectively, some consider it would be helpful if there was guidance on which indicators are considered to be 'core/primary' indicators – that is, some form of weighting. Two stakeholders favoured an explicit ranking of the indicators. One stakeholder considered some indicators should be identified as pre-requisites for applying AASB 17/PBE IFRS 17. The comments below highlight various views on which indicators should be regarded as the most significant.	Staff note that there is a reasonable consensus on the relative significance of some indicators and mixed views on others. Staff think there is merit in considering identifying the relative significance of indicators, but are reluctant to include this in the ED proposals. Instead, staff suggest noting the views already obtained via the field test in the Basis for Conclusions and specifically asking in the ED, if you disagree with not assigning a relative significance to the indicators: (i) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why? (ii) would you identify some indicators as pre-requisites for applying AASB 17 and, if so, which ones, and why?

Indicators	Response	Staff suggestions
Similarity of risks covered and benefits provided [B16.4 to B16.9]	Some considered this to be either the most significant indicator, or one of the most significant indicators. This is particularly the case for arrangements that cover risks met by public sector entities in some (Australian) states and private sector insurers in other states. Others considered this to not be a significant factor either because: (i) there are examples of similar risks and benefits being addressed via insurance or compensation schemes; and/or (ii) there are some forms of insurance (e.g. builder's warranty) that are currently exclusively issued in the public sector in Australia, yet they are clearly insurance contracts.	Suggest no change to the ED proposals on the basis that: (i) there are mixed views; and (ii) the focus is wider than the Australian market. Suggest mentioning the feedback received in the ED Basis for Conclusions.
Identifiable coverage period [B16.10 to B16.12]	Some considered this to be either the most significant indicator, or one of the most significant indicators. Some considered the most important aspect of this indicator is the contrast between an identifiable period of cover, relative to an open-ended compensation or benefit scheme based on eligibility criteria. They saw this as more important than whether the benefit relates to the occurrence of one or more particular events. Some considered that clarification should be provided that periods identified for the purposes of raising levies to fund a compensation scheme is not an example of a 'coverage period'.	Suggest no change to ED proposals. Suggest mentioning the 'funding period' example as being different from a coverage period in the ED Basis for Conclusions.

Indicators	Response	Staff suggestions
Enforceable nature of arrangement [B16.13 to B16.16]	Some consider there should either be: (i) a separate indicator being whether or not a 'contract' exists between each participant and the entity; or (ii) this existing indicator should place more emphasis on the need for a 'contract' to exist that creates a direct relationship between each participant and the entity. This is on the basis that 'indirect' relationships between participants and the entity are likely to be indicative of compensation schemes. Some consider this to be either the most significant indicator, or one of the most significant indicators. For some circumstances, some found this indicator provided 'mixed' signals. In particular, they consider 'enforceability' to be a different notion from being 'bound' by particular terms and conditions (for promised amounts). For example, each participant might have an enforceable right to benefits under an arrangement, but the entity might still be able to retrospectively adjust benefits for a cohort of participants. Some asked for a definition of 'practical ability'.	Suggest no change to ED proposals, other than adding a clarifying reference to 'promised amounts' in explaining the indicator. The issue around whether the existence of a 'contract' is significant in its own right seems adequately addressed in the ED Basis for Conclusions discussion on 'Contract versus statute'. 'Practical ability' is extensively explained in the ED proposals and the ED Basis for Conclusions.
Source and extent of funding [B16.17 to B16.21]	For some respondents, this is a key indicator, particularly when there is a clear line of connection between a participant paying an amount and being covered for one or more identifiable perils. Some consider this indicator should be used to distinguish between direct and indirect participant-entity relationships, with indirect relationships being less indicative of insurance contracts . For example, levies collected by insurers and passed on to an entity imply only an indirect relationship between the participants (who pay the insurers) and the public sector entity.	Suggest no change to proposals, other than adding a clarifying sentence about the directness of the relationship between the receipt of funding and the bearing of risks. Also suggest mentioning in the ED Basis for Conclusions that payment arrangements can be for administrative convenience rather than indicating anything substantive about the relationship between participants and entities.

Indicators	Response	Staff suggestions
Management practices and assessing financial performance [B16.22]	Some thought it might be worth specifically mentioning as a factor in considering management practices whether capital management requirements apply (that might, for example, emulate APRA-style prudential requirements). Capital management is central to pricing, benefits, reserving and reinsurance decisions. Some commented that public sector insurers need to settle each claim fairly and in accordance with enabling legislation and this would be unaffected by, for example, a lack of funds. Accordingly, financial performance is primarily subject to the events that occur, rather than handling of claims. Some consider this to be one of the less significant indicators because it does not relate to the arrangement itself, but relates more to the entity that oversees the arrangement. Some consider this to not be a relevant indicator on the basis that the practices mentioned are typical of sound management practices that should be generally applied across a range of activities and are not unique to insurance activities.	Suggest adding a reference to 'capital' management to the proposed indicator, which helps associate the entity's management with coverage and incurred claims that is typical of an insurer. Suggest adding an acknowledgement in the ED Basis for Conclusions that, while public sector insurers do not have the same imperatives a commercial insurer might have on managing claims in a manner that permits them to keep trading, they are required to act fairly and would typically be required to act prudently. Accordingly, while the need to act fairly and prudently might be important in identifying arrangements that would be accounted for as insurance contracts, it's presence could also be indicative of a broader range of compensation schemes.
Assets held to pay benefits [B16.23 to B16.25]	Some consider this to be one of the less significant indicators because it does not relate to the arrangement itself, but relates more to the asset management practices of the entity. For example, an entity may be able to meet claims as they fall due without holding assets to pay out all existing claims. To some extent, this comment contrasts with the comments received on the significance of 'capital management'. Others consider this to be a less significant factor on the basis that it is a standard operating procedure for many types of	Suggest more clearly acknowledging in the explanation of the indicator in the ED and the ED Basis for Conclusions that assets can be held to pay benefits in arrangements not related to insurance contracts (with the sources of those assets possibly being appropriations and/or public appeals).

Indicators	Response	Staff suggestions
	compensation schemes to be established with a pool of assets to pay commitments/obligations.	
Other comments: ***Illustrative Examples***	One stakeholder commented that examples would help illustrate how the indicators should be applied and help achieve greater uniformity of reporting.	Given the limited number of potentially-affected entities and the variety of circumstances applying to specific entities, it would be difficult to design helpful examples that would be generically useful (and would not be identified with particular entities). There is a danger that examples would (for some entities) become de facto requirements rather than illustrations. Suggest no change to ED proposals or the ED Basis for Conclusions. Also please see the notes in paragraph 7 above on the spectrum of public sector arrangements.
Other comments: ***Government guarantees***	Some stakeholders commented that the existence of an explicit government guarantee to pay benefits should be included as an indicator that risk has not been transferred and the arrangements should not be accounted for as insurance contracts.	Suggest no change to ED proposals on the basis that: (i) the guarantee does not affect risk transfer from participants; and (ii) substantive guarantees could be explicit or implicit.
Other comments: ***captive entities***	Mixed views on whether a bulk purchaser of insurance coverage (or centralised manager of insurance risks) for the state that on-charges to government entities for bearing risk is an intermediary or an insurer. Similarly, some consider public sector schemes for government employer risks to be service provision arrangements (e.g. claims handling and return to work management) rather than insurance arrangements.	Suggest no change to ED proposals, but suggest mentioning the mixed views that were considered in the ED Basis for Conclusions, including some brief analysis of the difference between (non-insurance) service provision and providing insurance services. In particular, the ED Basis for Conclusions should note that an entity only providing non-insurance

Indicators	Response	Staff suggestions
		services would probably be applying AASB 15/PBE IPSAS 9 (not AASB 137/PBE IPSAS 19).
Other comments: *arrangements in run-off*	Some indicated that arrangements in run-off, particularly when they are close to being wound up, should be automatically excluded from applying AASB 17.	Suggest no change to proposals. Each jurisdiction would need to determine whether an entity that is managing arrangements in run-off (and is not providing further coverage) would need to report, consistent with its policies on identifying entities that need to prepare stand-alone GPFS.
Other comments: *uniformity*	Uniformity across the jurisdictions is needed and use of AASB 137 should be actively discouraged as, in most cases, it is the liability calculation, not the income stream, that drives government decision-making and is the focus of their attention. The more consistently this is calculated using accepted actuarial practices, the better.	Suggest no action. One of the aims of the project is to achieve a 'principle-based' consistent application of the Standards in similar circumstances.

Questions to Board members

Q1: In respect of the overall approach, regarding the stakeholder comment about assigning a relative significance to the indicators, do Board members agree with staff's suggestions as follows?

(a) Note the views obtained via the field test in the Basis for Conclusions.

(b) Add a specific matter for comment in the ED asking stakeholders whether they agree with not assigning a relative significance to the indicators or having any other form of ranking? If they disagree:

(i) which indicators they would identify as being most significant, or how they would otherwise rank the indicators and why?; and

(ii) whether they would identify some indicators as pre-requisites for applying insurance accounting and, if so, which ones, and why?

Q2: Do Board members agree with the other suggested changes to the draft ED (or reasons for not making changes) suggested by staff noted in the third column of the above table?

NZASB EXPOSURE DRAFT 2022-3

Insurance Contracts in the Public Sector

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 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

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

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

This [draft] Tier 1 and Tier 2 PBE Standard modifies some of the requirements in PBE IFRS 17 *Insurance Contracts* for its application by public sector entities.

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

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CONTENTS

Part A – Introduction

This Standard modifies some of the requirements in PBE IFRS 17 *Insurance Contracts* for its application by public sector entities.

Tier 2 public benefit entities are required to comply with all the requirements in this Standard.

Part B – Scope

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

Part C – Amendments

Amendments to PBE IFRS 17 *Insurance Contracts*

Paragraph 2.1 is amended. Deleted text is struck through.

Scope

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

Paragraphs 16.1 and 22.1 are added. New text is underlined. Paragraphs 16 and 22 are not amended but are shown for context.

Level of Aggregation of Insurance Contracts

...

16. **An entity shall divide a portfolio of insurance contracts issued into a minimum of:**

(a) **A group of contracts that are onerous at initial recognition, if any;**

(b) **A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and**

(c) **A group of the remaining contracts in the portfolio, if any.**

<u>16.1 **Notwithstanding paragraph 16, a public sector entity is not required to sub-group a portfolio of contracts based on whether, at initial recognition, they are:**</u>

<u>**(a) onerous; or**</u>

<u>**(b) have no significant possibility of becoming onerous subsequently; or**</u>

<u>**(c) are neither (a) nor (b).**</u>

...

22. **An entity shall not include contracts issued more than one year apart in the same group. To achieve this the entity shall, if necessary, further divide the groups described in paragraphs 16–21.**

<u>22.1 **Notwithstanding paragraph 22, a public sector entity need not sub-group insurance contracts within a portfolio based on when they are issued.**</u>

...

Paragraph 25.1 is added. New text is underlined. Paragraph 25 is not amended but is shown for context.

Recognition

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

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

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

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

<u>25.1 **Notwithstanding paragraph 25, a public sector entity shall recognise a group of insurance contracts it issues from the earliest of the following:**</u>

<u>(a) **The beginning of the coverage period of the group of contracts; and**</u>

<u>(b) **The date when the first payment from a policyholder in the group becomes due.**</u>

...

Paragraphs 34.1–34.3 and 37.1 are added. New text is underlined. Paragraphs 33, 34 and 37 are not amended but are shown for context.

Measurement

...

Estimates of Future Cash Flows (paragraphs AG36–AG71)

33. **An entity shall include in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group (see paragraph 34). Applying paragraph 24, an entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. The estimates of future cash flows shall:**

(a) **Incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (see paragraphs AG37–AG41). To do this, an entity shall estimate the expected value (i.e., the probability-weighted mean) of the full range of possible outcomes.**

(b) **Reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables (see paragraphs AG42–AG53).**

(c) **Be current—the estimates shall reflect conditions existing at the measurement date, including assumptions at that date about the future (see paragraphs AG54–AG60).**

(d) **Be explicit—the entity shall estimate the adjustment for non-financial risk separately from the other estimates (see paragraph AG90). The entity also shall estimate the cash flows separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates (see paragraph AG46).**

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

(a) The entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or

(b) Both of the following criteria are satisfied:

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

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

34.1 In respect of paragraph 34(a) and (b)(i):

(a) Assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on future pricing or benefits;

(b) A public sector entity's monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity's practical ability to fully price for risks or benefits; and

(c) Any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits.

34.2 Notwithstanding paragraph 34(b)(ii), a public sector entity would not be regarded as failing to meet the criterion in paragraph 34(b)(ii) simply because its premium pricing for coverage up to the date when the risks are reassessed takes into account risks that relate to periods after the reassessment date, due to having a policy of determining prices and benefits based on a medium to long term view.

34.3 When a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period, it shall disclose information about the nature of the pricing process, including, for example, information about:

(a) the manner in which pricing or benefits are determined;

(b) the timeframes for which they are typically determined; and

(c) any other relevant constraints under which an entity operates that result in cross-subsidising different classes of policyholders;

either in the notes to the financial statements or by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time.

Note to Board members:

Compared with the version of the draft ED before the Boards in November/December 2021, the following shows the changes made to proposed paragraph 34.3.

34.3 When a public sector entity takes into account risks that relate to periods after the reassessment date based on having a ~~because of its~~ policy of determining prices and benefits over a period longer than a single coverage period ~~based on a medium to long term view~~, it shall disclose information about the nature of the pricing process; including, for example, information on:

(a) the manner in which pricing or benefits are determined;

(b) the timeframes for which they are typically determined; and

(c) any other relevant constraints under which an entity operates that result in cross-subsidising different classes of policyholders;

either in the notes to the financial statements or by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time.

...

Risk Adjustment for Non-Financial Risk (paragraphs AG86–AG92)

37. **An entity shall adjust the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.**

<u>37.1 **Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to reflect a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).**</u>

...

Paragraph 132.2A is added. New text is underlined.

Effective Date and Transition

Effective Date

...

<u>132.2A ***Insurance Contracts in the Public Sector*, issued in [date] broadened the scope of PBE IFRS 17 to include public sector public benefit entities. It amended paragraph 2.1 and added paragraphs 16.1, 22.1, 25.1, 34.1–34.3, 37.1. AG16.1–AG16.25 and the related headings and AG 64.1. A public sector entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2025. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**</u>

...

Paragraphs AG16.1–AG16.25 and their related headings are added. For ease of reading, new text is not underlined.

Appendix B

Application Guidance

This Appendix is an integral part of PBE IFRS 17 Insurance Contracts

...

Definition of an Insurance Contract (paragraph 13.1)

...

Identifying Insurance Contracts in a Public Sector Context

AG16.1 The guidance in paragraphs AG7 to AG16 on distinguishing between insurance risks and other risks applies equally to public sector entities. However, because public sector entities often undertake a much wider range of risk-bearing activities than private sector entities, additional guidance is needed to identify insurance contracts in a public sector context.

AG16.2 Governments often arrange to provide support as a result of events that affect individuals and communities. Some of these arrangements involve transactions that are best accounted for as insurance contracts, while many of these arrangements relate to a government's role in providing services such as: social benefits, universal health care and disaster relief. In making the distinction between these types of arrangements, the indicators outlined in paragraphs AG16.3 to AG16.25 are considered collectively so that a balanced judgement can be made.

AG16.3 Individual indicators would not necessarily be regarded as definitive in determining whether public sector arrangements would be accounted for as insurance contracts.

Similarity of Risks Covered and Benefits Provided

AG16.4 Under an insurance contract, significant insurance risk is transferred from an insured to an insurer. Private sector insurers accept a wide range of risks. These include risks relating to, for example: property loss, loss of income, professional and trade indemnity, public and legal liability, medical costs, mortality and disability. In the event that an insured event occurs, to the extent required under an insurance contract, the insurer would typically provide a benefit commensurate with the loss.

AG16.5 Many of the risks covered by private sector insurers are also the subject of social benefits provided by governments. Accordingly, judgement needs to be applied to determine the relevance of this indicator.

AG16.6 It is an ~~strong~~ indicator that a public sector entity's arrangements would be accounted for as insurance contracts when they involve accepting risks and providing benefits that are the same as, or similar to, those offered by private sector insurers. In some cases, public sector entities operate alongside private sector insurers to accept risks and provide benefits that are the same, for example, in respect of employer liability for workers' compensation risks.

AG16.7 In some cases, public sector entities are monopolies in their jurisdictions, and there are no relevant counterpart arrangements of private sector entities to consider. In these cases, consideration is given to whether a public sector entity's arrangements involve accepting risks and providing benefits that are the same as, or similar to, those offered by private sector insurers in other, similar, jurisdictions. In relation to other jurisdictions, only information that is 'readily available' need be considered. That is, public sector entities need not conduct an exhaustive search for counterpart arrangements.

AG16.8 In some cases there will be a clear similarity between the risks being accepted and the benefits being provided by a public sector entity and private sector insurers, and this would be an ~~strong~~ indicator that a public sector entity's arrangements would be accounted for as insurance contracts.

AG16.9 Conversely, the greater the level of dissimilarity between the risks accepted and benefits provided by a public sector entity and those offered by any relevant counterpart private sector insurer, the more likely it would be that the public sector entity's arrangements would not be accounted for as insurance contracts.

Identifiable Coverage Period

AG16.10 An insurance contract has an identifiable coverage period – either the period during which insured events occur (losses-occurring coverage) or the period during which claims become known (claims-made coverage). The coverage period might be explicitly stated in the contract or otherwise be determinable from the terms of the contract.

AG16.11 An indicator that a public sector entity's arrangements would be accounted for as insurance contracts is the existence of an identifiable coverage period.

AG16.12 Conversely, open-ended arrangements to provide benefits based on eligibility criteria would not be accounted for as insurance contracts.

Enforceable Nature of Arrangement

AG16.13 Under AASB Standards and NZ IFRS,[2] a contract is an agreement between two or more parties that creates enforceable rights and obligations. An insurance contract is a contract under which one party (the 'insurer') accepts significant insurance risk from another party (the 'insured') by agreeing to compensate the insured is a specified future event adversely affects the insured.[3]

AG16.14 When a public sector entity or its controlling government does not have the practical ability under existing or substantively enacted legislation to deny or change promised benefits, it indicates that an arrangement would be accounted for as an insurance contract. That is, the policyholder has enforceable rights under the arrangement and the public sector entity has enforceable obligations for promised amounts or for amounts based on agreed parameters.

AG16.15 Conversely, when a public sector entity or its controlling government has the practical ability under existing or substantively enacted legislation to retrospectively deny or change promised benefits or

2 AASB 15/NZ IFRS 15 *Revenue from Contracts with Customers* and AASB 16/NZ IFRS 16 *Leases*

3 AASB 17/PBE IFRS 17, Appendix A

compensation, it indicates that an arrangement is not enforceable. For example, if an entity can retrospectively change the amount of benefits or compensation being paid to a beneficiary in relation to a past event under existing legislation, this would indicate that the arrangement would not be accounted for as an insurance contract.

AG16.16 An arrangement that involves a public sector entity issuing documentation to another party, similar to an insurance contract issued by a private sector insurer, would be indicative of an agreement that creates enforceable rights and obligations. However, ~~A~~a substantive reliance on legislation or other regulation as a part of that arrangement would not ~~generally~~ necessarily be an indicator that the arrangement is unsuitable to be accounted for as an insurance contract. In common with the private sector, arrangements need to be interpreted within a regulatory framework and, when applying AASB 17/PBE IFRS 17, an entity is required to consider its substantive rights and obligations, whether they arise from a contract, law or regulation under paragraph 2.

Source and Extent of Funding

AG16.17 Under an insurance contract, a policyholder usually pays premiums to an insurer. In most cases, the premiums are the primary source of funding the payment of any claims and the costs of operating the insurance business. Insurers usually also generate investment income and might sometimes receive supplementary contributions from governments, for example, such as those aimed at encouraging the use of private health insurance.

AG16.18 When a public sector entity receives 'premiums' under an arrangement in exchange for accepting risks from those who stand to benefit, it indicates that an arrangement would be accounted for as an insurance contract. The more direct the relationship between the participant who stands to benefit from an arrangement and the participant providing the funding, the more indicative this would be of a policyholder-insurer relationship and a transaction that would be accounted for as an insurance contract.

AG16.19 Conversely, when a public sector entity receives all of its funding from sources other than the 'premiums' from policyholders (that is, sources such as routine appropriations), it indicates that arrangements would not be accounted for as insurance contracts.

AG16.20 The lower is the proportion of a public sector entity's funding to meet benefits that is received in exchange for accepting risks from those who stand to benefit, the less likely is it that those arrangements would be accounted for as insurance contracts. For example, a co-payment that is intended to help ration services and is not intended to fully fund services is unlikely to indicate that arrangements would be accounted for as insurance contracts.

AG16.21 Under most general insurance contracts issued by private sector insurers, in the event that an insured cancels its coverage prior to the end of the coverage period, the policyholder would ordinarily receive a pro rata premium refund, possibly adjusted for administrative costs. Although not all contracts issued by private sector insurers allow for refunds, the practice is indicative of insurance contracts. Accordingly, a public sector entity arrangement that allows for a refund of premium when the policyholder terminates the arrangement early indicates that an arrangement would be accounted for as an insurance contract.

Management Practices and Assessing Financial Performance

AG16.22 An indicator that an arrangement would be accounted for as an insurance contract would be that the public sector entity has objectives, policies and processes for managing risks associated with those arrangements and has its financial performance assessed against those objectives and how successfully it applies those policies and processes. In that context, the entity would be expected to conduct the following activities (either itself or via outsourcing):

(a) underwriting and risk assessment;

(b) managing the entity's 'capital' based on the measurement of risks and uncertainties relating to coverage and incurred claims and their potential future impacts; and

(c) fair and prudent claims management.

The presence of all three of these factors would be a ~~strong~~ useful indicator that those arrangements would be accounted for as insurance contracts. Conversely, the fewer of these three factors that are present, the less likely it would be for arrangements to be accounted for as insurance contracts.

Assets Held to Pay Benefits

AG16.23 Consistent with the guidance above on 'Management practices and assessing financial performance', the existence of a separate fund, or earmarked assets, that are restricted to being used to pay benefits can be regarded as evidence that a public sector entity is operating and being managed as an insurer. The existence of a separate fund, or earmarked assets is also consistent with the guidance above on 'Source and extent of funding' because it would generally involve investing funds raised via premiums or levies received in exchange for accepting risks from those who stand to benefit.

AG16.24 ~~Accordingly,~~While the existence of a separate fund, or earmarked assets, that are restricted to being used to pay benefits is a feature of some public sector arrangements that are not in the nature of insurance, the feature is still regarded as an indicator, in conjunction with other indicators, that those arrangements would be accounted for as insurance contracts. The alternative would be when a public sector entity receives its funding from sources such as routine appropriations, which indicates that arrangements would not be accounted for as insurance contracts.

AG16.25 To be relevant, the separate fund, or earmarked assets need not be managed by the public sector entity itself. It is the existence of a separate fund, or earmarked assets, that is indicative, not the performance of investing activities.

...

Paragraph AG64.1 is added. For ease of reading, new text is not underlined. Paragraph AG64 is not amended but the first sentence is shown for context.

Measurement (paragraphs 29–71)

...

Cash Flows within the Contract Boundary (paragraph 34)

...

AG64. Paragraph 34 refers to an entity's practical ability to set a price at a future date (a renewal date) that fully reflects the risks in the contract from that date. ...

AG64.1 Public sector entities often operate within a broad government policy framework that takes into account general economic circumstances and community needs and not only the circumstances specific to the entity and its policyholders. For example, there may be cases when the entity's management, including relevant government Minister(s)], deliberately phases in price increases or decreases (or benefit adjustments) over a long period to help individuals or businesses manage through an economic cycle. Although the phasing in process might notionally take into account risks relating to a number of coverage periods, this is not the motivating factor. The broader policy objectives are the motivating factor. Therefore, in the context of AASB 17/PBE IFRS 17.34(b)(ii), the public sector entity would not be regarded as taking into account the risks that relate to periods after the reassessment date

Basis for Conclusions

Paragraphs BC13–BC274 ~~xx~~ and the related headings are added. For ease of reading, new text is not underlined.

Public Sector Amendments [date]

BC13 This Basis for Conclusions summarises the Australian Accounting Standards Board's and New Zealand Accounting Standards Board's considerations in reaching the conclusions in this Exposure Draft. It sets out the reasons why the Boards developed the Exposure Draft, the approach taken to developing the Exposure Draft and the bases for the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Reasons for Proposing these Amendments

BC14 AASB 17 *Insurance Contracts* (as amended by AASB 2020-5 *Amendments to Australian Accounting Standards – Insurance* Contracts) and PBE IFRS 17 *Insurance Contracts* have a mandatory application date of annual reporting periods beginning on or after 1 January 2023.

BC15 IFRS 17 *Insurance Contracts*, which is incorporated into AASB 17/PBE IFRS 17 has been developed largely for the for-profit private sector, and to a limited extent also for a (not-for-profit) mutual entity context [AASB 17/PBE IFRS 17.B16]. IFRS 17 has not been designed to cater for the public sector context. Accordingly, the AASB and the NZASB are undertaking a joint project to include modifications in AASB 17/PBE IFRS 17 to suit the public sector context in Australia and New Zealand.

BC16 Other jurisdictions, such as the UK and Canada, are also considering the application of IFRS 17 in the public sector. At the time of preparing this Basis for Conclusions, those projects were not yet at the proposals stage.

BC17 At the time of preparing this Basis for Conclusions the IPSASB ~~were~~ was not considering the development of an insurance Standard based on IFRS 17.

BC18 In addition, there are possibly inconsistencies in Australia in the application of Standards as some Australian public sector entities with similar arrangements are currently applying AASB 1023 *General Insurance Contracts* and others are applying AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. This project might help achieve a greater level of consistency.

BC19 The AASB and the NZASB each commenced a project in 2017 to consider expanding the scope of AASB 17/PBE IFRS 17 to include insurance contracts and arrangements that have similar characteristics to insurance contracts in the public sector and address any public-sector-specific issues. Each Board has previously issued a public consultation document:

(a) AASB Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities*; and

(b) NZASB Exposure Draft ED 2018-7 *PBE IFRS 17* Insurance Contracts (NZASB ED 2018-7).

Each Board has considered respondents' comments to their respective consultation documents. Paragraphs BC273~~245~~ and 274~~246~~ outline a brief project history relating to this earlier stage of the project.

Joint Project

BC20 Currently, AASB 17 does not apply to not-for-profit public sector entities [under paragraph 6A of AASB 1057 *Application of Australian Accounting Standards* (July 2015, as amended by AASB 17)].

BC21 PBE IFRS 17 currently applies to not-for-profit public benefit entities [PBE IFRS 17.2.1]; however, it is not regarded as applying to arrangements of public sector public benefit entities.

BC22 In 2020, the AASB and the NZASB decided to work jointly to progress the project with the following background and objectives.

BC23 Both Boards maintain different tiers of reporting, which among other things, use the 'public accountability' distinction developed by the IASB. Entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses are identified as having public accountability. Both Boards generally regard entities engaged in insurance activities as being in Tier 1.

BC24 Some of the public sector entities in Australia that conduct insurance activities have self-identified as for-profit entities – most have self-identified as not-for-profit entities. In principle, Tier 1 for-profit public sector entities apply AASB Standards incorporating IFRS Standards without modification. The *AASB Not-for-Profit Entity Standard-Setting Framework* notes the Financial Reporting Council's broad strategic direction that the AASB applies the principle of transaction neutrality (modified as necessary) in setting standards for not-for-profit and public sector entities. This Framework notes (emphasis added):

> 22 IFRS Standards (including Interpretations) are appropriate as a base for the following reasons: …
>
> (d) **IFRS Standards can be modified appropriately for NFP-specific issues**, as demonstrated by the International Public Sector Accounting Standards Board (IPSASB) using IFRS Standards as a base for their corresponding Standards, **departing only to the extent appropriate for public sector issues**.

BC25 The following background applies for the NZASB.

(a) The *New Zealand Accounting Standards Framework* notes (emphasis added):

> 28. The accounting standards applying to the PBE tiers are as follows: …
>
> • PBE Tier 1: Tier 1 PBE Accounting Requirements – These are the requirements in the accounting standards (referred to as PBE Standards) and applicable authoritative notices.
>
> They comprise International Public Sector Accounting Standards (IPSAS), **modified as appropriate for New Zealand circumstances** (for either public sector or NFP entities), together with additional standards as necessary and applicable authoritative notices.

(b) Additional standards for PBEs include IFRS Standards for which there is no equivalent IPSAS (for example, PBE IFRS 4) and domestic standards.

(c) In February 2018, the NZASB considered the application of the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach) and decided to develop PBE IFRS 17. The trigger in the PBE Policy Approach for developing PBE IFRS 17 is the change to an IFRS Standard (IFRS 4 is superseded by IFRS 17) that has been used as the basis for a PBE Standard.

(d) A further motivation for developing PBE IFRS 17 was to capture schemes that are eligible[4] to apply the insurance approach as permitted under IPSAS 42 *Social Benefits* [PBE IFRS 17.BC7]. (The 'insurance approach' would involve applying IFRS 17 [IPSAS 42.AG19].)

Consistency in Financial Reporting – within and between Jurisdictions

BC26 The AASB Discussion paper (2017) proposals identified as an objective "to achieve greater consistency of financial reporting across the public sector among entities engaging in insurance activities for the benefit of users of that information" [page 6]. While the NZASB has fewer public sector stakeholders with arrangements that might be accounted for as insurance contracts, consistency remains a key issue.

BC27 Although there is no binding agreement in place regarding public sector entities, to the extent feasible, the Boards consider it would be desirable to have the same standards applying in Australia and New Zealand. This is because, for example, there can be useful benchmarking of financial position and performance of public sector entities between the two jurisdictions. Accordingly, the Boards are taking a 'best endeavours' approach to trying to achieve a consistent outcome in the two jurisdictions.

BC28 Both Boards are making the same proposals in this Exposure Draft, except the proposed approach on risk adjustments.

BC29 In developing [Draft] Accounting Standard *Insurance Contracts in the Public Sector*, the Boards considered the responses received from stakeholders to earlier consultative documents and also conducted a series of interviews with key stakeholders in 2020 and early 2021 to gain insights into operations of those entities (and their users and auditors) most likely to be impacted by the project.

BC30 The Boards have also consulted the Public Sector Focus Group, a sub-group of the AASB's Insurance Transition Resource Group for Insurance Contracts, which includes members from both jurisdictions.

Sub-grouping of Contracts

Requirements under AASB 1023/PBE IFRS 4

BC31 The Boards observed that, under AASB 1023/PBE IFRS 4, the liability for remaining coverage is measured as the amount of premium received and or receivable for the contract period that remains unearned. An insurer is required to apply a Liability Adequacy Test to the carrying amount of the liability for remaining coverage (represented by 'unearned premium') when there is an indication that the liability may be inadequate [AASB 1023.9.1/PBE IFRS 4 (Appendix D.9.1)]. The Liability Adequacy Test is applied at a portfolio of contracts level. The Boards noted that, in the case of some public sector entities, there is only one portfolio of contracts and, for those entities, the Liability Adequacy Test is effectively conducted at the whole-of-entity level.

---

4 IPSAS 42 does not require an entity that meets the criteria to apply the 'insurance approach' – only that the entity is eligible to apply that approach.

BC32 The Liability Adequacy Test involves comparing:

(a) the amount~~balance~~ of the liability for remaining coverage recognised on the ~~balance sheet~~statement of financial position; with

(b) current estimates of the present value of the expected future cash flows relating to future claims arising from existing insurance contracts, plus a risk margin that reflects the inherent uncertainty in the central estimate.

There is a deficiency if (a) is less than (b), in which case an additional 'unexpired risk liability' is recognised for the deficiency,[5] which is also recognised immediately as a loss.[6]

Requirements in AASB 17/PBE IFRS 17: Sub-grouping of Onerous versus Non-onerous Contracts

BC33 AASB 17/PBE IFRS 17 has a much greater emphasis (than AASB 1023/PBE IFRS 4) on identifying onerous contracts and ~~that~~ their identification has fundamental impacts on a wide range of accounting outcomes. In particular, at initial recognition, insurance contracts within each portfolio of contracts must be sub-grouped as:

(a) contracts that are onerous at initial recognition, if any;

(b) contracts that have no significant possibility of becoming onerous subsequently, if any; and

(c) other (non-onerous) contracts [AASB 17/PBE IFRS 17.16].[7]

BC34 The Boards noted the following.

(a) In the private for-profit sector, the presumption is that insurers issue insurance contracts that are intended to be profitable. In practice, the profit component should act as a 'buffer' to any liability inadequacy and private for-profit sector insurers only occasionally need to test for liability inadequacy and few entities need to recognise an unexpired risk liability under AASB 1023/PBE IFRS 4.

(b) In contrast, for most public sector entities applying AASB 1023/PBE IFRS 4, the liability for remaining coverage based on unearned premium is routinely inadequate because they price to break even after taking into account projected investment returns.[8] That is, the amounts collected in levies/premiums are typically inadequate to meet expected claims. Accordingly, many public sector entities routinely recognise unexpired risk liabilities under AASB 1023/PBE IFRS 4.

The Boards highlighted this as a key distinguishing factor among public sector entities compared with private sector for-profit entities.

BC35 The Boards acknowledged that there are no public sector specific modifications to AASB 1023/PBE IFRS 4 based on this key distinguishing factor and that the routine recognition of unexpired risk liabilities, which are typically offset by investment income/gains, is an accepted practice. However, the Boards noted that the AASB 17/PBE IFRS 17 requirement to sub-group contracts based on whether they are onerous versus non-onerous raises further potential accounting complications. In particular, the Boards observed that:

(a) accounting for a whole portfolio that is onerous is likely to be relatively simple compared with having to identify some (possibly) non-onerous contracts from within a largely onerous portfolio of contacts and account for them separately;

(b) the level of interest among public sector entities and their users in knowing about profitable sub-groups of contracts that might exist within a wider loss-making portfolio, would be lower than the level of interest among private sector insurers and their users in knowing about loss-making sub-groups of contracts that might exist within a wider profitable portfolio; and

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5 Because a deficiency is not represented by 'unearned premium' in the context of AASB 1023/PBE IFRS 4, the deficiency is separately recognised as an 'unexpired risk liability'.

6 An entity with deferred acquisition costs and intangible assets related to insurance contracts would write those off before recognising any remaining deficiency [AASB 1023.9.1/PBE IFRS 4 (Appendix D.9.1)]; however, public sector entities do not ordinarily have material deferred acquisition costs or intangible assets.

7 In practical terms, there are two sub-groups: (a) onerous; and (b) non-onerous. Early indications are that most insurers consider 'contracts that have no significant possibility of becoming onerous subsequently' would be a rarity.

8 The expected investment returns are ordinarily higher than the discount rates (for time value) applied to measure insurance liabilities.

(c) any interest among users of public sector entities' financial statements in knowing about cross-subsidisation among different classes of policyholders would probably be best met through disclosures (rather than disaggregation that affects recognition and measurement).

Analysis on Sub-grouping by Onerous Versus Non-onerous Contracts

BC36 The Boards noted that:

(a) there is no impact on the long-run overall results from taking different approaches to onerous contract units of account and annual cohorts of contracts versus a portfolio unit of account; and

(b) the main impact of AASB 17/PBE IFRS 17 (relative to AASB 1023/PBE IFRS 4) would be to recognise losses upfront that would otherwise have been recognised over the coverage period. The Boards thought that, since most of the coverage periods are typically one year, the timing of loss recognition would typically not be very different as between AASB 17/PBE IFRS 17 and AASB 1023/PBE IFRS 4.

BC37 The Boards observed that the IASB decided on the requirements in AASB 17/PBE IFRS 17.16 to divide each portfolio of contracts into sub-groups because it regards information about onerous contracts to be useful information about an entity's decisions on pricing contracts and about future cash flows, and wants this information to be reported on a timely basis. The IASB does not want this information to be obscured by offsetting onerous contracts in one group with profitable contracts in another group [IFRS 17.BC119].[9] The Boards acknowledged that the upfront recognition of losses may be particularly useful in a private sector for-profit context.

BC38 The Boards observed that the impact of AASB 17/PBE IFRS 17 would depend on the nature of the arrangements and how they have been priced and they considered the following examples by way of illustration.

(a) Worker's compensation insurance contracts are typically priced for the expected actual risks by employer and/or industry. At initial recognition, unless a deliberate decision has been taken to under-price for risk on some contracts and over-price others, ordinarily there would not be onerous and non-onerous sub-groups. Typically, in a public sector context (of break-even pricing before taking into account investment earnings), the portfolio would be expected to comprise only one group of onerous contracts.

(b) Transport accident insurance contracts are typically priced for the expected actual risks over the whole portfolio. However, the public sector entity might have relatively granular information available about policyholders by risk profile. For example, it may be known that drivers living in particular geographic regions are likely, on average, to give rise to fewer claims and are largely profitable. In such a case there may be onerous and non-onerous groups of contracts based on geographic regions.

BC39 The Boards noted that AASB 17/PBE IFRS 17.20 provides relief from sub-grouping under onerous versus non-onerous contracts when contracts within a portfolio would fall into different groups only because law or regulation specifically constrains the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics. Accordingly, in the transport accident case noted above, if the pricing constraints on the entity are the cause of overpricing for low-claim geographic regions, they need not be separately accounted for (as a non-onerous contract group). However, the Boards remained concerned that this relief may be difficult to apply in some cases due to possible ambiguity about where price/levy/benefit decision-making power may reside – with the entity itself, or with the government [for example, the relevant Minister(s)].

BC40 The Boards considered feedback received from stakeholders on sub-grouping of contracts in response to earlier consultation documents.

BC41 NZASB ED 2018-7 proposed no changes to PBE IFRS 17 in respect of onerous contracts; however, it specifically sought feedback from stakeholders on the requirements in PBE IFRS 17.16. The responses to NZASB ED 2018-7 generally argued for public-sector-specific modifications based on a view that the

9 The IASB chose groups of contracts as a way of striking a compromise between accounting on an in individual contract basis (that would be particularly burdensome) and accounting at the portfolio level of aggregation [IFRS 17.BC123 & BC124].

requirements in PBE IFRS 17.16 are not relevant to the circumstances of public sector insurers in New Zealand. The responses included the following:

(a) pricing decisions and the resulting onerous contracts will often be a consequence of broader policy decisions of government;

(b) the level of aggregation should be the same as the level used for setting levies;

(c) while for profit insurers use granular information to improve profitability and avoid adverse selection by policyholders – this is not relevant to public sector entities, which typically deliberately cross-subsidise across communities;

(d) public sector entities do not choose their customers or seek to market their services to particular customers, and risks are usually community rated – accordingly, grouping by onerous/non-onerous arrangements is not relevant.

BC42 The AASB Discussion Paper (2017) did not specifically request input on this topic and there were no comments from stakeholders on onerous contract groups. However, the topic was raised in stakeholder outreach conducted in 2020-21 and the following matters were raised.

(a) In any given year, all contracts in a portfolio are likely to be onerous at initial recognition because the entity relies on investment returns to break even. That is, amounts raised from the levies/premiums charged are inadequate relative to expected claims and there will be a negative insurance service result (negative underwriting result). Accordingly, unless there is sound evidence of a non-onerous group of contracts there would be no disaggregation of the portfolio under AASB 17/PBE IFRS 17.

(b) Given that some entities do not price differentially based on policyholder-specific risks, they do not monitor (and may not possess) the information necessary to differentiate between onerous versus non-onerous contracts at initial recognition. For example, some entities are not permitted to hold information on gender or age; however, if available, gender and/or age-related information would enable the entity to identify onerous versus non-onerous contracts.

(c) Ordinarily, all of a public sector entity's onerous contracts and non-onerous contracts would be the result of regulatory impediments that are covered by the 'relief' in AASB 17/PBE IFRS 17.20; however, there may be exceptions.

(d) The entity takes a long-term view to avoid volatility in premiums/levies – periodically, there may be profitable or onerous contracts that depend on whether, for example, there are deficits to be 'rectified' or surpluses to be 'used up'.

BC43 The Boards considered a number of possible approaches to addressing the sub-grouping of contracts in a public sector context, including the following.

(a) ~~Exempt a~~All public sector entities should be exempted from AASB 17/PBE IFRS 17.16, on the basis that:

(i) timely information on profitability is not relevant to most public sector entities; and

(ii) ~~most~~whether public sector entities have portfolios of onerous contracts and sub-groups of onerous contracts;

are not relevant. However, it was acknowledged that information on sub-groups of onerous contracts might be useful in helping to inform users about cross-subsidies between different classes of policyholders.

(b) ~~Exempt o~~Only not-for-profit public sector entities (which is the majority of the relevant entities) should be exempted from AASB 17/PBE IFRS 17.16 for the reasons noted in (a) above.

(c) ~~Exempt a~~All public sector entities should be exempted from AASB 17/PBE IFRS 17.16; however, require disclosure about the nature of the pricing process, including constraints under which an entity operates to cross-subsidise different policyholder cohorts, that can lead to some groups of contracts being onerous. This might provide additional relevant information about the impact of price constraints on each entity. However, it was acknowledged that the additional disclosure ~~w~~could be a burden and may already be readily available from other sources (although the burden might be mitigated by permitting disclosure by cross-reference).

(d) ~~Retain application of~~ AASB 17/PBE IFRS 17.16 should apply to public sector entities and ~~provide~~ guidance should be provided for the public sector context on the manner in which AASB 17/PBE IFRS 17.20 would provide relief from the need to sub-group contracts.

Sub-grouping Onerous Versus Non-onerous Contracts – Conclusions

BC44 Based on the above deliberations, the Boards concluded that they would propose an exemption for all public sector entities from applying the requirements in AASB 17/PBE IFRS 17.16. That is, public sector entities would not be required to sub-group contracts based on whether, at initial recognition, they are:

(a) onerous;

(b) have no significant possibility of becoming onerous subsequently, or

(c) are neither (a) nor (b).

BC45 The practical impact of this proposed exemption is that public sector entities would have a basic unit of account that is a portfolio (also see the discussion below on annual sub-grouping). Accordingly, their liabilities for remaining coverage and liabilities for incurred claims would be measured for each portfolio as a whole (and, for those entities with only one portfolio, effectively at the whole-of-entity level).

BC46 The Boards consider this exemption is justified for the following reasons.

(a) The motivation behind the AASB 17/PBE IFRS 17 requirements for information about onerous contracts is useful information about an entity's decisions on pricing contracts, which is not as relevant in the public sector context (relative to the private sector). This is particularly the case for not-for-profit entities. However, even public sector entities that are identified as for-profit entities are typically not able to underwrite risks in the manner available to private sector insurers and, therefore, disaggregating onerous versus non-onerous contracts would not provide useful information for assessing a public sector entity's financial position or performance.

(b) Public sector entities' information systems are often geared to identifying, at a broad level, high-risk groups of policyholders for strategic and government policy decision-making (for example, to conduct safety campaigns), but not necessarily for identifying separate groups of contracts that give rise to accounting profits or losses. The managements of public sector entities (whether for-profit or not-for-profit) typically do not seek to financially remediate groups of onerous contracts or seek to attract more profitable customers in the same manner as private sector insurers. And, unlike private sector insurers, public sector entities do not ordinarily choose the customers to which they market their products. Accordingly, the costs for public sector entities of disaggregating onerous versus non-onerous groups of contracts would exceed any likely benefits.

(c) If public sector entities are subject to AASB 17/PBE IFRS 17.16 it would be necessary to explain how the relief in AASB 17/PBE IFRS 17.20 could be applied in a public sector context. That would mean explaining whether the constraints identified in AASB 17/PBE IFRS 17.20 would be constraints imposed only on the entity itself or on the entity and its controlling government [Minister(s)]. In the context of AASB 17/PBE IFRS 17, there is the potential for ambiguity in considering whether:

(i) a public sector entity's practical ability to fully price for risks or benefits includes the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits in their capacity as managers of the public sector entity; versus

(ii) overall pricing constraints relevant to AASB 17/PBE IFRS 17.20 in respect of government policy more broadly.

BC47 The Boards also considered that the differences (from the private sector) in the accountability/regulatory, governance and financial management frameworks in general among public sector insurers might also justify an exemption for all public sector entities from applying the requirements in AASB 17/PBE IFRS 17.16.[10]

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[10] In that context, the Boards noted: paragraph 30(g) of the *AASB Not-for-Profit Entity Standard Setting Framework*; and, to some extent, paragraph 62 of the *New Zealand Accounting Standards Framework*.

BC48 The Boards concluded that they would propose requiring additional disclosures about the nature of the pricing process; including, for example, information about the manner in which pricing/benefits are determined, the timeframes ~~over~~ for which they are typically determined, and any other relevant constraints under which an entity operates that result in, for example, cross-subsidising different classes of policyholders. The Boards noted that this information may already be publicly available from other sources and that the proposed requirement could be met by cross-reference to relevant authoritative sources available to users of the financial statements on the same terms as the financial statements and at the same time.

BC49 The Boards acknowledged that, in general, Accounting Standards do not require disclosures around pricing decisions and whether they involve cross-subsidisation among customers. However, the Boards consider this additional disclosure is justified due to the likely significance of the manner in which pricing/benefits are determined on the performance and financial position of public sector entities that bear insurance risk.

Sub-grouping of Contracts Issued no more than a Year Apart

BC50 The Boards observed that portfolios of contracts might include contracts entered into over successive years, ~~but~~and that AASB 17/PBE IFRS 17 requires entities to divide each portfolio of contracts into sub-groups of contracts issued no more than a year apart [AASB 17/PBE IFRS 17.22]. The ~~purpose behind~~ effect of this requirement is to reveal cases ~~of entities masking the existence~~ of onerous contracts issued in a particular year without them being obscured by ~~accounting for them together with~~ profitable contracts issued in other years. This is mainly an issue when there are contracts with multi-year coverage periods.

BC51 The Boards noted that, given the monopoly position of many public sector entities, they may phase in increases and decreases to levies/premiums and the extent to which arrangements might be onerous or non-onerous for any given annual cohort of contracts is likely to be less relevant than for a private sector for-profit insurer.

BC52 The Boards noted that some of the responses to NZASB ED 2018-7 argued ~~that~~ for a public sector modification based on the view that~~is needed because~~ the requirement in PBE IFRS 17.22 is not relevant to the circumstances of some public sector insurers that take a long view on pricing. That is, for example, grouping by annual cohort is irrelevant when the insured risk is for highly uncertain and infrequent events where the entity is a monopoly provider (and cannot withdraw from the market).

Analysis of Sub-grouping of Contracts Issued no more than a Year Apart

BC53 The Boards noted that the IASB decided to require sub-grouping of contracts issued no more than a year apart because it considers annual grouping by the underwriting year to be important to ensure that trends in the profitability of a portfolio of contracts are reflected in the financial statements on a timely basis [IFRS 17.BC136].

BC54 In the context of the Australian and New Zealand public sectors, the Boards observed the following.

(a) Many public sector entities would only issue contracts with one year of coverage and the difference between the portfolio perspective versus sub-grouping by annual cohort would not be particularly relevant. However, some public sector entities issue contracts that provide multi-year coverage – for example, in respect of domestic building risk coverage arrangements, and there may exist onerous versus non-onerous annual cohorts of contracts.

(b) When relevant, the requirement in AASB 17/PBE IFRS 17.22 to identify separate groups of contracts by their year of issue is expected to result in insurers identifying their reporting period as the relevant period. Australian and New Zealand public sector entities have 1 July to 30 June financial years and, if they were to comply with AASB 17/PBE IFRS 17.22, would be expected to regard all contracts issued between 1 July and 30 June as being within one group of contracts.

BC55 The Boards noted that the AASB 17/PBE IFRS 17.22 requirement to determine groups of contracts based on the underwriting year as the unit of account for the liability for remaining coverage could have flow-on consequences for the ways in which the liability for incurred claims would also be managed (unless insurers operate two parallel systems). This might be the case for the following reasons.

(a) Claims are usually monitored in the context of the related levies/premiums 'earned', and premium 'earning' under AASB 17/PBE IFRS 17 would be based on the underwriting year used for the liability for remaining coverage under AASB 17/PBE IFRS 17.22.

(b) Many public sector entities tend to manage claims on an 'accident year' basis because claims management plays a such prominent role for public sector entities, rather than profitability and underwriting performance.[11] Under an accident year basis, all claims arising from incidents/accidents within a particular annual period are tracked over time and compared year-on-year with levies/premiums earned in that year for the related contracts, regardless of when those contracts were issued/underwritten.

(c) For some public sector entities, the underwriting year and the accident year are the same due to most (or all) contracts being issued with coverage that coincides with the annual reporting period. However, for other public sector entities they are different.

BC56 The Boards also noted that some insurance risks relate to providing coverage for highly uncertain infrequent events. While the coverage period for contracts for these risks are often only one year, the insured events might be expected to occur many years apart. Accordingly, in years when there are no relevant events, the contracts are highly profitable; while in years when a relevant event occurs, the contracts result in large losses. The Boards observed that:

(a) from the perspective of a private sector insurer that can choose to engage in these contracts or withdraw from the market, sub-grouping contracts by their year of issue (underwriting year) based on AASB 17/PBE IFRS 17.22 might help track this profit or loss volatility; while

(b) from the perspective of a public sector entity that is a monopoly and cannot choose to withdraw from the market, sub-grouping contracts by their year of issue (underwriting year) based on AASB 17/PBE IFRS 17.22 seems much less relevant. For these entities, tracking sub-groups of contracts by the year in which the infrequent events occur (accident year) might be more relevant.

Sub-grouping of Contracts Issued no more than a Year Apart – Conclusions

BC57 Based on the above deliberations, the Boards concluded that they would propose an exemption for all public sector entities from applying the requirements in AASB 17/PBE IFRS 17.22. The Boards consider this exemption is justified for the following reasons:

(a) The IASB's reasoning behind the requirements (annual groupings by issue date are important to ensure that trends in the profitability of a portfolio of contracts are reflected in the financial statements on a timely basis) is generally less crucial (or is unimportant) to public sector entities.

(b) The main focus of interest among public sector entities is on claims experience rather than profitability or underwriting performance. Some of those entities would track and manage claims on an accident year basis (not an underwriting year). Others use an underwriting year basis. Some entities track claims on both bases. Managements are likely to continue their existing tracking focus (which they have found to be effective) even if the external reporting requirements changed to groups based on the date when contracts are issued. The costs for some entities of operating a parallel tracking system (based on the underwriting year) to facilitate external reporting would not justify any benefits that might arise from applying AASB 17/NZ IFRS 17.22.

(c) The requirement in AASB 17/PBE IFRS 17.57 to compare the liability for remaining coverage[12] with the fulfilment cash flows that relate to remaining coverage when facts and circumstances indicate a group of insurance contracts is onerous could be applied at the portfolio level.[13] Given that, for most public sector entities, the liability for remaining coverage is routinely inadequate because they price to break even after taking into account projected investment returns, exempting

[11] The liability for incurred claims is also the focus of management attention for most public sector entities because their liabilities for incurred claims are usually much larger than their liabilities for remaining coverage.

[12] Calculated using the premium allocation approach, which is expected to be the main approach used by public sector entities applying AASB 17/PBE IFRS 17.

[13] This is the level at which the Liability Adequacy Test is currently applied under AASB 1023.9.1/PBE IFRS 4 (Appendix D.9.1).]

public sector entities from applying the requirements in AASB 17/PBE IFRS 17.22 would rarely (if ever) result in delayed recognition of onerous contracts.

Initial Recognition when Contracts are Onerous

BC58 In general, the following applies under AASB 1023/PBE IFRS 4.

(a) An insurance liability is recognised when premium is received or receivable, because the measurement model simply defers unearned premiums received or receivable on the balance sheet. Premiums might be received before coverage begins, on the day coverage begins or after coverage begins.

(b) An unexpired risk liability (onerous contract loss) is recognised based on whether unearned premiums are adequate to meet expected future claims and other relevant costs. Accordingly, loss recognition is dependent on when unearned premiums are recognised on the balance sheet.

BC59 In contrast, AASB 17/PBE IFRS 17.25 requires a group of insurance contracts an entity issues to be recognised from the earliest of the following:

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

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

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

BC60 The Boards observed that, for the onerous contract trigger in AASB 17/PBE IFRS 17.25(c) to be the earliest date, the insurer would have already accepted the insured's risk before coverage commences and before premiums are due and there are facts and circumstances indicating a group of insurance contracts is onerous.[14] Accordingly, there would need to be up-front loss recognition for any onerous contracts that have been entered into as at the balance date, even though the coverage period may only commence in the subsequent financial year. This reflects the emphasis in AASB 17/PBE IFRS 17 on the early recognition of onerous contract losses.

BC61 The Boards observed that the differing circumstances of public sector entities compared with their private sector counterparts would potentially mean that applying AASB 17/PBE IFRS 17.25(c) would have unhelpful accounting consequences.

(a) Private sector for-profit insurers would typically only by exception knowingly issue onerous contracts [see the perspective in IFRS 17.BC135]. However, most public sector entities routinely issue onerous contracts (because levies/premiums charged are inadequate to cover expected claims).

(b) Private sector insurers will typically have contracts commencing throughout their financial year and, therefore, only a relatively small portion of contracts that commence in the following year would typically be ~~binding~~ enforceable on the entity at any given reporting date. However, some public sector entities have a large portion of their contracts covering periods that coincide with their financial year. Accordingly, for these entities, all or most of next year's contracts could be enforceable~~binding~~ on the entity at each reporting date.

The Boards noted that, for an entity that has enforceable~~binding~~ arrangements in the weeks before year end for the following 1 July to 30 June coverage period, applying AASB 17/PBE IFRS 17.25(c) would mean all of the onerous contract losses associated with next year's arrangements would need to be included in the current year's results. While this may not have a major impact year-on-year, the Boards thought it would be a counter-intuitive outcome.

Conclusions

BC62 Based on the above deliberations, the Boards concluded that they would propose an exemption for all public sector entities from applying the requirements in AASB 17/PBE IFRS 17.25(c). The Boards consider this exemption is justified for the following reasons.

(a) The consequences of applying AASB 17/PBE IFRS 17.25(c) to some public sector insurers would be potentially burdensome from a practical viewpoint, since their systems are not currently

[14] Based on IFRS 17.BC140 to BC144.

set up to capture this information, and would lead to information that is not useful for users of the financial statements. This is because, for some public sector entities, on an ongoing basis, the results for the current period would include the onerous contract losses of all or most of the following year's contracts.

(b) AASB 17/PBE IFRS 17.25(c) was conceived in the context of private sector for-profit insurers for which, in theory, onerous contracts would be the exception and for which enforceable~~binding~~ contracts as at the reporting date that relate to the following year of coverage would be a relatively small proportion of total contracts.

Determining Contract Boundaries, Coverage Periods and Eligibility for the Premium Allocation Approach (PAA)

BC63 AASB 17/PBE IFRS 17 includes two approaches to measuring liabilities for remaining coverage:

(a) a general measurement model that involves discounting fulfilment cash flows and, when relevant recognising a 'contractual service margin' (deferred profit/loss); and

(b) the premium allocation approach, which is a 'simplified approach' and typically much less burdensome to apply than the general measurement model.

BC64 The Boards noted that identifying contract boundaries and coverage periods under AASB 17/PBE IFRS 17 are crucial for two main reasons:

(a) identifying the cash flows used to measure liabilities for remaining coverage for in-force arrangements; and

(b) determining whether liabilities for remaining coverage for in-force arrangements are eligible to be measured by applying the premium allocation approach.

BC65 The Boards also noted that eligibility for the premium allocation approach is available on a 'group of contracts' basis[15] – that is, an entity might apply the general measurement model to some groups of contracts and the premium allocation approach to other (eligible) groups of contracts. However, they further noted that creating an accounting system capable of implementing the general measurement model, of itself, could involve significant costs, even if it only needs to be applied to some of an entity's arrangements.

BC66 The Boards observed that, for most public sector entities currently applying AASB 1023/PBE IFRS 4, the liability for incurred claims[16] is typically much larger than the liability for remaining coverage.[17] Nonetheless, the liability for remaining coverage would be expected to be a material amount for most public sector entities with arrangements that would be scoped into AASB 17/PBE IFRS 17. Accordingly, eligibility to apply the premium allocation approach is a key issue for public sector stakeholders.

BC67 The Boards noted the two bases on which arrangements might be eligible for the premium allocation approach under AASB 17/PBE IFRS 17.53 – at the inception of a group:

(a) the entity reasonably expects the premium allocation approach would produce a measurement of the liability for remaining coverage that would not differ materially from the one that would be produced applying the general measurement model: or

(b) the coverage period of each contract in the group is one year or less (determined at that date applying AASB 17/PBE IFRS 17.34).

The Boards observed that the same criteria apply in respect of reinsurance contracts held under AASB 17/PBE IFRS 17.69. They also observed that, when there are contracts with coverage periods longer than a year, criterion (a) would involve creating a system to periodically test for material differences that, of itself, could involve significant costs.

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15 Although the Boards propose that, effectively, the basic unit of account for public sector entities would be portfolios.

16 Generally referred to as the 'outstanding claims liability' under AASB 1023/PBE IFRS 4.

17 Akin to the 'unearned premium liability' referred to in AASB 1023/PBE IFRS 4.

BC68 The Boards considered that, given the difficulty that can be associated with meeting the criterion in AASB 17/PBE IFRS 17.53(a), the manner in which the criterion in AASB 17/PBE IFRS 17.53(b) might apply in a public sector context could be crucial.

Coverage Periods of Public Sector Arrangements

BC69 The Boards noted that, of the public sector arrangements that might fall within the scope of AASB 17/PBE IFRS 17:

(a) most have 'stated' coverage periods of one year; however

(b) a minority of arrangements have coverage periods longer than a year, including:

(i) for example, arrangements issued in respect of construction and home building risks; and

(ii) some reinsurance contracts held.

BC70 Arrangements between public sector entities and their policyholders ordinarily include an identified period that is presumed to be the coverage period for the purposes of applying AASB 1023/PBE IFRS 4. For example, the stated period of cover for arrangements relating to transport accidents or workers' compensation would usually be one year and the liabilities and revenues are recognised on this basis.

BC71 The Boards acknowledged that AASB 17/PBE IFRS 17 does not make this same presumption. Under AASB 17/PBE IFRS 17, the 'coverage period' might be different from the stated period in a contract or arrangement because it is determined, in large part, based on identifying the cash flows that are within the 'contract boundary'. In that context, the Boards noted that cash flows are regarded as being within the boundary of an insurance contract to the extent that the entity can compel the policyholder to pay premiums or the entity has a substantive obligation to provide the policyholder with insurance contract services [AASB 17/PBE IFRS 17.34].

BC72 The Boards further noted that, an entity's substantive obligation to provide insurance contract services ends when:

(a) the entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks [AASB 17/PBE IFRS 17.34(a)]; or

(b) both of the following criteria are satisfied:

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

(ii) the pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date [AASB 17/PBE IFRS 17.34(b)].

BC73 The Boards observed the following.

(a) Criterion (a) relating to individual policyholders, would usually only be applicable for large risks that are individually underwritten. This might, for example, be relevant for large construction risk arrangements entered into by some public sector entities.

(b) The vast majority of the public sector arrangements that might fall within the scope of AASB 17/PBE IFRS 17 would be priced at a level higher than individual contracts and the criteria in AASB 17/PBE IFRS 17.34(b) would be relevant.

BC74 The Boards acknowledged that these criteria mean a coverage period could be either longer or shorter than the contractually-stated term, and noted the following examples.

(a) A contract with a stated term of one year and a $100 premium is accompanied by an option for a second year of coverage for another $100 premium. The initial contract would be regarded as a contract for two years of coverage because the insurer does not have the practical ability to fully reprice the risk/benefits for the second year.

(b) A contract with a stated term of ten years involves ten annual premiums that are reset each year to reflect current expected risks/benefits. Although the insurer is obliged to keep accepting premiums and providing coverage for ten years, each year (up to a possible ten years) would be regarded as a separate coverage period because the insurer has the practical ability to reprice risk/benefits each year.

BC75 The Boards observed that the criteria in AASB 17/PBE IFRS 17.34 are based on the existence of the insurer's practical ability to fully price for risks/benefits, not the manner in which the insurer might choose to use that ability. Accordingly, the fact that an entity might have the 'practical ability' to fully price for risks/benefits but choose not to use that ability, is not relevant to determining the cash flows within the boundary of an insurance arrangement.

BC76 In relation to the contract boundary criteria, the Boards noted there may be issues specific to the public sector that were not necessarily considered in the development of IFRS 17, which they might need to specifically address in AASB 17/PBE IFRS 17. In particular, those issues include:

(a) whether a public sector entity (itself) would be regarded as having the practical ability to set prices and benefits, or whether that power lies more broadly with government, including for example, the relevant Minister(s); and

(b) assessing the practical ability to set prices and benefits for a monopoly provider that cannot cease insuring risks by withdrawing from the market.

Coverage Periods and 'Practical Ability'

BC77 The Boards observed that the levy/premium and benefit decision-making power may reside with the public sector entity itself, or more commonly, resides with the government [for example, the relevant Minister(s) or regulatory pricing supervisor].

BC78 The Boards noted that a typical public sector model involves:

(a) benefits largely being determined by reference to regulation or legislation, which would be the product of consultation and review; and

(b) levies/premiums being set under a process where the public sector entity makes recommendations to a government regulatory pricing supervisor or Minister for approval. The recommendations may be approved with or without alterations.

In these circumstances, literally, the public sector entity (itself) does not have the practical ability to set prices/levies and benefits. A strict interpretation of AASB 17/PBE IFRS 17.34 might mean that the public sector entity's arrangements are open-ended and coverage is virtually perpetual. The Boards noted a flow on consequence of this would be that, under AASB 17/PBE IFRS 17, a public sector entity may need to account for arrangements as if they were issuing very long-term multi-year contracts with the need to estimate cash flows over long forecast periods.

BC79 The Boards considered the main alternative perspective to be that the entity and its controlling government[18] [including any relevant Minister(s) or regulatory pricing supervisor] would be regarded collectively as having the practical ability to fully price for risks/benefits. The Boards noted a flow on consequence of this perspective is that, under AASB 17/PBE IFRS 17, a public sector entity's arrangements would be regarded as having contract boundaries based on the timing (often annual) of pricing/benefit reviews by government, rather than being open-ended.

BC80 The Boards also considered whether the practical ability of a government or public sector entity should be affected by constraints imposed by the political and economic environment. However, they noted that:

(a) all entities face political and/or economic constraints of some kind; including, for example, competitive pressures facing private sector insurers; and

(b) the 'practical ability' benchmark needs to be applied in the context of AASB 17/PBE IFRS 17.B64, which says (in part): "An entity has that practical ability in the absence of constraints that prevent the entity from setting the same price it would for a new contract with the same characteristics as the existing contract issued on that date …".

BC81 Accordingly, provided the constraints (political or commercial) apply to new (current) arrangements as well as existing arrangements, they are not regarded as constraints that affect an insurer's practical ability

[18] Under existing (or substantively enacted) legislation.

to fully price for risks/benefits in relation to the existing arrangements. The Boards considered that, instead, the focus should be on the constraints operating under existing and substantively enacted legislation.

~~BC81~~BC82 The Boards observed that to meet the threshold of 'substantively enacted', the legislative process would need to be at a stage that has the substantive effect of actual enactment, which may, for example, follow an announcement of changes by a period of several months. That is, 'substantively enacted' involves more than simply having a history of successfully making legislative changes based on proposed changes to levies or benefits.

Coverage Periods and 'Practical Ability' – Conclusions

~~BC82~~BC83 The Boards concluded that, for the avoidance of doubt, it would be appropriate to propose guidance to the effect that an entity's practical ability to fully price for risks/benefits also includes the ability of its controlling government [including any relevant Minister(s) and/or regulatory pricing supervisor] under existing and/or substantively enacted legislation to decide on pricing and benefits. The Boards consider this guidance to be supportable for the following reasons.

(a) The approach seems reasonable given that the government 'owns and controls' the public sector entity and users of the financial statements would know, when relevant, that the ultimate decision-making power lies with the government.

(b) Without guidance, entities might need to engage in costly analysis in consultation with their auditors to determine how long-run pricing affects the entity's 'practical ability'; and inconsistent determinations about 'practical ability' might be made by different entities in similar circumstances.

Coverage Periods – Impact of Monopoly and Standing Ready over the Long-run

~~BC83~~BC84 The Boards observed that:

(a) the IASB presumably developed IFRS 17 largely with competitive markets in mind [IFRS 17.BC167 & BC168(a)]; and

(b) all of the public sector entities that are the subject of the joint AASB/NZASB project are monopolies or near monopolies,[19] and are not able to withdraw from the market(s) they serve without a change of legislation.

~~BC84~~BC85 The Boards also observed that, for a public sector entity, a monopoly position can mean:

(a) the power to charge above-market levies/premiums; but

(b) the responsibility to keep providing insurance services to a community of policyholders in perpetuity, or at least until there is legislative change and/or structural changes to the markets served.

~~BC85~~BC86 The Boards considered whether the responsibility to keep providing insurance services to a community of policyholders might have consequences for the 'contract boundary'; and the 'coverage period' of a public sector entity's arrangements and noted the following possible views.

(a) The responsibility to keep providing insurance services to a community of policyholders means the contract boundary (and coverage period) extends over multiple years, even though the contractually-stated coverage period might be, for example, one year.

(b) An alternative view is that this year's policyholders may or may not continue to be policyholders next year and, accordingly, the responsibility to keep providing insurance services to a community of policyholders over the long term is not relevant to determining coverage periods.

Coverage Periods and 'Monopolies' and Standing Ready over the Long Run – Conclusions

~~BC86~~BC87 The Boards concluded that, for the avoidance of doubt, it would be appropriate to propose guidance to the effect that an entity's monopoly status (and the possible inference that there is a

[19] The reference to 'near monopolies' relates mainly to schemes such as the workers' compensation schemes that operate in most Australian states, from which 'approved' large employers can be excluded on meeting certain conditions.

legislative obligation to stand-ready to insure future policyholders), of itself, does not affect an entity's practical ability to fully price for risks/benefits and, therefore, would not affect the coverage period of an insurance contract. The Boards consider this guidance to be supportable for the following reasons.

(a) The monopoly or near monopoly status of public sector entities, coupled with their inability to withdraw from the markets they serve without a change of legislation, is a set of circumstances unique to the public sector. The Boards consider that providing some direction to the affected public sector entities could have a cost-beneficial impact on the application of AASB 17/PBE IFRS 17.34(b)(ii). Accordingly, to the extent ~~that providing~~ guidance is provided that these circumstances do not, of themselves affect an entity's practical ability to fully price for risks/benefits is a 'modification' of IFRS 17, it would be justified under the Boards' frameworks for setting standards for public sector entities.

(b) If the monopoly status of a public sector entity was to be regarded as leading to multi-year coverage periods, the entity would need to estimate the number of years of coverage. ~~In relation to (a) above, i~~It seems highly likely that ~~the relevant public sector entities'~~entity's estimates would prove to be different from the actual ~~coverage~~ number of periods over which participants continue their coverage.~~, which could trigger a need to consider the contract modification requirements in AASB 17/PBE IFRS 17. If this were the case, the entity would need to consider whether the extent of change to~~ If the difference between the originally-determined coverage periods and the actual coverage period is significant, this would result~~s~~ in 'a modification of an insurance contract' under AASB 17/PBE IFRS 17.72 and 73. The existing contract would be derecognised and a new (modified) contract would be recognised. This process has the potential to involve complex and costly tracking of information and ~~However,~~ it seems unlikely ~~that~~ this ~~would have been~~is a scenario contemplated in developing IFRS 17.

(c) The guidance could be regarded as reasonable under the principles in AASB 17/PBE IFRS 17 given that typically there is turnover among policyholders over successive years, even though it may be limited. For example, in respect of compulsory third party (personal injury) insurance, at the margin, some motor vehicles registered and insured in the current year may be deregistered and uninsured in the following year.

(d) Without guidance, entities might need to engage in costly analysis in consultation with their auditors to determine how monopoly status affects the entity's 'practical ability'; and inconsistent determinations about 'practical ability' might be made by different entities in similar circumstances.

Coverage Periods – Impact of Monopoly and Long-run Pricing

~~BC87~~BC88 The Boards observed that the pricing of levies/premiums for many public sector entities is based on achieving a break even result over the long-term. Accordingly, in some cases, the actual amounts charged in any given period might be regarded as being the result, in part, of taking into account the risks that relate to periods after the current contract period. In these cases, the criterion in AASB 17/PBE IFRS 17.34(b)(ii) would not be met and the arrangements would be regarded as, for example, involving a multi-year coverage period, even though the contractually-stated coverage period might be one year.

~~BC88~~BC89 The Boards noted that the long-run focus of pricing for many public sector entities might be based solely on past experience and not be influenced by projections of risk relating to future periods. This is likely to be the case for entities providing coverage for risks that evolve only slowly over time in their nature and level of severity. For example, typically this might be expected to apply for workers' compensation and transport accident risks. The long-run focus of pricing for other public sector entities might be based, at least in part, on projections of risk relating to future periods. For example, this might be the case for entities providing coverage for risks that are scheduled to change, and possibly when an entity insures for losses arising from infrequent severe events such as earthquakes.

~~BC89~~BC90 The Boards noted the following possible scenarios:

(a) A legislative change has been made to significantly increase benefits relating to certain types of injuries that occur after July 20X1. Based on government policy, the entity is gradually increasing levies/premiums over the 20X2 to 20X7 financial years in order to establish reserves to help fund the higher benefits. In this case, the current-year pricing is taking into account risks that relate to periods after the current period. Accordingly, the contract boundary (and coverage period) could be determined as extending from 20X2 until 20X7 and possibly beyond.

(b) An entity insures against losses from what is projected to be a one-in-20-year event and charges levies/premiums for one-year contracts each year over a 20-year period that are designed to meet the expected benefits that will need to be paid. In a competitive (private sector) market context, the entity would not be regarded as taking into account the risks that relate to periods after the current contract period because the entity would be ~~regarded~~ viewed as considering the risk of loss for each one-year period. Policyholders could obtain the same coverage from a different insurer in a subsequent year. Accordingly, in the private sector context, the contract boundary (and coverage period) would be determined as being one year. In a monopoly public sector context, the current-year pricing could be regarded as taking into account risks that relate to periods after the current period. Accordingly, the contract boundary (and coverage period) could be determined as being 20 years.

~~BC90~~BC91 The Boards observed that applying AASB 17/PBE IFRS 17 unamended might have a range of related implications. This could include public sector entities having to estimate the average time that a policyholder is expected to keep participating in the scheme to determine a coverage period for the purposes of AASB 17/PBE IFRS 17. This could have flow-on consequences for uncertainty around the estimated length of coverage periods and the volatility of cash flows.

Coverage Periods – Impact of Monopoly and Long-run Pricing – Conclusions

~~BC91~~BC92 The Boards concluded that, for the avoidance of doubt, it would be appropriate to propose guidance that a public sector entity would not fail to meet the criterion that pricing up to the date when the risks are reassessed does not take into account risks for periods after the reassessment date simply because it has a deliberate policy of setting prices and benefits based on a medium to long term view.

~~BC92~~BC93 The Boards considered the guidance is justified on the basis that public sector entities are more likely than their private sector counterparts to have overriding public policy objectives imposed upon them that would necessitate medium to long-term pricing and benefits approaches. The Boards were also concerned that, without guidance, entities might need to engage in costly analysis in consultation with their auditors to determine how medium to long-term pricing and benefits would affect their ability to meet the criterion in AASB 17/PBE IFRS 17.34(b)(ii).

~~BC93~~BC94 The Boards also noted that, in principle, such pricing policies are unlikely to mean that the entity has lost its practical ability to price its arrangements based on risks and benefits for the relevant (current) periods of coverage. They simply mean the entity [together with its controlling government, Minister(s) and/or regulatory pricing supervisor] has chosen to take a longer-term perspective.

Disclosure and Long-run Pricing

~~BC94~~BC95 The Boards considered that, given the impact on public sector entities of medium to long-term pricing and benefits approaches on the application of the requirements of AASB 17/PBE IFRS 17.34, where those approaches exist, they should be the subject of disclosure. This is because the disclosure could provide useful context for users of the financial statements.

~~BC95~~BC96 The Boards observed that the pricing and benefit approaches of public sector entities might be the subject of transparent public processes and, therefore, adequate disclosures might already be made outside the financial statements.

Disclosure and Long-run Pricing – Conclusions

~~BC96~~BC97 For the reasons noted immediately above, the Boards concluded they would propose that, when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period~~based on a medium to long term view~~, it should be required to disclose information about the manner in which pricing/benefits are determined. The Boards concluded that the proposed disclosure could be made either directly in the notes to the financial statements or by reference to an authoritative source, provided that source is available to users of the financial statements on the same terms as the financial statements and at the same time.

Risk Adjustments

Background

~~BC97~~BC98 The Boards noted that:

(a) under AASB 17/PBE IFRS 17, a risk adjustment is: "the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts"; while

(b) under AASB 1023/PBE IFRS 4, a risk margin relates to the inherent uncertainty in the central estimate of the present value of the expected future payments.

~~BC98~~BC99 The Boards noted that the notion of a risk adjustment in AASB 17/PBE IFRS 17 is the compensation the entity would require to make it indifferent between fulfilling a liability of fixed amount and a liability of uncertain amount that has a central estimate equivalent to the fixed liability [AASB 17/PBE IFRS 17.B87]. It is designed to convey information to users of financial statements about the amount charged by the entity for the uncertainty arising from non-financial risk associated with the amount and timing of cash flows.

~~BC99~~BC100 The Boards noted that AASB 1023/PBE IFRS 4 has no equivalent to the AASB 17/PBE IFRS 17 notion of compensation – instead, the risks are regarded as being inherent in the cash flows. Conceivably, it might be argued that, under AASB 17/PBE IFRS 17, a public sector entity could have a risk adjustment of 'zero' if the entity does not seek compensation for bearing non-financial risk, while AASB 1023/PBE IFRS 4, assumes an entity includes a risk margin based on the inherent uncertainty around the cash flows.

~~BC100~~BC101 The Boards noted that:

(a) there is a presumption that for-profit private sector entities would need to be compensated for bearing risk and, as risk is released, that revenue would be recognised; and

(b) public sector entities may have a different perspective and not need to be compensated for bearing risk on the basis that:

   (i) they are often monopolies and there may be the opportunity to increase premiums/levies to meet future claims; and

   (ii) they have explicit or implicit government guarantees of financial support.

Industry Benchmarks and Current Practices

~~BC101~~BC102 The Boards noted that neither Standard requires a particular technique to be used to measure risk adjustments; however, currently entities typically use a confidence level (probability of adequacy) approach. The Boards also noted that:

(a) under AASB 1023/PBE IFRS 4, many entities benchmark to a 75% confidence level (indicating the liability for incurred claims would be adequate to meet actual claims three years in four); and

(b) under AASB 17/PBE IFRS 17, when an approach other than the confidence level technique is used, an entity must disclose the technique used and the confidence level corresponding to the results of that technique [AASB 17/PBE IFRS 17.119].

~~BC102~~BC103 The Boards observed that the 75% confidence level benchmark originally arose from a minimum prudential reporting benchmark and has become a widely used reference point in Australia and New Zealand and more broadly in other jurisdictions. Additionally, although other methods (such as cost of capital techniques) may be used to measure risk adjustments, they are often only permitted by regulators subject to achieving a minimum confidence level.

~~BC103~~BC104 The Boards observed that most of the public sector entities applying AASB 1023/PBE IFRS 4 recognise risk margins at a 75% confidence level, or some level close to that benchmark. The Boards also observed that some of the Australian public sector entities applying AASB 137 also recognise risk margins at a 75% confidence level, or some level close to that benchmark. In outreach conducted in 2020-21, some stakeholders indicated that information about uncertainties in the cash flows are important to them, even in measuring provisions (under AASB 137).

Previous Public Sector Proposals and Stakeholder Feedback

~~BC104~~BC105 The Boards noted that the AASB Discussion Paper (2017) and NZASB ED 2018-7 did not propose any modifications in respect of the risk adjustment requirements in AASB 17/PBE IFRS 17. However, they noted that the AASB Discussion Paper Basis for Conclusions [AASB DP.BC8 to BC13] raised the possibility of a risk adjustment of zero is based on a case of a public sector entity with a government guarantee and/or a monopoly position in which it can recoup current and past losses from its controlling government or via future contracts. However, the AASB Discussion Paper concluded that, while the risk adjustment might differ from a for-profit private sector entity, it is unlikely to be nil because:

(a) the uncertainties associated with outstanding claims cash flows in respect of past transactions, that would be reflected in a risk adjustment are a characteristic of the claims liability; and

(b) in respect of the current (usually annual coverage) transactions, the entity is bearing risk for that period and an entity's monopoly position is not relevant [AASB DP.BC10].

~~BC105~~BC106 The Boards noted that, in response to the AASB Discussion Paper (2017) proposals:

(a) some respondents considered that there would be risk adjustments (above zero) and also noted various considerations, including:

(i) disclosures around the techniques used to determine risk adjustments should be required to help ensure transparency;

(ii) if the AASB expects risk adjustments to be different from those in the private sector, the implication is that they would be lower (compared with the private sector) and guidance would be needed to help entities make those calculations; and

(iii) whether it is appropriate to imply that risk adjustments in the public and private sectors should be aligned;

(b) other respondents considered that there would be circumstances in which a risk adjustment could be zero, such as:

(i) when there is absolute certainty around the government backing of the best estimate liability; and

(ii) the liability cash flows are so long term that the volatility is mitigated by long-term investment returns.

~~BC106~~BC107 The Boards noted that some respondents to NZASB ED 2018-7 considered that risk adjustments would not be relevant to many public sector entities and, if they were to be required:

(a) explicit guidance on determining risk adjustments in the public sector would be needed; and/or

(b) the Standard should specify that risk adjustments are zero for public sector entities.

~~BC107~~BC108 The Boards noted the comments of respondents to NZASB ED 2018-7, which included the following:

(a) risk adjustments are predicated on the liability being an estimated amount a third party would likely want to be paid to assume the risk of settling claims, which is akin to an exit price; however, the liabilities will be settled by the entity itself;

(b) if the entity seeks to fund a liability that includes a risk adjustment, in order to report a break-even result, the entity would need to set levies and other forms of income at amounts that (on average) would be higher than necessary; and

(c) if the entity is funded to meet a best estimate liability, including a risk adjustment in the liability would automatically result in reported losses, which may never eventuate.

~~BC108~~BC109 The Boards also noted the following feedback received from stakeholder outreach conducted in 2020-21.

(a) AASB 1023/PBE IFRS 4 are regarded as requiring a risk margin to be included in measuring liabilities for outstanding claims, while AASB 137/PBE IPSAS 19 is generally regarded as not requiring a risk margin to be included in measuring provisions, but can be interpreted as permitting a risk/prudential margin to be included.

(b) A key reason for some stakeholders choosing to apply AASB 137/PBE IPSAS 19 (rather than AASB 1023/PBE IFRS 4) is that they do not regard risk margins as appropriate to their circumstances.

(c) Some stakeholders had assumed that their risk adjustments under AASB 17/PBE IFRS 17 would be the same as their risk margins under AASB 1023/PBE IFRS 4, while others had yet to consider whether they would have a risk adjustment under AASB 17/PBE IFRS 17 and, if they did, whether it would be more or less than any risk margin they currently apply.

Alternative Approaches Considered by the Boards

~~BC109~~BC110 The Boards considered the following possible approaches regarding the risk adjustments requirement:

(a) Approach 1: require public sector entities to apply AASB 17/PBE IFRS 17 with no modifications or guidance;

(b) Approach 2: require public sector entities to have a zero risk adjustment; and

(c) Approach 3: require a particular confidence level for determining risk adjustments for liabilities for incurred claims for all public sector entities.

Approach 1: Apply AASB 17/PBE IFRS 17 with no Modifications or Guidance

~~BC110~~BC111 The Boards considered the possible advantages of applying AASB 17/PBE IFRS 17 with no modifications or guidance.

(a) It could be considered consistent with the principle of only making modifications to the IFRS Standards if there is a strong case based on substantive differences in circumstances of public sector entities (compared with the entities for which IFRS Standards are developed).

(b) It would allow for different risk adjustments to be recognised to suit the nature of each entity's claims liabilities, which would be helpful since different public sector entities hold claim liabilities with different characteristics. For example, very long-tail, relatively predictable claims (such as regular income support payments), would result in a relatively small risk adjustment. In contrast, claims subject to future legal judgements might result in a relatively large risk adjustment.

(c) Different public sector entities hold different views on whether they should include a risk adjustment in measuring their claim liabilities based on their circumstances. Each entity would be able to determine its position consistent with its own objectives, management philosophy, and level of risk aversion.

(d) A for-profit public sector entity could recognise a risk adjustment on the basis that it expects to profit from bearing risk, while a not-for-profit entity might not recognise a risk adjustment because it does not seek to profit from bearing risk.

~~BC111~~BC112 The Boards considered the possible disadvantages of applying AASB 17/PBE IFRS 17 with no modifications or guidance.

(a) IFRS 17 was designed to be applied by private sector entities. The public sector context is often different; in particular, due to entities holding a monopoly position and being driven by public policy objectives.

(b) Different public sector entities may determine different outcomes even though they have similar operations. Accordingly, their reported financial position and financial performance would not be comparable.

(c) Public sector entities might expend a disproportionate amount of time and resources determining the compensation they might notionally require for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils its arrangements. There may be little or no additional information value achieved for users of the financial statements through this process.

Approach 2: Require Public Sector Entities to have a Zero Risk Adjustment

~~BC112~~BC113 The Boards noted that opinions differ about whether, in concept, an entity can have a risk adjustment of zero and still claim to have contracts that transfer insurance risk. For the purposes of discussion, the Boards assumed that, in particular circumstances, a zero risk adjustment is compatible with the transfer of insurance risk and noted the example of a mutual risk-pooling arrangement that involves accepting risk from each policyholder and sharing the risk with other policyholders. Although a public sector entity might be regarded as simply an administrator of such a pooling arrangement, it could nevertheless also be seen as bearing risk for the current in-force arrangements because the risk is typically pooled over a number of coverage periods.

~~BC113~~BC114 The Boards considered the possible advantages of requiring public sector entities to have a zero risk adjustment.

(a) All public sector entities would have a consistent approach (based on best estimate claim liabilities).

(b) Best estimates (with no risk adjustment) are typically relevant to user decision making because they ordinarily provide a basis for determining how much levies or other charges need to be generated to sustain the entity in the long term.

(c) All the relevant public sector entities are monopolies and/or have the power to adjust future levies and charges to meet any shortfalls in funding the existing claim liabilities. Accordingly, risk adjustments are not relevant because these entities have no reason to be risk averse.

(d) Zero risk adjustments (and, therefore, zero changes from period to period in risk adjustments) would avoid misleading impacts on the income statement, since risk adjustments tend to create short term losses and longer-term gains as actual claims revert to the best estimate over the long term.

(e) Zero risk adjustments would reduce report preparation costs by removing the need for management (and auditors) to determine (and assess) risk adjustments and to make disclosures about risk adjustments.

~~BC114~~BC115 The Boards considered the possible disadvantages of requiring public sector entities to have a zero risk adjustment.

(a) Many public sector entities hold strong views on the need to show their users that claim liabilities carry a level of uncertainty as to timing and amount, and consistency does not necessarily lead to comparability. All entities are risk averse to varying degrees.

(b) There would be no changes in risk adjustments to provide useful information about changes in the levels of uncertainty among cash flows over time.

(c) There are often obstacles to exercising monopoly and other powers. For example, it might not currently be feasible to increase levies in either the short to medium term to meet shortfalls in a timely manner. The risks that exist within in-force arrangements should not be regarded as being able to be offset by possible future transactions.

(d) It is normal commercial practice to determine risk adjustments and many public sector entities, particularly those with independent boards of management, would wish to have a risk adjustment for financial reporting purposes to match their risk management activities (and management reporting).

Approach 3: Require a Particular Confidence Level for Determining Risk Adjustments for Liabilities for Incurred Claims for all Public Sector Entities

~~BC115~~BC116 The Boards considered the possible advantages of requiring a particular confidence level for determining risk adjustments for liabilities for incurred claims for all public sector entities.

(a) All public sector entities would have a consistent approach (based on a common confidence level).

(b) A common confidence level would reduce report preparation costs by removing the need for management (and auditors) to determine (and assess) risk adjustments. In particular, this requirement would be generally consistent with prevailing current practice (which is long-standing) and be readily understood by all relevant stakeholders.

(c) Relative to having a zero risk adjustment, the common confidence level approach would show, from period to period, the impacts of any changes in risk adjustments, which provides useful information about changing levels of uncertainty about the amount and timing of ~~among~~ cash flows over time.

~~BC116~~BC117 The Boards considered the possible disadvantages of requiring a particular confidence level for liabilities for incurred claims for determining risk adjustments for all public sector entities.

(a) It would be inconsistent with principle-based standard setting to set an arbitrary benchmark such as a 75% confidence level .[20]

(b) The approach prevents entities from determining risk adjustments appropriate to their particular circumstances. Requiring a percentage confidence level also presumes that this is the best technique for determining risk adjustments in all circumstances; however, an entity might consider that another technique (e.g. a 'cost of capital' technique) is more appropriate.

(c) Consistency does not necessarily lead to comparability.

(d) If there is a general shift in expectations about the uncertainty surrounding the amount and timing of cash flows, the required confidence level might need to be updated by the Boards.

Disclosures

~~BC117~~BC118 The Boards considered that each of the three approaches outlined above could be supplemented with disclosures such as the following.

(a) If Approach 1 is adopted (no modifications), the entity could also be required to disclose a risk adjustment for benchmark confidence level (such as 75%) to provide a point of reference for comparison.

(b) If Approach 2 is adopted (zero risk adjustment), the entity could also be required to disclose what the risk adjustment would have been if AASB 17/PBE IFRS 17 were applied unmodified.

(c) If Approach 3 is adopted and each public sector entity recognises a risk adjustment for a standardised confidence level (such as 75%), the entity could also be required to disclose what its risk adjustment would have been if AASB 17/PBE IFRS 17 were applied unmodified.

~~BC118~~BC119 The Boards also considered whether, if Approach 3 were proposed as a rebuttable presumption, disclosure should be proposed of the basis for any rebuttal. However, they observed that this would go beyond counterpart disclosures already required in AASB 17/PBE IFRS 17. For example, they noted that AASB 17/PBE IFRS 17.119 requires that an entity using a technique other than the confidence level technique for determining the risk adjustment need only disclose the technique used and the confidence level corresponding to the results of that technique.

Analysis of Approaches by the Boards

~~BC119~~BC120 The Boards analysed the basis for the IASB's decisions on requiring a risk adjustment and reflected on how each of the benefits the IASB identified might still be met in a public sector context under each of the approaches (no modifications, mandated zero risk adjustment, or mandated 75% confidence level).

~~BC120~~BC121 The Boards noted that requiring a risk adjustment is intended to provide a clear insight into the insurance contracts and distinguishes them from risk-free liabilities [IFRS 17.BC211(a)]. The Boards thought this reasoning seems as relevant in the public sector as it is for private sector insurers and would suggest that requiring a zero risk adjustment would be inappropriate.

~~BC121~~BC122 The Boards noted that requiring a risk adjustment results in a profit recognition pattern that reflects both the profit recognised by bearing risk and the profit recognised by providing services [IFRS 17.BC211(b)]. The Boards considered this reasoning would be less relevant in respect of public

[20] The Boards noted that some Australian public sector entities are required (via regulation imposed in that jurisdiction) to benchmark to APRA prudential requirements, which include a minimum risk margin.

sector entities that are not seeking to profit from bearing risk (albeit IFRS 17 applies to not-for-profit mutual entities). However, on balance, the Boards thought that, if this reasoning is relevant to a public sector entity, it would probably best support the view that the risk adjustment requirements of AASB 17/PBE IFRS 17 should be applied unmodified.

~~BC122~~BC123 The Boards noted that requiring a risk adjustment can be necessary to faithfully represent circumstances in which the entity has charged insufficient premiums for bearing the risk that the claims might ultimately exceed expected premiums [IFRS 17.BC211(c)]. The Boards thought this reasoning seems as relevant in the public sector as it is for private sector insurers and would suggest that requiring a zero risk adjustment would be inappropriate.

~~BC123~~BC124 The Boards noted that requiring a risk adjustment should result in changes in estimates of risk being reported promptly and in an understandable way [IFRS 17.BC211(d)]. The Boards thought this reasoning seems as relevant in the public sector as it is for private sector insurers and would suggest that requiring a zero risk adjustment would be inappropriate.

~~BC124~~BC125 The Boards also analysed the following criticisms of risk adjustments considered by the IASB in developing IFRS 17 and reflected on whether they might be more relevant in the public sector and, therefore, justify a different outcome from the requirements in AASB 17/PBE IFRS 17.

Currently, there is no single well-defined measurement approach to risk adjustments that would necessarily provide consistency and comparability of results [IFRS 17.BC210(a)]. This criticism is no more relevant, in a general sense, in the public sector than it is for private sector insurers.

(a) Currently, there is no single well-defined measurement approach to risk adjustments that would necessarily provide consistency and comparability of results [IFRS 17.BC210(a)]. This criticism is no more relevant, in a general sense, in the public sector than it is for private sector insurers.

(b) Some measurement techniques for risk adjustments are difficult to explain to users of financial statements [IFRS 17.BC210(b)]. This criticism may be more relevant in the public sector than it is for private sector insurers because the public sector users might be relatively less familiar with actuarial techniques. The NZASB in particular thought that this criticism might imply that mandating a widely-understood basis of measurement (such as a confidence level approach) could be useful in a public sector context.

(c) It is impossible to assess retrospectively whether a particular adjustment was reasonable, including whether (for example) a decision to set a confidence level at a particular percentile was appropriate [IFRS 17.BC210(c)]. This criticism is no more relevant in the public sector than it is for private sector insurers.

(d) Developing systems to determine risk adjustments will involve costs that are not justified by the benefits [IFRS 17.BC210(d)]. This criticism may be more relevant in the public sector than it is for private sector insurers because the public sector entities may not otherwise have to determine risk adjustments for management or prudential reporting purposes and typically do not price arrangements to be compensated for risk. The NZASB in particular thought that this criticism might imply that it would be inappropriate to simply leave public sector entities to apply the risk adjustment requirements of AASB 17/PBE IFRS 17 unaided.

(e) Including a risk adjustment in identifying any loss on initial recognition is inconsistent with IFRS 15 (on revenue) [IFRS 17.BC210(e)]. This criticism is no more relevant (and possibly less relevant given the infrequent application of AASB 15 *Revenue from contracts with Customers*) in the public sector than it is for private sector insurers.

(f) If including a risk adjustment results in a loss, that loss will reverse in later periods as the entity is released from that risk, which may confuse some users of financial statements [IFRS 17.BC210(f)]. This criticism may be more relevant in the public sector than it is for private sector insurers because many public sector entities would be aiming to break even over the long term, rather than earn profits or incur losses. In contrast, private sector entities would typically aim to profit from bearing risk. However, the Boards also acknowledged that any tendency of risk adjustments to create short term losses and longer-term gains would generally be a 'once-off' impact and would not usually affect ongoing reported financial performance unless the volumes of transactions are volatile year-on-year.

(g) A risk adjustment could be used to introduce bias into the measurement of insurance contracts [IFRS 17.BC210(g)]. This criticism is no more relevant in the public sector than it is for private sector insurers.

AASB Conclusions

~~BC125~~BC126 The AASB observed that:

(a) most public sector entities do not seek to profit from bearing insurance risk;

(b) under AASB 17, public sector entities might determine a zero risk adjustment on the basis that they are monopolies and can adjust future prices to make up for higher than expected past claims;

(c) under AASB 17, public sector entities might determine a risk adjustment based on a particular level of adequacy based on their facts and circumstances; and

(d) providing a benchmark confidence level, even as a rebuttable presumption, is not consistent with principle-based standard setting.

~~BC126~~BC127 Accordingly, the AASB concluded that it would support Approach 1 and propose not making public-sector-specific modifications to the requirement to include a risk adjustment in measuring liabilities for incurred claims.

NZASB Conclusions

~~BC127~~BC128 A primary concern for the NZASB is that entities, their advisors and auditors might expend considerable effort to identify and measure a relevant ‘compensation-based’ risk adjustment for little benefit to users.

~~BC128~~BC129 The NZASB observed that existing practice under AASB 1023/PBE IFRS 4 has developed over many years and most public sector entities applying these standards benchmark to a 75% confidence level. The benchmark seems to have become widely accepted (including outside Australia and New Zealand) because it is:

(a) relatively easy (and low cost) to measure;[21]

(b) relatively easy to understand; and

(c) financial statement users and entity managements have found it informative.

~~BC129~~BC130 The NZASB considered that the 75% benchmark has been an effective and low-cost way for public sector entities to measure risk margins under AASB 1023/PBE IFRS 4. Nevertheless, the NZASB also acknowledged that there may be circumstances in which a benchmark other than a 75% confidence level is more relevant and that entities should be able to rebut the 75% benchmark.

~~BC130~~BC131 Accordingly, the NZASB concluded that it supports Approach 3 and to propose a public-sector-specific modification of a rebuttable presumption that risk adjustments are measured at an amount that achieves a 75% confidence level in respect of liabilities for incurred claims. The NZASB also concluded that, in the event that an entity rebuts the presumption, the existing PBE IFRS 17 already requires disclosure of the actual confidence level applied and that no further disclosures need be proposed.

~~BC131~~BC132 While acknowledging that providing a benchmark confidence level is not consistent with principle-based standard setting, the NZASB considers that the proposed modification is justified because:

(a) the cost-saving benefits of using the benchmark will exceed any loss of information value; and

(b) the rebuttable presumption would still allow for flexibility in circumstances in which a 75% confidence level may not be appropriate.

[21] The Boards observed that, of itself, very little additional actuarial effort is likely to be needed to determine a risk adjustment – most of the relevant work is performed to determine the best estimate.

Conclusions on Further Disclosures about Risk Adjustments in a Public Sector Context

~~BC132~~BC133 The Boards noted that there are comprehensive disclosure requirements in AASB 17/NZ IFRS 17 about risk adjustments, particularly in the requirements for reconciliations of insurance liabilities.

~~BC133~~BC134 Both Boards concluded that it would be inappropriate to require more disclosure of public sector entities than is required of other entities applying AASB 17/NZ IFRS 17 about risk adjustments in general.

Identifying Public Sector Arrangements Scoped into the Standard

~~BC134~~BC135 The general approach of the Boards to establishing proposals for identifying which arrangements in the public sector should be accounted for as insurance contracts is based on:

(a) considering the definitions and guidance on 'insurance contracts', 'insurance contract services' and 'insurance risk' in AASB 17/PBE IFRS 17; and

(b) identifying a range of indicators that are to be considered collectively, along with related guidance.

~~BC135~~BC136 The Boards regard a collective consideration of the indicators set out in paragraphs Aus B61/NZ ~~NZB~~AG16.1 to Aus B16.25/NZ ~~NZB~~AG16.25 as meaning that:

(a) the existence of a particular indicator would not necessarily mean that AASB 17/PBE IFRS 17 would apply; and

(b) the absence of a particular indicator would not necessarily mean that AASB 17/PBE IFRS 17 would not apply.

~~BC136~~BC137 In developing the indicators, the Boards noted that the main alternative requirements applicable to liabilities of public sector entities are set out in AASB 137/PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. Accordingly, the Boards were mindful of the key differences between the requirements of AASB 17/PBE IFRS 17 and AASB 137/PBE IPSAS 19, which include different discount rate requirements for present valuing cash flows and the specific requirement in AASB 17/PBE IFRS 17 for a risk adjustment.

~~BC137~~BC138 Paragraphs BC139~~26~~ to BC~~95~~222 outline the Boards' deliberations in identifying indicators for determining when AASB 17/PBE IFRS 17 would be applied. This includes deliberations on indicators that were considered and rejected.

Similarity of Risks Covered and Benefits Provided

~~BC138~~BC139 The AASB Discussion Paper (2017) proposals identified, as a suggested criterion for determining whether activities relate to insurance, that the transactions or arrangements entered into have similar characteristics and relate to a similar level of insurance risk as those entered into by for-profit private sector entities that are accounted for as insurance contracts [AASB DP.E14(c)]. This is not a factor explicitly identified in NZASB ED 2018-7, although it can be argued that it was proposed implicitly via other proposed indicators.

~~BC139~~BC140 The Boards observed that some public sector arrangements have direct counterparts with private sector insurance contracts, including for example, workers' compensation contracts. In the context of a transaction neutral approach to accounting standard setting, the Boards regard this as a ~~strong~~ useful indicator that some types of arrangements in the public sector would be accounted for by applying AASB 17/PBE IFRS 17.

~~BC140~~BC141 The Boards noted that an arrangement in the public sector might provide a combination of types of coverage and benefits that are not matched by a private sector insurance contract, but that components of the arrangement might be directly comparable to a private sector insurance contract. For example, in Australia, compulsory third party motor insurance arrangements provided by a public sector entity includes coverage for serious or catastrophic injuries; whereas, the counterpart private sector insurance contracts typically do not. That serious or catastrophic injury coverage is often provided under a separate public sector arrangement.

BC142 Accordingly, the Boards acknowledge the limitations in some circumstances of using the similarity of risks covered and benefits provided as an indicator of whether AASB 17/PBE IFRS 17 would apply because directly comparable forms of coverage may not be identifiable. However, the Boards note that considering the similarity of risks covered and benefits provided would involve a broader analysis than simply assessing whether directly comparable forms of coverage exist.

BC143 The field testing conducted in 2021-22 on the indicators revealed mixed views. Some stakeholders considered this to be one of the most significant indicators. Other stakeholders considered that it is not a useful indicator either because:

(a) there are examples of similar risks and benefits being addressed via insurance and (non-insurance) compensation schemes; or

(b) there are some arrangements that are clearly insurance contracts, but are currently exclusively issued in Australia by public sector entities.

~~BC141~~BC144 The field testing also revealed that the perspectives of some stakeholders about what constitutes a ‘similar risk’ can vary depending on whether the participants/policyholders are third parties or other public sector entities within the same government (see the discussion on ‘captive’ insurer at paragraphs BC227 to BC235). The Boards noted that the similarity of risks relates to the risks (or the amount and timing of cash flows) transferred and would not depend on the identity of the participants/policyholders. From the perspective of the public sector entity in its stand-alone general purpose financial statements, related-party participants/policyholders are nevertheless third parties.

Conclusions

~~BC142~~BC145 Based on the above deliberations, the Boards concluded that they would propose as an indicator of public sector arrangements to be accounted for as insurance contracts, the similarity of risks covered and benefits provided due to the fact that the transfer of insurance risk is central to the definition of ‘insurance contract’.

~~BC143~~BC146 The Boards considered how widely entities would be expected to search for counterpart insurance contracts and concluded it would be reasonable for entities to consider counterpart contracts both within and outside Australia and New Zealand, using information that is ‘readily available’. That is, public sector entities would not need to conduct an exhaustive global search for counterpart contracts.

Identifiable Coverage Period

~~BC144~~BC147 A key feature of an insurance contract in the context of AASB 17/PBE IFRS 17 is the existence of an identifiable coverage period, which is defined as: the period during which the entity provides insurance contract services. The coverage period provides the basis for determining the cash flows to include in measuring insurance contracts.

(a) Most insurance contracts provide protection for events that occur during the coverage period – for example, coverage for claims that might arise from an incident over a one-year contract period. The claims may not come to light until after the coverage period has ended. These are sometimes referred to as ‘claims incurred’ contracts because the time when the event occurs is crucial to identifying valid claims.

(b) Some insurance contracts provide protection for claims that arise during the coverage period, regardless of when the incidents that gave rise to the claims have occurred. These are sometimes referred to as ‘claims made’ contracts because the time when the claim emerges is crucial to identifying valid claims.

~~BC145~~BC148 The Boards observed that, instead of having an identifiable coverage period, social benefit type schemes tend to be open-ended and depend on participants continuing to meet eligibility criteria, which might include, for example, being unemployed, being a student, or being above a certain age. In that context, IPSAS 42.5 defines ‘social benefit’ as:

> cash transfers provided to:
>
> (a) specific individuals and/or households who meet eligibility criteria;
>
> (b) mitigate the effect of social risks; and
>
> (c) address the needs of society as a whole.

The social benefit eligibility criteria relate to someone's inherent status, rather than relating to an uncertain future event that occurs within a particular coverage period.

BC149 With the benefit of feedback from field testing the indicators, the Boards noted that there is a distinction between a period being identified for the purposes of raising levies to fund a compensation scheme and the notion that an amount is collected to cover events that occur over a particular 'coverage period'.

Conclusion

~~BC146~~BC150 Based on the above deliberations, the Boards concluded that they would propose as an indicator of public sector arrangements to be accounted for as insurance contracts, the existence of an identifiable coverage period.

~~Binding~~ Enforceable Nature of Arrangement

~~BC147~~BC151 The Boards noted that an indicative criterion in IPSAS 42 for being eligible to apply the insurance approach (and apply IFRS 17) is that the arrangements between the entity and its participants are ~~binding~~ enforceable in a similar manner to an insurer being required to act in accordance with ~~bound by~~ an insurance contract [IPSAS 42.AG25(a)]. Both the AASB Discussion Paper (2017) [AASB DP.E13(b)] and NZASB ED 2018-7 [ED 2018-7.AG1.6] proposed a similar indicator. The AASB Discussion Paper proposal identified as a key criterion that a scheme participant's beneficial rights cannot be altered without a specific change in legislation or relevant governing measures and cannot be retrospectively amended.

~~BC148~~BC152 The Boards observed that, in a for-profit private sector setting, an insurer is required to act in accordance with ~~bound by~~ the terms of the contract with a policyholder in terms of the types of risks covered and what constitutes insured events and, therefore, could be the subject of a valid claim. The actual amounts of compensation paid in respect of claims are determined by reference to the terms of the contract. Typically, those terms would be based on:

(a) the extent of loss; and

(b) the extent to which the policyholder or another party are responsible for the events that led to the loss (that is, which party is at fault), including failure to take reasonable steps to avoid the loss. However, there may be an identified insured amount (for example, an agreed value for motor vehicle write-off) and sometimes the amount is a function of a number of factors and possibly negotiation.

~~BC149~~BC153 Nevertheless, the extent of a claim in a for-profit private sector setting would need to be determined in the context of the insurance contract terms – there would ordinarily not be an opportunity for an insurer to arbitrarily change those terms under an existing contract.

~~BC150~~BC154 This is in contrast with an arrangement under which participants in a scheme are promised a benefit, but ~~In~~ the public sector entity retains~~, there can be~~ the capacity ~~for governments~~ to change the benefits payable to scheme participants. This is potentially a distinguishing feature of some public sector schemes (relative to the ~~binding~~ enforceable nature of contracts in the for-profit private sector). However, the significance of this capacity may be mitigated by the extent to which benefits could be changed for existing scheme participants under arrangements in place at the reporting date.

~~BC151~~BC155 The Boards considered three examples to help illustrate the relevance of this capacity. Assume a public sector scheme has a liability for providing income support for permanently disabled motor accident victims based on paying 50% of Average Weekly Earnings (AWE).

(a) Example A: The entity has the power to change the rate of benefits to future scheme participants to less than 50% of AWE. However, the entity has an enforceable ~~binding~~ commitment to paying 50% of AWE to existing scheme participants, for example, by way of settlements.

(b) Example B1: The entity (or the government that controls the entity) has the power to change the rate of benefits to existing scheme participants to less than 50% of AWE but only after obtaining a change to existing legislation.

(c) Example B2: The entity (or the government that controls the entity) has the unilateral power to change the rate of benefits to existing scheme participants to less than 50% of AWE, for example, based on projected budget priorities.

~~BC152~~BC156 The Boards noted that:

(a) the terms in Example A are like those under most insurance contracts sold in the for-profit private sector;

(b) the terms in Example B1 are unlike those under most insurance contracts sold in the for-profit private sector; however, the fact that a legislative change would be needed to change the benefits is significant; and

(c) the terms in Example B2 are unlike insurance contracts sold in the for-profit private sector because insurers would not be able to arbitrarily change benefits.

~~BC153~~BC157 The Boards ~~consider~~ identified that the ~~binding~~enforceable nature of an arrangement is consistent with the basis for the accounting in AASB 17/PBE IFRS 17. Accordingly, the Boards considered that the extent to which the existing benefits under an arrangement are ~~binding~~ enforceable on the relevant public sector entity is a key indicator for determining when that arrangement is accounted for as an insurance contract. [Correspondingly, the Boards also ~~observed~~ considered that cases when an entity would be able to arbitrarily change benefits seems indicative of a conventional social benefit arrangement.]

~~BC154~~BC158 The Boards observed that, relative to private sector insurers, governments are in a unique position to be able to legislate, which is relevant to Example B1 above. Having established an arrangement that provides benefits to scheme participants in a scheme, in theory, the government subsequently has the power to take those benefits away or at least adjust the amount of benefits.

~~BC155~~BC159 The Boards also observed that AASB 17/PBE IFRS 17 relies on the notion of an insurer having a 'practical ability' for the purposes of, for example:

(a) determining the boundary of an insurance contract (practical ability to set a new price or new benefits [AASB 17.34(a)/PBE IFRS 17.34(a)]); and

(b) relief from recognising a separate onerous contract group (when contracts within a portfolio would fall into different groups only because law or regulation specifically constrains the entity's practical ability to set a different price or level of benefits [AASB 17.20/PBE IFRS 17.20]).

~~BC156~~BC160 The Boards identified that the notion of 'practical ability' could be used to help distinguish those cases when a public sector arrangement should be regarded as ~~binding~~ enforceable from cases when an arrangement is not ~~binding~~enforceable. That is, an indicator that it is relevant to account for public sector arrangements as insurance contracts would be that the entity (or its controlling government) does not have the practical ability to change a benefit retrospectively.

~~BC157~~BC161 The Boards noted that some insurance contracts include a range of options in their original terms about subsequently amending coverage and AASB 17/PBE IFRS 17 requires an insurer to determine the probabilities of those options being exercised in measuring insurance liabilities. When expectations are different from actual events, the insurer recognises 'experience adjustments' and remeasures insurance liabilities based on updated expectations. However, these contract options are at the discretion of the insured and are different from changes to existing contract terms made by an issuer.

Contract versus Statute

~~BC158~~BC162 The Boards noted that the AASB Discussion Paper (2017) proposals included the following [page 5].

> The AASB's view is that although AASB 17 applies only to contracts, the *Framework for the Preparation and Presentation of Financial Statements* (Conceptual Framework) does not limit liability recognition to that arising from contracts, and specifically indicates that obligations may arise from statute. In applying its principle of transaction neutrality, the AASB considers that public sector entities with insurance risk created by statute, that are in substance similar to public and private sector entities with insurance risk created by contracts, should account for insurance risk in the same way.

The respondents to the Discussion Paper either explicitly or implicitly accepted the view that AASB 17 could apply when there is an insurance arrangement based on statute (and not contracts).

~~BC159~~BC163 The Boards also noted ~~that~~ PBE IFRS 17.BC5 explains that, when developing NZASB ED 2018-7, the NZASB observed ~~that~~ some public sector PBEs were applying the requirements of PBE IFRS 4 for 'insurance-like' activities that arose from statute rather than contract.

~~BC160~~BC164 The Boards observed that the stakeholder outreach conducted in 2020-21 and the field testing of the indicators conducted in 2021-2022 identified three broad types of response from stakeholders.

(1) The manner in which the scheme or arrangement has been established (contract versus statute) is a matter of form rather than substance. These stakeholders have observed that:

(a) virtually identical forms of coverage are provided under either statutory or private sector (contractual) arrangements (such as comprehensive third-party motor coverage) – accordingly, the insurance Standards would apply by analogy to statutory arrangements under the accounting policy hierarchy;[22]

(b) the purpose of having a statutory (rather than contractual) arrangement is generally to mandate that people obtain coverage from the one entity (usually a public sector entity); and

(c) individuals and entities are required by statute to pay for some types of insurance coverage from private sector insurers (such as workers' compensation coverage) and the arrangements are effectively a combination of contractual and statutory terms.

(2) Literally, the insurance Standards are considered to apply only to 'contracts', and entities' activities in respect of relationships based only on statute are (strictly interpreted) not within the scope of the insurance Standards. These stakeholders have observed that:

(a) AASB 15 ~~*Revenue from Contracts with Customers*~~ and AASB 16 *Leases* provide clear definitions and descriptions of 'contracts' that can be used as a 'bright line'; and

(b) there is currently at least one case when the contract versus statute distinction is used to determine the accounting that should be applied – that is, the impairment of tax receivables – refer to the discussion in Appendix B to this Basis for Conclusions on 'Scope of AASB 9/PBE IPSAS 41'.

(3) For some types of risks (such as workers' compensation coverage), the existence of a documentation that includes substantive information about risks and benefits (well beyond the detail in any relevant enabling legislation or regulations), is an ~~strong~~ indication of an insurance contract.

~~BC161~~BC165 The Boards noted that, under AASB 17/PBE IFRS 17, the description of the rights and obligations that would be accounted for under insurance contracts is broad (and go beyond the contract). AASB 17.2/PBE IFRS 17.2 says (emphasis added):

> 2 An entity shall consider its substantive rights and obligations, whether they arise from a **contract, law or regulation**, when applying IFRS 17. A contract is an agreement between two or more parties that creates enforceable rights and obligations[23]. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity's **customary business practices**. Contractual terms include all terms in a contract, explicit or implied, but an entity shall disregard terms that have no commercial substance (ie no discernible effect on the economics of the contract). **Implied terms in a contract include those imposed by law or regulation**. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services).

~~BC162~~BC166 Stakeholders have requested the Boards to clarify whether an arrangement where a public sector entity is required by statue or other regulation alone, without a separate documentation evidencing agreements directly with participants, could indicate a 'contract' exists for the purposes of AASB 17/PBE IFRS 17. The Boards observed, for arrangements that would be accounted for as

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22 AASB 108/PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* [paragraphs 10 and 11/paragraph 14].

23 The second sentence of AASB 17.2/PBE IFRS 17.2 is the same as the definition for 'contract' used more generally in IFRS Standards (including: AASB 15 *Revenue from Contracts with Customers*).

insurance contracts, it would generally be expected that some form of documentation in addition to statutory requirements would exist to evidence rights and obligations of participants and the relevant public sector entity. However, the Boards considered that there may be circumstances in which there is only limited documentation in addition to statutory requirements, and that limited documentation, within the statutory environment, could still be regarded as comprising a 'contract'

Conclusions

~~BC163~~BC167 Based on the above deliberations, the Boards concluded that they would propose as an indicator of public sector arrangements to be accounted for as insurance contracts, the absence of practical ability to retrospectively change coverage or benefits. The Boards also concluded that they would propose the 'practical ability' is linked to existing or substantively enacted legislative powers. [The Boards noted that, otherwise, in a public sector context, an assessment of 'practical ability' would probably need to take into account a range of factors, including whether the entity (or its controlling government) has sufficient political capital to make a change that reduces a benefit, which would not be workable].

~~BC164~~BC168 The Boards also concluded that the existence or otherwise of 'contracts' versus legislative requirements is not, of itself, likely to be a useful indicator of arrangements that would be accounted for as insurance contracts. Instead, the Boards consider the ~~binding~~ enforceable nature of the arrangements (the absence of a practical ability to retrospectively change coverage or benefits) is the most relevant focus, not the form of the arrangements.

Source and Extent of Funding

Fully Funded

~~BC165~~BC169 One of the criteria in IPSAS 42 for being eligible to apply the insurance approach is that a scheme is intended to be 'fully funded' from contributions and levies. NZASB ED 2018-7 proposed using the 'fully-funded' criterion for determining whether PBE IFRS 17 would apply [ED 2018-7.AG1.1 to AG1.4].

~~BC166~~BC170 IPSAS 42.AG20 explains 'fully funded' as follows.

AG20 A social benefit scheme is intended to be fully funded from contributions when:

(a) The legislation or other arrangement governing the social benefit scheme provides for the scheme to be funded by contributions or levies paid by or on behalf of either the potential beneficiaries or those whose activities create or exacerbate the social risks which are mitigated by the social benefit scheme, together with investment returns arising from the contributions or levies; and

(b) One or both of the following indicators (individually or in combination) is satisfied:

(i) Contribution rates or levy rates are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the revenue from contributions or levies will be sufficient to fully fund the social benefit scheme; and/or

(ii) Social benefit levels are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the levels of social benefits provided will not exceed the level of funding available from contributions or levies.

~~BC167~~BC171 Some respondents to NZASB ED 2018-7 commented that the meaning of 'fully funded' is not necessarily clear for entities that aim to be self-funded over the long term, but that in any given year might be:

(a) overpricing to make up for past deficits;

(b) underpricing to use up past surpluses; or

(c) underpricing to suit current economic conditions.

Substantially Self-funded

~~BC168~~BC172 The AASB was also mindful of the IPSASB's work on social benefits in preparing its Discussion Paper (2017) proposals, but considered that 'fully funded' would be too much of a 'bright line' [AASB DP.BC28(b)(ii)].

~~BC169~~BC173 Instead, one of the non-mandatory criteria proposed in the AASB Discussion Paper for determining whether AASB 17 should apply in the public sector was that the arrangement be 'substantially self-funded' [AASB DP.E14(a)]. Under the proposal, there were two aspects to 'self-funding':

(a) the source of funding should be those who stand to benefit from the arrangement or those who exacerbate the risks to potential beneficiaries; and

(b) the revenue being sufficient and/or the benefit levels being managed such that the scheme is self-sustaining.

~~BC170~~BC174 There was a limited response to the proposal of a 'substantially self-funded' criterion. Those who did respond generally supported using the criterion.

Beneficiary Pays

~~BC171~~BC175 The Boards observed that all of the public sector entities in Australia and New Zealand that are currently applying the insurance standards, or have contemplated applying the insurance standards, receive contributions from scheme participants either directly or indirectly via 'premiums' or 'levies'. ~~Some of these entities might require top-up funding from consolidated revenue from time-to-time. However, this has been the exception rather than the rule (and might be regarded as an 'equity' injection in some cases, rather than a source of ongoing funding).~~ In general, most or all of the funding for these entities is sourced from scheme participants, who stand to benefit from the coverage.

~~BC172~~BC176 The Boards also observed that some of the public sector entities in Australia that are currently not applying the insurance standards also source most or all of their funding from those who stand to benefit from the coverage.

~~BC173~~BC177 The Boards noted that, if this indicator were applied, it would at least have the benefit of immediately ruling out the application of the insurance standards to a range of 'social benefits' such as aged pensions or universal healthcare activities and disability support. The Boards also noted a possible complication is that schemes such as Medicare in Australia, at least notionally, have dedicated funding through the Medicare levy on taxpayers. However, the Boards considered the Medicare levy to probably be sufficiently 'tax-like' to be regarded as not being a beneficiary pays model~~levy~~ as intended under this ~~criterion~~indicator. Accordingly, the Boards considered whether it might also be helpful to explain that the significance of the indicator would be on a spectrum relating to the extent to which premiums or levies represented a 'beneficiary-pays' model.

~~BC174~~BC178 The Boards observed that a payment/contribution to the insurer from a policyholder is not a part of the 'insurance contract' definition in AASB 17/PBE IFRS 17. However, they noted that some type of funding from a scheme participant is probably a reasonable indicator of the relevance of applying AASB 17/PBE IFRS 17 in the sense that it helps to establish an enforceable ~~binding~~ contract-like relationship between the entity providing the coverage and the scheme participants.

BC179 The Boards observed that the practice of refunding pro rata amounts of payments/contributions in the event that a scheme participant cancels its coverage prior to the end of the coverage period would be further evidence of an enforceable ~~binding~~ contract-like relationship between the entity providing the coverage and a scheme participant. The Boards noted that this is a widespread practice in the private sector general insurance industry.

Appropriations

BC180 The Boards noted that some public sector entities might need funding from consolidated revenue from time-to-time to help capitalise or recapitalise a public sector arrangement. These might be regarded as 'equity' injections in some cases, rather than a source of routine funding. Accordingly, the Boards observed that periodic appropriations to capitalise or recapitalise a public sector arrangement would not be in conflict with a self-funding or beneficiary-pays model of funding, for the purpose of determining whether an arrangement should be accounted for under AASB 17/PBE IFRS 17.

Administrative convenience

~~BC175~~BC181 The Boards noted that some public sector arrangements involve sourcing funds by way of levies on transactions between participants and private sector entities (which may be insurers). The Boards noted that, while there may not be a direct cash transaction between the public sector entity and participants in terms of the collection of funds, this is often due to the need for administrative convenience, which would not affect an assessment of the extent to which funds are sourced from participants.

Conclusions

~~BC176~~BC182 Based on the above considerations, the Boards concluded that they would propose as an indicator of public sector arrangements to be accounted for as insurance contracts, the extent to which a scheme participant is responsible for paying a contribution. This is on that basis that it provides evidence of a contract-like relationship between a scheme participant and the public sector entity. The Boards concluded that references to 'fully-funded' and 'substantially self-funded' are probably not useful because they are difficult to interpret, but that relevant contributions would be expected to be more than, for example, a relatively small co-payment.

~~BC177~~BC183 Consistent with this perspective, the Boards also concluded that the extent to which a contribution from a scheme participant is an indicator of public sector arrangements to be accounted for as insurance contracts is dependent on:

(a) the strength of the association between the contribution and the risks covered – for example, a motor vehicle owner (scheme participant) contributes in return for being registered to use roads; and

(b) the extent to which the contribution is substantive relative to the risks being transferred.

~~BC178~~BC184 The Boards also noted the level of contributions from scheme participants that might be sought in any given period could be affected by the extent to which the public sector entity is currently fully funded. That is, contributions might be higher or lower in any given period to either make up for earlier funding shortfalls or use up existing surpluses.[24] Accordingly, a medium-term view (rather than a year-by-year view) might need to be taken when assessing whether contributions are substantive relative to the risks being transferred in any given period.

Management Practices and Assessing Financial Performance

Assessing Financial Performance (in general)

~~BC179~~BC185 The Boards noted that an indicative criterion in IPSAS 42 for being eligible to apply the insurance approach is that the entity assesses its financial performance and financial position of a scheme on a regular basis where it is required to report internally on the financial performance of the scheme, and, where necessary, to take action to address any under-performance by the scheme [IPSAS 42.AG25(d)].

~~BC180~~BC186 The Boards noted that NZASB ED 2018-7 included a proposed indicator similar to this indicative criterion in IPSAS 42 [ED 2018-7.AG1.6(d)]. The Boards also noted that the AASB Discussion Paper (2017) included a proposed indicator similar to this indicative criterion in IPSAS 42, but that the Discussion Paper proposal placed an emphasis on the assessment of claims performance [AASB DP.E14(b)].

~~BC181~~BC187 The Boards observed that there was little feedback on this proposal in response to NZASB ED 2018-7 and a mixed response to the AASB Discussion Paper proposal, with most respondents saying the criterion was not helpful in distinguishing insurance activities from other types of activities. In general, respondents considered there are accountability and performance mechanisms across the spectrum of social benefit and insurance arrangements in most jurisdictions.

[24] Public sector entities often occupy a monopoly position and are able to raise or lower contributions to either make up for earlier funding shortfalls or use up existing surpluses.

Management Focus of the Entity (more specifically)

~~BC182~~BC188 The Boards noted that, in stakeholder outreach conducted in 2020-21, there was more interest in discussing the ways in which they managed their particular activities, rather than the more general matter of assessing financial performance.

(a) Most of the stakeholders from entities that are currently applying AASB 1023/PBE IFRS 4 expressed the view that they have been established to manage an area of risk and effectively provided with ‘seed capital’ and a licence to charge levies/premiums in order to operate with relative financial independence. They are generally expected to be self-funding with a view to not making further calls on government funding and consider themselves to be operating an insurance-like business on a long-term sustainable basis. Within the constraints imposed upon them, they price risk based on commercial principles and manage claims fairly and prudently.

(b) Most of the Australian stakeholders from entities that are currently applying AASB 137 expressed the view that they are operating a compensation scheme based on terms that have largely been dictated to them (for example, through their enabling legislation) and do not have the scope to manage the risks in the manner of a private sector insurer.

(c) A small number of Australian stakeholders indicated that they consider the way their entities are currently managed would be better reflected in a change to their existing accounting – some from AASB 1023 to AASB 137 and some from AASB 137 to AASB 1023/AASB 17.

~~BC183~~BC189 The Boards considered that, the manner in which an entity is managed is, in principle, an important indicator of which Standards should be applied on the basis that faithfully reflecting the ‘business model’ in financial statements is something that Standards ordinarily aim to achieve. However, this type of indicator is likely to be subject to wide interpretation unless it is associated with specific insurance liability management practices. In that context, the Boards considered those insurance liability management practices could include the following.

(a) *Underwriting and pricing specific types of risks*: although few (if any) public sector entities are completely unconstrained in their ability to differentially price their services, many of them are able to price risk based on a scheme participant’s characteristics (for example, industry of employment, claims experience or type of vehicle).

(b) *Use of reinsurance contracts to manage capital*: this is not to say that the existence of a reinsurance contract, of itself, is indicative. However, in association with other factors, such as a policy of protecting its own capital base (rather than relying on the taxpayer) for its continuing operation, the existence of a reinsurance contract~~it~~ can indicate that the entity is expected to manage its liabilities prudently in a manner consistent with a private sector insurer.

(c) *Fair and prudent management of claims and remediation of significant claims risks*: although fair and prudent claims management would typically be a feature of a broad range of compensation schemes, it is a particularly significant feature of managing insurance risk, especially when coupled with possible remediation activities. Remediation will necessarily be different in a monopoly context compared with a typical commercial context. In a commercial context, remediation will often include resetting underwriting terms to exclude certain types of (high-risk) customers; whereas, monopoly public sector entities are not generally able to filter their scheme participant base. Accordingly, for public sector entities, remediation would usually take other forms, such as interventions with risk management education programs or safety campaigns. The Boards acknowledged that, while public sector entities do not have the same imperatives commercial insurers might have on managing claims in a manner that permits them to keep trading, they are required to act fairly and would typically be required to act prudently. Accordingly, while the need to act fairly and prudently might be important in identifying arrangements that would be accounted for as insurance contracts, it’s presence could also be indicative of a broader range of compensation arrangements.

Conclusions

~~BC184~~BC190 The Boards concluded that general practices of assessing scheme financial performance and financial position on a regular basis, reporting internally on financial performance and, where necessary, taking action to address any scheme under-performance is not a potentially useful indicator of public sector arrangements to be accounted for as insurance contracts. The Boards consider the inference that social benefit schemes versus insurance schemes are less likely to monitor performance in this way is probably not supportable.

~~BC185~~BC191 Instead, the Boards concluded that they would propose as an indicator of public sector arrangements to be accounted for as insurance contracts that the entity has objectives, policies and processes for managing risks associated with those arrangements and for its financial performance to be assessed based on how the entity meets those objectives and how successfully it applies those policies and processes. The Boards concluded that, in this context the public sector entity would be expected to conduct the following activities (either itself or via outsourcing):

(a) underwriting and risk assessment;

(b) the measurement of risks and uncertainties and their impacts; and

(c) fair and prudent claims management and, when relevant, engage in remediation work.

~~BC186~~BC192 The Board concluded that the presence of all three of these factors would be an ~~strong~~ indicator of public sector arrangements to be accounted for as insurance contracts; and, conversely, the fewer of these three factors that are present, the less likely it would be for arrangements to be accounted for as insurance contracts.

Assets Held to Pay Benefits

~~BC187~~BC193 IPSAS 42 identifies the existence of assets being held in a separate fund, or otherwise earmarked, and restricted to being used to provide benefits as being an indicator of insurance contracts [IPSAS 42.AG26(b)]. Similarly, the AASB Discussion Paper (2017) proposals identified that assets and liabilities arising from the arrangements being held in a separate fund, or otherwise specifically identified as used solely to provide benefits to beneficiaries as indicating an insurance arrangement [AASB DP.E14(d)]. However, the AASB Discussion Paper proposals also noted that the absence of separately allocated assets is not necessarily an indicator the arrangement is not insurance.

~~BC188~~BC194 The Boards noted that there is a link between the indicator on 'Source and extent of funding' (discussed above) and 'Assets held to pay benefits' because funds that are sourced from scheme participants are more likely to be set aside in a scheme fund than would the case for ~~an~~routine appropriations of funds from general taxation.

BC195 The Boards also noted that there is a link with the indicator on 'Management practices and assessing financial performance' (discussed below) because public sector entities that manage their own assets intended to meet claims would be more likely to have management practices that more generally mirror those of private sector insurers. The Boards observed that this perspective is supported by feedback received in recent stakeholder outreach, with many public sector entities having been established to be self-sustaining and having responsibility for overseeing an area of risk while achieving a breakeven result from all of their activities, including investment performance. This is a characteristic of private sector for-profit insurers, some of which routinely operate on a long-term sustainable basis by generating underwriting losses that are more than offset by investment returns.

~~BC189~~BC196 The Boards acknowledged that the existence of assets being held in a separate fund, or otherwise earmarked, and restricted to being used to provide benefits is a feature that can also apply to arrangements which are not in the nature of insurance. For example, a compensation scheme might be established for the victims of a recent disaster and be funded by appropriations, public appeals, or levies on a certain suppliers or consumers that are pooled and invested and subsequently applied to help fund recovery efforts. Nonetheless, the Boards considered that this feature is a potentially important indicator because its absence might be indicative of arrangements that should not be accounted for as insurance contracts.

~~BC190~~BC197 The Boards noted that some public sector entities have assets set aside for benefits, but are not actively involved in the management of the underlying investments, which is handled centrally, for example, by a government agency established for this purpose. The public sector entity's role might be limited to advising that agency about its liquidity needs. The Boards consider the existence of assets set aside to meet benefits to be the crucial factor, and do not regard the extent of a public sector entity's active involvement in the management of its underlying investments as effecting the validity of this indicator.

Conclusions

~~BC191~~BC198 Based on the above considerations, the Boards concluded they would propose as an indicator of public sector arrangements to be accounted for as insurance contracts, the existence of assets being held in a separate fund, or an entity having access to earmarked assets, that are restricted to being used to provide benefits to scheme participants.

Profit Seeking

Australian Entities

~~BC192~~BC199 Most of the Australian public sector entities currently applying AASB 4 and AASB 1023 classify themselves as not-for-profit entities, with some classifying themselves as for-profit entities.

~~BC193~~BC200 The AASB Discussion Paper (2017) proposed that the amendments to AASB 17 for public sector entities should apply to both for-profit and not-for-profit public sector entities and the respondents who directly commented on this issue agreed with the AASB's proposal.

~~BC194~~BC201 In the stakeholder outreach conducted in 2020–21, there was virtually no support for excluding a public sector entity from applying AASB 17 on the basis that it is a not-for-profit entity. For the few stakeholders who supported automatically including a public sector entity within the scope of AASB 17 on the basis that it is a for-profit entity, their support hinged on a view that a for-profit entity is more likely to be seeking to profit from the service of bearing risk. These stakeholders viewed this as consistent with AASB 17 requiring a risk adjustment in measuring insurance liabilities and recognising revenue from bearing risk in a pattern based on the release from risk.

~~BC195~~BC202 The AASB observed that the differing classifications (for-profit versus not-for-profit) across Australian jurisdictions seem to be driven largely by the funding structure and, for example, whether the entity has been tasked with paying dividends to government in recognition of the cost of government capital deployed to the entity. The AASB also observed that there are a number of entities deemed by their governments to be for-profit entities that seemingly have highly similar operations to entities that have been deemed not-for-profit.

New Zealand Entities

~~BC196~~BC203 Currently, the New Zealand public sector entities applying PBE IFRS 4 all classify themselves as not seeking to profit from their activities.[25]

~~BC197~~BC204 NZASB ED 2018-7 did not include any proposals relating to the profit-seeking motive.

Conclusions

~~BC198~~BC205 The Boards noted that the IASB did not regard the not-for-profit nature of mutual insurance entities to be a factor that would cause IFRS 17 to be inapplicable. The IFRS 17 Basis for Conclusions makes it clear that, in the IASB's view, IFRS 17 can be applied consistently to for-profit entities and mutual entities [IFRS 17.BC264 to BC269]. For-profit insurance entities and mutual insurance entities often compete for customers in the same markets.

~~BC199~~BC206 Based on the above deliberations, the Boards concluded ~~that~~ they would propose that the not-for-profit nature of an entity should not be a barrier to public sector arrangements being accounted for as insurance contracts, and this has not been proposed as an indicator. However, the Boards also noted that the classification (as for-profit versus not-for-profit) would be a part of the context in which the proposed indicators are considered and, therefore, could impact on the outcome of a collective assessment of those indicators.

Scoping Out 'Social Benefits' or Specific Entities

~~BC200~~BC207 The Boards noted that IPSAS 42.5 includes a definition of 'social risks', which mentions events or circumstances that are intended to give rise to distinct benefits from the causes of other forms of aid, such as benefits provided as the result of a disaster [IPSAS 42.AG10]. The IPSAS 42 definition is:

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25 Public benefit entities (PBEs) are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders (paragraph 6 of XRB A1 *Application of the Accounting Standards Framework*). PBEs comprise not-for-profit entities and public sector entities

Social risks are events or circumstances that:

(a) relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and

(b) may adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

~~BC201~~BC208 The Boards observed that 'social risks' identified in the definition are indicative, rather than implying that the same risks might not also be the subject of insurance contracts. They further noted that most, if not all, the classes of 'social risks' mentioned in the definition could be the subject of insurance contracts sold by for-profit private sector entities, such as: annuities (age-related); health insurance (health-related); and income protection (related to health, poverty and/or employment status). Accordingly, the Boards concluded that it would not be productive to propose scoping out 'social benefits' using the definition in IPSAS 42.

~~BC202~~BC209 The Boards also considered whether it might be feasible to identify particular entities or activities that would not fall within the scope of AASB 17/PBE IFRS 17. For example, whether entities such as those closely associated with the hospital/health system, as a way of automatically excluding them and removing the need for an analysis of indicators to determine whether they need to apply AASB 17/PBE IFRS 17. In that context, the Boards noted that AASB 17/PBE IFRS 17 sets a precedent by specifically scop~~es~~ing out particular types of transactions conducted by particular types of entities that would otherwise probably need to be accounted for as insurance contracts.~~,~~ These transactions includ~~ing~~e, for example, warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer [AASB 17/PBE IFRS 17.7(a)].

Conclusions

~~BC203~~BC210 The Boards concluded that, while it would provide certainty for some entities, they are generally opposed to specifically identifying public sector schemes that are not within the scope of AASB 17/PBE IFRS 17 because it is typically not the role of the Boards to identify specific entities that should, or should not, apply particular Standards.

~~BC204~~BC211 The Boards also concluded that, while there may be some merit in proposing that specifically identified types of activities are not within the scope of AASB 17/PBE IFRS 17:

(a) this could be problematic due to the potential interface between, for example, the public health system and the medical nature of many claims that might be the subject of arrangements that would be accounted for as insurance contracts; and

(b) the relevant types of excluded activities should be able to be identified based on applying other proposed indicators.

Fault-based Nature of an Arrangement

~~BC205~~BC212 In respect of many classes of risk, for-profit private sector insurers attribute fault in determining whether claims are valid or the amount of those claims. For example, a policyholder that is negligent may receive a lower claim benefit than a policyholder who is not at fault, which is designed to avoid moral hazard issues. Accordingly, it could be argued that fault-based arrangements are more likely to result in insurance activities.

~~BC206~~BC213 The Boards noted that public sector schemes vary across jurisdictions. For example, some of the Australian Compulsory Third Party motor insurance arrangements for non-serious injury are fault-based, while all the Compulsory Third Party motor insurance arrangements that include serious injury are no-fault schemes. Currently, Australian stakeholders' application of either AASB 4 and AASB 1023 versus AASB 137 has not reflected the fault status of the arrangements. That is, some public sector entities operating no-fault arrangements are applying AASB 4 and AASB 1023, while others are applying AASB 137. However, the Boards are not aware of any public sector entities operating fault-based arrangements that are applying AASB 137.

~~BC207~~BC214 The Boards also observed that, while no-fault arrangements are more prevalent in the public sector, many classes of risk covered by for-profit private sector insurers do not involve attributing fault in determining whether claims are valid or the amount of those claims. For example, insurance contracts for risks such as health/disease and longevity are typically no-fault contracts.

Conclusion

BC215 Based on the above deliberations, the Boards concluded that the no-fault versus fault-based nature of public sector arrangements would not be helpful in indicating whether the arrangements are to be accounted for as insurance contracts and this distinction has not been proposed as an indicator.

Judgement to be applied

BC216 The Boards are aware that assessing indicators to determining whether a public sector entity's arrangements should be accounted for using AASB 17/PBE IFRS 17 requires the application of judgement.

BC217 Once a judgement has been made about whether a public sector entity's arrangements would be accounted for as insurance contracts, a redeliberation of this judgement would only be expected if there is substantive change to the entity's circumstances and/or the nature of its arrangements. In the absence of such substantive change, the Boards observed that any change to an earlier judgement would need to meet the threshold for a change in accounting policy set out in AASB 108/PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Relative significance of the indicators

BC218 The Boards considered whether some indicators should be:

(a) separately identified as being pre-requisites for applying AASB 17/PBE IFRS 17 (that is, their absence means AASB 17/PBE IFRS 17would not apply); or

(b) separately identified as being determinative in applying AASB 17/PBE IFRS 17 (that is, their presence means AASB 17/PBE IFRS 17 would apply); or

(b) otherwise ranked in some manner based on their significance in determining arrangements that should be accounted for by applying AASB 17/PBE IFRS 17.

BC219 The field testing conducted in 2021-22 on the proposed indicators revealed a range of views. Some stakeholders noted a preference for ranking the indicators in some manner, although there was no consensus among those stakeholders for a particular ranking of the indicators. However, many of those seeking some form of ranking typically identified the most significant indicators as being:

(a) an identifiable coverage period – on the basis that it contrasts with an open-ended compensation scheme that provides benefits based on meeting eligibility criteria; and

(b) the enforceable nature of the arrangement – on the basis that it means there is a binding arrangement between the public sector entity and a participant similar to that found in an insurance contract.

BC220 In contrast, the field testing also revealed that many of those seeking some form of ranking typically identified the least significant indicators as being:

(a) management practices and assessing financial performance – on the basis that there are many sound management and reporting practices that are routinely practiced by insurers and by those responsible for compensation schemes that these stakeholders do not regard as relating to insurance contracts; and

(b) the existence of a separate fund or earmarked assets held to pay benefits – on the basis that funds are often set aside within compensation schemes that these stakeholders do not regard as relating to insurance contracts.

Conclusion

BC221 The Boards concluded that they would not propose assigning a relative significance to each of the indicators on the basis that this is generally inconsistent with the notion of making a collective assessment and applying judgement based on the relevant circumstances. Instead, the Boards responded to the field test feedback by trying to better explain the relevant aspects of the indicators considered by some to be the least significant.

~~BC208~~BC222 The Boards also decided to include a specific question in the Exposure Draft on whether the indicators should be ranked in some manner and, if so, how they should be ranked and their reasons for that ranking.

Application Date of the Standard

~~BC209~~BC223 The existing mandatory application date of AASB 17/PBE IFRS 17 is periods beginning on or after 1 January 2023. For public sector entities that typically have a July to June financial year, that would mean first applying AASB 17/PBE IFRS 17 for the period 1 July 2023 to 30 June 2024, with comparative information for the period 1 July 2022 to 30 June 2023.

~~BC210~~BC224 The Boards noted that they typically provide at least a one-year gap between the time a new or revised Standard is issued and the beginning of the comparative reporting period to which it applies. This is designed to allow stakeholders to adequately prepare for any changes to processes for preparing and auditing financial statements.

BC225 Accordingly, the Boards concluded they would propose that public sector entities falling within the scope of AASB 17/PBE IFRS 17 be required to apply it for annual reporting periods beginning on or after 1 July 2025. Consistent with existing practice, the Boards also concluded on proposing that entities would be permitted to apply AASB 17/PBE IFRS 17 earlier and, if an entity does apply the Standard early, it must disclose this fact.

~~BC211~~BC226 Under the proposals, public sector entities that typically have a July to June financial years would first be required to apply AASB 17/PBE IFRS 17 for the period 1 July 2025 to 30 June 2026, with comparative information for the period 1 July 2024 to 30 June 2025.

Other Modifications Considered but not Proposed

Captive Insurers

~~BC212~~BC227 The Boards noted that large consolidated group ~~(non-insurer)~~ entities sometimes establish a 'captive insurer' subsidiary to coordinate risk management for all (or most) entities within the group.[26] The subsidiary typically charges premiums to other entities in the group and pays them valid claims in respect of insured events, and ordinarily (re)insures some or all of the risks with one or more ~~a~~ third-party (re)insurer(s). Australian or New Zealand-based captive insurers would need to be registered as insurers and, therefore, required to prepare general purpose financial statements and meet relevant regulatory and prudential requirements.

~~BC213~~BC228 The Boards noted that governments also create captive insurers and the key motivations are typically to:

(a) centralise the administration of insurable risks across a complex group of entities and coordinate risk management policies and processes;

(b) charge premiums to other government agencies and, thereby, create incentives for them to manage risks; and

(c) in some cases, coordinate in a cost-beneficial manner the acquisition of insurance/reinsurance coverage from an external insurer/reinsurer.

BC229 The Boards observed that, at the whole-of-government level:

(a) ~~,~~ transactions between the captive insurer and other government agencies are eliminated;

(b) ~~and~~ any (re)insurance contracts between the captive and third-party insurers are treated as insurance contracts in which the government is a policyholder; and

(c) any remaining liabilities to third parties (for example, to government employees for workplace injuries) would be accounted for by applying AASB 137/PBE IPSAS 19.

[26] For a consolidated group that is not an insurer, the captive insurer would typically organise the group's insurance coverage. For a consolidated group that is an insurer, the captive insurer would typically organise the group's reinsurance coverage.

~~BC214~~BC230 The Boards considered whether they should:

(a) in the context of the requirements imposed on private sector Australian-based and New Zealand-based captive insurers, explicitly require public sector captive insurers to prepare general purpose financial statements, including applying AASB 17/PBE IFRS 17; or

(b) given the eliminations at the whole-of-government level, explicitly scope public sector captive insurers out of applying AASB 17/PBE IFRS 17.

~~BC215~~BC231 The Boards noted the following in respect of the AASB Discussion Paper (2017).

(a) It was proposed that public sector captive insurers should be permitted an optional exemption to not apply AASB 17 on the basis that:

(i) some captive public sector entities do not currently apply insurance accounting to their insurance transactions; and

(ii) the cost of doing so is likely to be greater than the benefits given the accounting would be reversed on consolidation. (In the consolidated entity, since insurance risk has not been transferred to a party outside the group, any claim liabilities would probably be accounted for as provisions).

(b) It was also proposed that, in the event there is a public sector entity that accepts insurance risk from both related and unrelated parties, the optional exemption from applying AASB 17 would apply only to transactions with related parties.

(c) Respondents expressed mixed views, including:

(i) support for captive insurers being scoped out of AASB 17;

(ii) support for the optional exemption;

(iii) strong disagreement with the proposals based on a view they would create complexity for some entities within a group reporting structure that are required to use two different measurement bases; and

(iv) when there are no users dependent upon the financial statements of a captive insurer, it would be up to the appropriate government to exempt the entity from preparing general purpose financial statements.

~~BC216~~BC232 The Boards noted that NZASB ED 2018-7 did not raise the issue of captive insurers and nor did any of the respondents to the ED.

~~BC217~~BC233 The Boards also noted that more recent stakeholder consultation revealed a variety of reasons for different practices among Australian governments in terms of whether separate general purpose financial statements are presented for captive insurers.

(a) Various accountability mechanisms and reporting requirements apply across the public sector and captive insurers either report separately (or not) based on those general requirements. For example, an entity may be regarded as being primarily engaged in providing claims management services to other areas of government rather than bearing insurance risk, which may lead a jurisdiction to conclude that:

(i) separate general purpose financial statements are not needed; or

(ii) if separate general purpose financial statements are needed, they would be prepared on the basis that the entity is a service provider for managing the claims process, rather than bearing insurance risk, and would not apply insurance contract accounting

(b) Historical responsibilities for bearing risks have been allocated to the entity, which were accompanied by particular (usually legislated) accountability mechanisms and reporting requirements.

(c) A deliberate policy has been adopted to impose accountability mechanisms and reporting requirements on a captive insurer, consistent with (for example) having an independent board of directors. Entities with independent boards of directors/management might be particularly keen to demonstrate accountability and prepare separate financial statements. Some stakeholders consider the fact that their customers are related entities makes it all the more important that they ~~have~~ prepare separate general purpose financial statements~~reporting~~.

Conclusion

~~BC218~~BC234 The Boards considered that the issues surrounding captive insurers are essentially reporting entity issues, that could affect the application of accounting standards more generally, rather than being issues of particular relevance to the insurance project. The Boards observed that governments which regard their captive insurer(s) as needing to prepare general purpose financial statements would have to determine whether they have insurance contracts and need to apply insurance contract accounting or are only service providers, akin to insurance brokers that are intermediaries between policyholders and insurers, that would apply, for example, AASB 15/PBE IPSAS 9 *Revenue from Exchange Transactions*. The Boards also observed that governments which regard their captive insurer(s) as not needing to prepare general purpose financial statements, might seek to have them prepare a type of segment information, for example, for management purposes.

~~BC219~~BC235 Accordingly, the Boards concluded that wider issues regarding the identification of reporting entities are at stake and ~~it is~~ are not relevant in this project to specifically exempt public sector captive insurers from applying AASB 17/PBE IFRS 17 in their separate financial statements. They noted that, if a jurisdiction determines that an entity should prepare general purpose financial statements, provided the entity's activities fall within the scope of AASB 17/PBE IFRS 17, that Standard should be applied.

Discounting and Inflating

~~BC220~~BC236 Based on public sector arrangements that seem likely to fall within the scope of AASB 17/PBE IFRS 17 and the Boards' proposals on contract boundaries and coverage periods (paragraphs Aus/NZ34.1 to 34.3 and Aus B64.1/NZ AG64.1), the Boards noted that:

(a) most coverage periods are one year or less; and

(b) levies/premiums are typically received either shortly before coverage commences or early in the coverage period.

~~BC221~~BC237 Accordingly, the Boards observed that the discounting requirements in AASB 17/PBE IFRS 17 (such as in AASB 17/PBE IFRS 17.36 and 56):

(a) would not be expected to be relevant in measuring levies/premiums and in measuring most liabilities for remaining coverage;

(b) might be relevant in the unlikely event that the general model would need to be applied to measure liabilities for remaining coverage for arrangements that provide multi-year coverage.

~~BC222~~BC238 However, the Boards observed that public sector arrangements which seem likely to fall within the scope of AASB 17/PBE IFRS 17 often involve claims that are settled over long periods – sometimes many decades – and that discounting and inflating is usually an important aspect of measuring liabilities for incurred claims.

~~BC223~~BC239 The Boards noted that, under AASB 1023/PBE IFRS 4, expected future cash flows are:

(a) discounted for the time value of money at a risk-free rate based on current observable, objective rates that relate to the nature, structure and term of the future obligations;

(b) may need to be inflated because the ultimate cost of settlement will be affected by inflationary factors likely to occur during the period to settlement; and

(c) not expected to be either discounted or inflated when they are settled within a year.

~~BC224~~BC240 The Boards noted that, under AASB 17/PBE IFRS 17, essentially the same notions of discounting and inflating cash flows apply, but that the discount rate relates to a current time value of money and the liquidity characteristics of the insurance contracts. That is, all other things being equal, the discount rates under AASB 17/PBE IFRS 17 would be expected to be higher than under AASB 1023/PBE IFRS 4 due to the adjustment for illiquidity.

~~BC225~~BC241 The Boards noted the various sources of guidance and requirements (outside the Standards) for determining discount rates and inflation rates, including:

(a) Australian and New Zealand actuarial guidance on valuation of general insurance claims;

(b) Australian Prudential Regulation Authority prudential requirements on insurance liability valuation;

(c) the risk-free discount rates and consumer price index (CPI) assumptions published by the New Zealand Treasury that must be used for the purpose of preparing the financial statements of government reporting entities submitting valuations to Treasury for measuring insurance claims liabilities under PBE IFRS 4.

~~BC226~~BC242 The Boards noted that, in respect of discount rates, all the various sources of guidance have a common starting point of sovereign bond yields for durations that match the relevant claims liabilities, with extrapolation when needed.

Illiquidity Premium

~~BC227~~BC243 The Boards observed that, in concept, the size of an illiquidity premium would be positively correlated with:

(a) the length of time over which claims (cash flows) are expected to be paid; and

(b) the predictability of the cash flows.

Accordingly, the longer the time to expected settlement and the more predictable are the cash flows, the larger is the illiquidity premium.

~~BC228~~BC244 The Boards noted that, in general, private sector insurers have yet to settle on their approach to determining an illiquidity premium under AASB 17/PBE IFRS 17 and that there are, as yet, no readily-available and widely-accepted benchmarks that can be applied.

~~BC229~~BC245 The Boards considered whether there might be a need for public sector-specific guidance on determining an illiquidity premium, but concluded that the issues for public sector entities are no different from those that need to be addressed by other entities applying AASB 17/PBE IFRS 17.

Investment Rates of Return and Discount Rate Volatility

~~BC230~~BC246 The Boards noted that:

(a) most public sector entities set premiums/levies with a view to breaking even, after taking into account any relevant projected investment earnings; and

(b) the rate of projected investment returns assumed is typically above the time value of money rate applied to measure liabilities for incurred claims.

Accordingly, public sector entities ordinarily recognise unexpired risk liabilities (onerous contract losses) due to the ‘gap’ between the rates.

~~BC231~~BC247 The Boards also noted that, for many public sector entities, the liability for incurred claims is by far the largest liability and small changes in discount rates can create liability changes from period to period that create the largest expense or revenue item in the income statement. In recent years, yields on government bonds that are typically used to determine risk-free rates have been at historical lows, and small changes in rates have been having a larger than usual impact.

~~BC232~~BC248 The Boards noted that, based on stakeholder outreach conducted in 2020-21, there is a widespread awareness that:

(a) the gap between discount rates leads to up-front loss recognition;

(b) changes in discount rates lead to volatility; and

(c) some stakeholders find the up-front loss recognition and volatility potentially misleading.

~~BC233~~BC249 The Boards noted some stakeholders consider that long-run investment rates of return should be applied to discount cash flows in measuring liabilities for incurred claims, which may generally remove the up-front loss recognition and mitigate the volatility in liabilities for incurred claims.

~~BC234~~BC250 The Boards considered whether there might be a need for public sector-specific guidance or modifications in respect of the discount rate requirements in AASB 17/PBE IFRS 17 (such as in AASB 17/PBE IFRS 17.36 and 56) on the basis that:

(a) for-profit private sector insurers typically have a profit 'buffer' that (in most cases) avoids the need to recognise an up-front loss relating to the impact of the gap between risk-free and investment rates; and

(b) the gap between the risk-free and investment rates can be larger for public sector entities relative to their regulated private sector counterparts. This is because regulated private sector insurers typically hold investments with an overall lower risk/return profile than their public sector counterparts, which do not face the same regulatory disincentives to investing in higher risk/return asset classes.

Rates in Other Standards

~~BC235~~BC251 *The Boards noted that some Australian public sector entities have arrangements that give rise* to claims settled over long periods and these arrangements are currently accounted for as provisions by applying AASB 137. They noted that discount rates required for measuring provisions reflect current market assessments of the time value of money and the risks specific to the liability.

~~BC236~~BC252 The Boards noted that, based on stakeholder outreach conducted in 2020-21, there are differing views on the rates required by AASB 137/PBE IPSAS 19.

(a) Some stakeholders interpret the AASB 137/PBE IPSAS 19 requirements as being the same or similar to the discounting requirements in AASB 1023/PBE IFRS 4 and AASB 17/PBE IFRS 17.

(b) Some stakeholders regard the AASB 137/PBE IPSAS 19 requirements as being different from the discounting requirements in AASB 1023/PBE IFRS 4 and AASB 17/PBE IFRS 17. They see a key potential difference being the focus of AASB 1023/PBE IFRS 4 (and AASB 17/PBE IFRS 17) on an entity perspective because an insurer is expected to fulfil its insurance liabilities. In contrast, they see the focus of AASB 137/PBE IPSAS 19 as being on settlement, which could be with a third party and be measured at more or less than 'face value'.

Presentation

~~BC237~~BC253 The Boards observed that:

(a) under AASB 1023/PBE IFRS 4, both the initial and subsequent impacts of discounting and inflating fulfilment cash flows are presented within the 'underwriting result'; however.

(b) under AASB 17/PBE IFRS 17:

(i) only the initial impacts of discounting fulfilment cash flows are presented within the 'insurance service result';

(ii) the impacts of subsequent discount rate changes are presented in 'insurance finance income and expenses', including the impact on insurance liabilities of the unwinding of the discount as time passes and the impact of discount rate changes; and

(iii) some of the subsequent impacts of inflation rate changes are presented in 'insurance service result' and others in 'insurance finance income and expenses' under AASB 17/PBE IFRS 17.B128.

~~BC238~~BC254 The Boards noted that at least some of the volatility currently presented as a part of the underwriting result would be separately presented under AASB 17/PBE IFRS 17 as finance income or expense, which may help facilitate explaining the impacts of changing discount rates to users of the financial statements.

~~BC239~~BC255 The Boards also noted that the distinction between the subsequent impacts of inflation rate changes that are presented in 'insurance service result' versus 'insurance finance income and expenses' has yet to be clarified in practice, but the issues are the same for both private and public sector entities. Accordingly, the Boards expect that an industry practice will emerge that public sector entities could apply.

Conclusions

~~BC240~~BC256 The Boards considered whether there might be a need for public sector-specific modifications to the discount rate requirements of AASB 17/PBE IFRS 17 to address concerns about up-front loss recognition and volatility.

~~BC241~~BC257 The Boards concluded that they would not propose any modifications on discounting fulfilment cash flows for the following reasons.

(a) The same discounting issues which arise for public sector entities also arise for private sector entities, while acknowledging those issues can have a more significant impact for public sector entities.

(b) The issues of volatility of liabilities due to discount rate changes from period to period are also a feature of the discount rate requirements in other Standards (such as AASB 119/PBE IPSAS 39 *Employee Benefits*), and that any efforts to address these issues would need to involve a broad-based project that goes beyond a project on insurance arrangements in the public sector.

(c) Any project on discount rates might involve a broader consideration of measurement issues more generally.

~~BC242~~BC258 Specifically in relation to the possible application of long-run investment returns as the basis for discount rates, the Boards noted that, conventionally, assets and liabilities are measured independently. That is, for example, the measurement of a liability is based on the liability's inherent characteristics, not on the characteristics of any assets that might be available to settle the liability. Accordingly, the Boards concluded that any consideration of overturning long-standing conventions of this nature would need to involve a review of principles that go beyond a project on insurance arrangements in the public sector.

Measurement of Investments Backing Insurance Liabilities

~~BC243~~BC259 When it is feasible under Accounting Standards to measure an investment that backs insurance liabilities at fair value through profit or loss, AASB 1023/PBE IFRS 4 requires an entity to apply fair value through profit or loss accounting. This includes applying accounting policy choices/designations within accounting standards to use fair value through profit or loss accounting for: financial instruments; investment property; and, in relation to separate financial statements, investments in subsidiaries, joint ventures and associates.

~~BC244~~BC260 The Boards acknowledged that the AASB 1023/PBE IFRS 4 requirements were based on a view that fair value accounting for investments would provide the greatest level of balance sheet and income statement consistency with the measurement of insurance liabilities, which is largely a current value basis.

~~BC245~~BC261 The Boards noted that, in respect of public sector entities, AASB 17/PBE IFRS 17 should not mandate fair value through profit or loss accounting for investments backing insurance liabilities. The Boards took this approach because, unlike AASB 1023/PBE IFRS 4, IFRS 17 is a global Standard, and asset measurement and reporting practices (other than fair value through profit or loss) may emerge within the insurance industry globally, which Australian and New Zealand insurers should be able to follow.

~~BC246~~BC262 The Boards noted that, in stakeholder consultation conducted for this project in 2020-21, the following themes emerged.

(a) Most public sector entities do not determine their own accounting policies, particularly in relation to policies for transactions that are common across the public sector – those policies are determined by the Treasury office of their jurisdiction.

(b) The established practice is to apply fair value through profit or loss accounting to assets when feasible and this shows no sign of changing.

(c) Many public sector entity investments are managed separately by a specialist public sector funds management entity. Those funds management entities ordinarily hold assets for trading and apply fair value through profit or loss accounting. Most funds management entities typically only supply fair value information to their unitholders.

Conclusions

~~BC247~~BC263 The Boards considered that:

(a) in practical terms, there are strong existing incentives for public sector entities to apply fair value through profit or loss accounting;

(b) in broad terms, the general application of fair value through profit or loss accounting to investments backing insurance liabilities is probably the most useful approach to meet the needs of public sector users of the financial statements; and

(c) all the relevant public sector entities are likely to voluntarily continue applying fair value through profit or loss accounting.

~~BC248~~BC264 The Boards concluded that there is no need to carry forward into AASB 17/PBE IFRS 17 the modifications on investment measurement from AASB 1023/PBE IFRS 4 for public sector entities.

Risk Mitigation Program and Other Similar Costs

~~BC249~~BC265 The Boards noted that most entities that conduct insurance business undertake risk mitigation activities, which are not directly related to particular insurance arrangements. They could include, for example:

(a) risk assessments of a customer's premises that are to be insured; and/or

(b) education programs among policyholders regarding safe work practices.

~~BC250~~BC266 The Boards observed that, for private sector for-profit insurers, these activities would be expected to typically be closely associated with underwriting or claims management and to be attributable to particular contracts or groups of contracts.

~~BC251~~BC267 The Boards also observed that the same types of activities are conducted by public sector entities; however, they would often have a broader community focus, including for example:

(a) road safety campaigns;

(b) research into medical practices in public hospitals; and/or

(c) research into rehabilitation techniques to improve return to work experience.

~~BC252~~BC268 The Boards noted that, compared with AASB 1023/PBE IFRS 4, AASB 17/PBE IFRS 17 has more specific requirements around the types of costs that are to be accounted for as a part of insurance contract liabilities and more specific presentation requirements around the income statement line items that make up the 'insurance service result'. In particular, they noted that costs which might currently be accounted for as a part of the 'underwriting result' under AASB 1023/PBE IFRS 4 may not be sufficiently attributable to the fulfilment of particular groups of contracts to be accounted for within the 'insurance service result' under AASB 17/PBE IFRS 17.

~~BC253~~BC269 This led the Boards to consider whether there is a need for public sector specific modifications in respect of costs associated with risk mitigation activities that might not be attributable to particular groups of contracts. This is particularly since these costs may be more significant in a public sector context (compared with private sector for-profit entities).

~~BC254~~BC270 The Boards noted the following feedback received from stakeholder outreach conducted in 2020-21.

(a) Some public sector entities that provide risk coverage for policyholders also have a separate (sometimes legislated) objective of educating communities about safety or investing in infrastructure that promotes safe outcomes.

(b) Public sector entities are typically separately accountable for costs associated with risk mitigation and they are usually readily identifiable.

Conclusions

~~BC255~~BC271 Based on the above considerations, the Boards concluded that there is no need to propose any public sector modifications in respect of risk mitigation program and other similar costs.

~~BC256~~BC272 The Boards considered that:

(a) public sector entities would have little difficulty identifying risk mitigation program costs and classifying them in accordance with AASB 17/PBE IFRS 17; and

(b) presenting these costs separately from the insurance service result would be useful in a public sector context since they usually relate to a separate and identifiable organisational objective.

Summary of Project History 2017 to 2020

AASB

~~BC257~~BC273 The table below outlines a brief history of the AASB's project between 2017–2020.

Time	*Milestone*	*Remarks*
July 2017	AASB makes AASB 17 *Insurance Contracts*, which incorporates IFRS 17 *Insurance Contracts* (May 2017) applicable to annual reporting periods beginning on or after 2021	The AASB's Basis for Conclusions notes: AusBC27 **…** the AASB was aware of key concerns from the NFP public sector in particular that need further consideration before a decision is made about whether those entities should be subject to AASB 17 without amendment. Chiefly among those concerns was AASB 17 applicability to statutory obligations such as Medicare, the National Disability Insurance Scheme or worker's compensation insurance. AusBC28 The AASB acknowledged those concerns and decided to temporarily exclude NFP public sector entities from the scope of AASB 17 pending the outcome of its separate project to address these issues. Until such time as the NFP public sector issues are addressed, those affected entities continue to be subject to AASB 4, AASB 1023 and AASB 1038 (and, potentially, Interpretation 1047).
Nov 2017	Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities*	For comment by 28 February 2018 The DP notes in the introduction: The AASB's view is that although AASB 17 applies only to contracts, the *Framework for the Preparation and Presentation of Financial Statements* (Conceptual Framework) does not limit liability recognition to that arising from contracts, and specifically indicates that obligations may arise from statute. In applying its principle of transaction neutrality, the AASB considers that public sector entities with insurance risk created by statute, that are in substance similar to public and private sector entities with insurance risk created by contracts, should account for insurance risk in the same way. The DP specifically sought feedback on: • applying AASB 17 to 'insurance-like' arrangements in the public sector • applying the requirements for a risk adjustment (to insurance liabilities) • determining the contract boundary • captive insurance arrangements

Time	*Milestone*	*Remarks*
Sep 2018	AASB considers a summary of constituent feedback on the Discussion Paper	The minutes record the AASB~~oard~~ decided to: (a) conduct further field testing of the 'insurance-like' criteria (b) based on the field testing, consider whether clarifications of the 'insurance-like' criteria are required, particularly the 'funding' criteria (c) consider the assumptions used in determining discount rates for public sector entities (d) consider the assumptions used in determining risk margins for public sector entities. Six formal responses to the DP were received (including from HoTARAC and ACAG).
Jun 2019	Exposure Draft of proposed amendments to AASB 17	AASB ED 292 incorporated amendments to IFRS 17 proposed by the IASB. For comment to AASB by 30 August 2019 and to the IASB by 25 September 2019
Jul 2020	AASB makes AASB 2020-5 *Amendments to Australian Accounting Standards – Insurance Contracts*	AASB 2020-5 amends AASB 17 to be in line with an amended IFRS 17 issued by the IASB in June 2020. Key amendments to AASB 17 and IFRS 17 are: • a revised mandatory application date of annual reporting periods beginning on or after 1 January 2023 • requiring separate presentation of insurance assets and liabilities by 'portfolio' rather than 'group of contracts' • permitting the recognition of a separate acquisition costs asset in particular circumstances • recognising reinsurance contract held gains relating to onerous underlying contract losses in particular circumstances • entities preparing interim financial statements can choose to apply the 'year-to-date' measurement principle in AASB 134 / IAS 34 *Interim Financial Reporting*

NZASB

~~BC258~~BC274 The table below outlines a brief history of the NZASB's project between 2017–2020.

Time	*Milestone*	*Remarks*
Aug 2017	NZASB issues NZ IFRS 17 *Insurance Contracts*, which incorporates IFRS 17 *Insurance Contracts* (May 2017) applicable to annual reporting periods beginning on or after 2021	NZ IFRS 17 applies only to for-profit entities.
Feb 2018	NZASB agrees to develop a PBE Standard based on IFRS 17	

Time	*Milestone*	*Remarks*
Dec 2018	NZASB ED 2018-7 PBE IFRS 17 *Insurance Contracts*	For comment by 17 May 2019 NZASB ED 2018-7 proposed amending the scope of PBE IFRS 17 to capture schemes that are eligible to apply the insurance approach under IPSAS 42 *Social Benefits* (i.e. intended to be fully funded from contributions and levies; and there is evidence the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the arrangement on a regular basis). NZASB ED 2018-7 sought feedback on • appropriateness of a risk adjustment for certain PBEs • whether the 'contract boundary' is clear for entities funded through levies • whether 'portfolios' and 'onerous contract groups' are appropriate for PBEs • relevant discount rates for PBEs.
June 2019	NZASB considers constituent feedback on NZASB ED 2018-7	Six formal responses to the ED were received. The Board: (a) NOTED the feedback received on NZASB ED 2018-7 PBE IFRS 17 *Insurance Contracts*; and (b) AGREED to: (i) add a public sector-specific PBE insurance project to its workplan to consider the public sector-specific issues raised by respondents; and (ii) proceed to issue PBE IFRS 17 *Insurance Contracts* with a proposed scope modification to limit its application to Tier 1 and Tier 2 not-for-profit PBEs.
Aug 2019	NZASB ED 2019-3 Proposed amendments to PBE IFRS 17	NZASB ED 2019-3 proposed to incorporate into PBE IFRS 17 the amendments to IFRS 17 proposed by the IASB in June 2019. Comments were due to the NZASB by 19 November 2019.
Aug 2020	NZASB issues Amendments to NZ IFRS 17 and Amendments to PBE IFRS 17	Key amendments to NZ IFRS 17, PBE IFRS 17 and IFRS 17 are: • a revised mandatory application date of annual reporting periods beginning on or after 1 January 2023 • requiring separate presentation of insurance assets and liabilities by 'portfolio' rather than 'group of contracts' • permitting the recognition of a separate acquisition costs asset in particular circumstances • recognising reinsurance contract held gains relating to onerous underlying contract losses in particular circumstances • entities preparing interim financial statements can choose to apply the 'year-to-date' measurement principle in AASB 134/IAS 34 *Interim Financial Reporting*

Part D – Effective Date

This Standard shall be applied for annual financial statements covering periods beginning on or after [1 January 2025]. Earlier application is permitted.

Invitation to Comment to accompany NZASB ED 2022-3 *Insurance Contracts in the Public Sector*

Note to Board members

This draft Invitation to Comment and accompanying Exposure Draft (ED) have been updated based on:

(a) the AASB discussion at its November 2021 meeting;

(b) the NZASB discussion at its December 2021 meeting;

(c) the staff suggested changes in Agenda Paper 6.2 to address comments received from the field testing conducted on the proposed indicators to be considered in determining whether an entity's arrangements fall within AASB 17/PBE IFRS 17 *Insurance Contracts*; and

(d) editorial changes.

For ease of reference, key changes made to the version considered by the Boards at their meetings noted in (a) and (b) above are marked, with deleted text struck through and new text underlined.

At the February 2022 meetings of the AASB and the NZASB, staff ask each Board to vote to issue the ED.

Questions for Board members

Q1: Do Board members have any comments on the content of the ITC and ED?

Q2: Are Board members in favour of issuing the ITC and ED?

Q3: Are Board members in favour of a 60-day comment period?

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB Exposure Draft 2022-3

Insurance Contracts in the Public Sector

(NZASB ED 2022-3)

Invitation to Comment

Month 2022

PO Box 11250
Manners St Central, Wellington 6142
New Zealand
http://www.xrb.govt.nz

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Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposals for application by public sector entities that issue insurance contracts.

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 *NZASB ED 2022-3 Insurance Contracts in the Public Sector* 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 **XX Month 2022**.

Working with Australia

The NZASB and the Australian Accounting Standards Board (AASB) have worked together in developing these proposals. Although this ITC refers to the proposals of both Boards, each Board has issued its own exposure draft.

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.

AASB	Australian Accounting Standards Board
ED	Exposure Draft
IASB	International Accounting Standards Board
ITC	Invitation to Comment
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public benefit entity

Questions for respondents

Paragraphs

Sub-grouping of contracts

1 Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context? Please provide your reasons. 13–19

2 Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context? Please provide your reasons.

Initial recognition when contracts are onerous

3 Do you agree with the proposal to amend the PBE IFRS 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous? Please provide your reasons. 20–22

Determining contract boundaries, coverage periods and eligibility for the premium allocation approach (PAA)

4 Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context? In particular, do you agree with the Boards' proposals to provide guidance that: 23–28

(a) assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits;

(b) a public sector entity's monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity's practical ability to fully price for risks or benefits;

(c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits;

(d) arrangements would not be regarded as failing to meet the criterion in PBE IFRS 17.34(b)(ii) simply because premium pricing for coverage up to the date when the risks are reassessed takes into account:

  (i) risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits using a medium to long term view; and/or

  (ii) a broad government policy framework that includes considering general economic circumstances and community needs.

Please provide your reasons.

Paragraphs

5 Do you agree with the proposals to:

(a) require disclosure of information about the manner in which pricing/benefits are determined, including for example, the timeframes for~~over~~ which they are typically determined when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and

(b) permit the disclosure to be located in the financial statements or elsewhere with a relevant cross-reference in the financial statements to an authoritative source either: 27(d)

(i) in the notes to the financial statements; or

(ii) by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time?

Please provide your reasons.

Risk adjustment

6 The NZASB is proposing to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted. The proposed paragraph 37.1 of PBE IFRS 17 states:

> 37.1 **Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to reflect a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).**

In contrast, ~~T~~the AASB is proposing no modifications to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk. 29–34

(a) Do you support:

(i) the NZASB approach for specifying a rebuttable presumption that a a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level is included for measuring a liability for incurred claims; or

(ii) the AASB approach for not modifying AASB 17 regarding the risk adjustment requirement?~~Which of these approaches do you support and why?~~

Please provide your reasons.

(b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.

Paragraphs

Scope

7 The Boards propose that the public sector arrangements to which PBE IFRS 17 should apply would be identified based on a collective assessment of the following proposed indicators [paragraphs AG16.1-AG16.25]:

(a) similarity of risks covered and benefits provided;

(b) identifiable coverage;

(c) enforceable nature of arrangement;

(d) source and extent of funding;

(e) management practices and assessing financial performance; and

(f) assets held to pay benefits.

Do you agree with these proposed indicators? If you disagree with the proposed indicators, which of them would you exclude?

8 Whether or not you agree or disagree with some or all of the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning. 35–36

9 The proposed paragraph AG16.2 requires that the indicators outlined in paragraphs AG16.3 to AG16.25 are considered collectively so that a balanced judgement can be made. The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:

(a) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?

(b) would you identify some indicators as pre-requisites for applying PBE IFRS 17 and, if so, which ones, and why?

Effective date

10 Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 January 2025, with early application permitted? If not, what alternative application date would you suggest? Please provide your reasons. 37

		Paragraphs
	Other modifications	
11	Do you consider there should be any further modifications to PBE IFRS 17 in respect of public sector arrangements? If so, what modifications would you suggest and on what basis would you justify them? Please provide your reasons. Please note that the Boards considered, but rejected, proposing modifications to PBE IFRS 17 in respect of public sector arrangements on the following topics: (a) specifically exempting 'captive' public sector insurers from applying PBE IFRS 17 in their separate general purpose financial statements [paragraphs BC227–BC235]; (b) discounting and inflating requirements applied in measuring insurance liabilities [paragraphs BC236 to BC258]; (c) the measurement of investments backing insurance liabilities [paragraphs BC259 to BC264]; and (d) classification and presentation of risk mitigation program and other similar costs [paragraphs BC265 to BC272].	38–39
12	Do you have any other comments on the ED?	40

1. Introduction

1.1 Background

1. The New Zealand Accounting Standards Board (NZASB) issued PBE IFRS 17 *Insurance Contracts* in July 2019 and subsequently amended it in August 2020 to maintain alignment with NZ IFRS 17 *Insurance Contracts*. The requirements in PBE IFRS 17 are identical to the requirements in IFRS 17 *Insurance Contracts* and NZ IFRS 17. At present PBE IFRS 17 applies only to not-for-profit public benefit entities (PBEs). The NZASB decided to undertake a separate project to consider public sector-specific issues.

2. In 2020 the Australian Accounting Standards Board (AASB) and the NZASB decided to work jointly to consider whether any amendments are needed to the requirements in AASB 17 *Insurance Contracts* and PBE IFRS 17 for their application by public sector entities in Australia and New Zealand.

3. In developing these proposals, the Boards consulted with external parties that might be affected by the proposals. The Boards considered feedback from these parties in identifying appropriate modifications to AASB 17/PBE IFRS 17. Throughout the course of 2021 the Boards deliberated on the issues outlined in section 2.2 below.

4. To the extent feasible, the Boards will endeavour to achieve a consistent accounting outcome across both jurisdictions.

1.2 Purpose of this Invitation to Comment

5. The purpose of this ITC and associated Exposure Draft (the ED) is to seek comments on proposed amendments to PBE IFRS 17 for public sector PBEs.

6. When finalised, the proposals will amend PBE IFRS 17 by broadening the scope to include public sector PBEs and introducing some public sector specific requirements.

1.3 Timeline and next steps

7. Submissions on NZASB ED 2022-3 are due by [**date 2022]**. Information on how to make submissions is provided on page 2 of this Invitation to Comment.

8. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the amendments.

2. Overview of Invitation to Comment and ED

2.1 Summary

10. This Invitation to Comment seeks feedback on proposed modifications to PBE IFRS 17. The proposals are set out in NZASB ED 2022-3 *~~Accounting for~~ Insurance Contracts in the Public Sector*. The modifications proposed~~proposals~~ are:

    (a) ~~to include~~ an exemption from sub-grouping onerous versus non-onerous contracts at initial recognition;

    (b) ~~to include~~ an exemption from sub-grouping contracts issued no more than a year apart;

    (c) ~~to~~ amending the initial recognition requirements so that they do not depend on when contracts become onerous;

    (d) ~~to add~~ guidance on coverage periods, which has consequences for assessing eligibility for the premium allocation approach in a public sector context

    (e) ~~to include~~ indicators for identifying the transactions to which PBE IFRS 17 should apply in a public sector context;

    (f) guidance on determining the cash flows within the contract boundary; and~~.~~

    (g) ~~to~~ require risk adjustments for non-financial risks in measuring insurance liabilities to be measured at a rebuttable 75% confidence level.

11. The AASB's Exposure Draft [number and title] proposes identical modifications to AASB 17 except for paragraph 10(g) above. The AASB is proposing no modification to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

12. The issues discussed by the Boards and their rationale for proposing modifications, or making no modification, are detailed in the Basis for Conclusions which accompanies the ED.

2.2 Proposed modifications

Sub-grouping of contracts

Onerous versus non-onerous contracts

13. Paragraph 16 of PBE IFRS 17 requires insurance contracts within each portfolio to be sub-grouped as follows at initial recognition:

    (a) contracts that are onerous at initial recognition, if any;

    (b) contracts that have no significant possibility of becoming onerous subsequently, if any; and

    (c) other (non-onerous) contracts.

14. Based on their deliberations, the Boards concluded that they would propose an exemption for all public sector entities from applying the requirements in paragraph 16 of PBE IFRS 17 (see paragraph 16.1 of the ED).

15. The practical impact of this proposed exemption is that public sector entities would have a basic unit of account that is a portfolio. Accordingly, their liabilities for remaining coverage and liabilities for incurred claims would be measured for each portfolio as a whole (and, for those entities with only one portfolio, effectively at the whole of entity level).

16. Paragraphs BC33–BC49 explain the Boards' discussions and conclusions on this matter.

Contracts issued more than one year apart

17. Paragraph 22 PBE IFRS 17 requires entities to divide each portfolio of contracts into sub-groups of contracts issued no more than a year apart. The Boards noted that the IASB considers annual grouping by the underwriting year to be important to ensure trends in the profitability of a portfolio of contracts are reflected in the financial statements on a timely basis (paragraph BC136 of IFRS 17).

18. The Boards noted that some of the responses to NZASB ED 2018-7 *PBE IFRS 17 Insurance Contracts* argued that a public sector modification is needed because the requirement in paragraph 22 is not relevant to the circumstances of some public sector insures that take a long view on pricing. That is, grouping by annual cohort is irrelevant when the insured risk is for highly uncertain and infrequent events where the entity is a monopoly provider (and cannot withdraw from the market).

19. Based on their deliberations, the Boards concluded that they would propose an exemption for all public sector entities from applying the requirements in paragraph 22 of PBE IFRS 17 (see paragraph 22.1 of the ED). Paragraphs BC50–BC57 explain the Boards' discussions and conclusions on this matter.

Questions for respondents

1. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context? Please provide your reasons.
2. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context? Please provide your reasons.

Initial recognition when contracts are onerous

20. Paragraph 25 of PBE IFRS 17 requires a group of insurance contracts an entity issues to be recognised from the earliest of the following:
    (a) the beginning of the coverage period of the group of contracts;
    (b) the date when the first payment from a policyholder in the group becomes due; and

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

21. The Boards noted that, for an entity that has binding arrangements in the weeks before year end for the following 1 July to 30 June coverage period, applying paragraph 25(c) of PBE IFRS 17 would mean all of the onerous contract losses associated with the next year's arrangements would need to be included in the current year's results. While this may not have a major impact year-on-year, the Boards thought it would be a counter-intuitive outcome.

22. Based on their deliberations, the Boards concluded that it would be appropriate to propose an exemption for all public sector entities from applying the requirements in paragraph 25(c) of PBE IFRS 17 (see paragraph 25.1 of the ED). Paragraphs BC58–BC62 explain the Boards' discussions and conclusions on this matter.

Question for respondents

3. Do you agree with the proposal to amend the PBE IFRS 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous? Please provide your reasons.

Determining contract boundaries, coverage periods and eligibility for the premium allocation approach (PAA)

23. PBE IFRS 17 includes two approaches to measuring liabilities for remaining coverage:

(a) a general measurement model that involves discounting fulfilment cash flows and, when relevant, recognising a 'contractual service margin' (deferred profit/loss); and

(b) the premium allocation approach (PAA), which is a 'simplified approach' and typically much less burdensome to apply than the general measurement model.

24. The Boards noted that identifying contract boundaries and coverage periods under PBE IFRS 17 is crucial for two main reasons:

(a) identifying the cash flows used to measure liabilities for remaining coverage for in-force arrangements; and

(b) determining whether liabilities for remaining coverage for in-force arrangements are eligible to be measured applying the PAA.

25. The Boards observed that, for most public sector entities currently applying PBE IFRS 4, the liability for incurred claims is typically much larger than the liability for remaining coverage. Nonetheless, the liability for remaining coverage would be expected to be a material amount for most public sector entities with arrangements that would be scoped into PBE IFRS 17. Accordingly, eligibility to apply the PAA is a key issue for public sector stakeholders.

26. Under PBE IFRS 17 the 'coverage period' might be different from the stated period in a contract or arrangement because it is determined, in large part, based on identifying the cash flows that are within the 'contract boundary'. In that context, the Boards noted that cash flows are regarded as being within the boundary of an insurance contract to the extent that

the entity can compel the policyholder to pay premiums or the entity has a substantive obligation to provide the policyholder with insurance contract services (see paragraph 34 of PBE IFRS 17).

27. Based on their deliberations, the Boards concluded that:

    (a) for the avoidance of doubt, it would be appropriate to propose guidance to the effect than an entity's practical ability to fully price for risks/benefits also includes the ability of its controlling government (including any relevant Minister(s) and/or regulatory supervisor) under existing and/or substantively enacted legislation to decide on pricing and benefits;

    (b) for the avoidance of doubt, it would be appropriate to propose guidance to the effect than an entity's monopoly status (and the possible inference that there is a legislative obligation to stand-ready to insure future policyholders), of itself, does not affect an entity's practical ability to fully prise for risks/benefits and, therefore, would not affect the coverage period;

    (c) for the avoidance of doubt, it would be appropriate to propose guidance that a public sector entity would not fail to meet the criterion that pricing up to the date when the risks are reassessed does not take into account risks for periods after the reassessment date simply because it has a deliberate policy of setting prices and benefits based on a medium to long term view; and

    (d) they would require the disclosure of information about the manner in which pricing/benefits are determined.

28. See paragraphs 34.1–34.3 and AG64.1 of the ED for the proposed amendments. Paragraphs BC63–BC97 explain the Boards' discussions and conclusions on this matter.

Questions for respondents

4. Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context? In particular, do you agree with the Boards' proposals to provide guidance that:

    (a) assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits;

    (b) a public sector entity's monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity's practical ability to fully price for risks or benefits;

    (c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits;

(d) arrangements would not be regarded as failing to meet the criterion in PBE IFRS 17.34(b)(ii) simply because premium pricing for coverage up to the date when the risks are reassessed takes into account:

(i) risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits using a medium to long term view; and/or

(ii) a broad government policy framework that includes considering general economic circumstances and community needs.

Please provide your reasons.

5. Do you agree with the proposals to:

(a) require disclosure of information about the manner in which pricing/benefits are determined, including for example, the timeframes ~~over~~ for which they are typically determined when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and

(b) permit the disclosure to be located in the financial statements or elsewhere with a relevant cross-reference in the financial statements to an authoritative source either:

(i) in the notes to the financial statements; or

(ii) by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time?

Please provide your reasons.

Risk adjustments

29. The Boards noted:

(a) that a risk adjustment under PBE IFRS 17 (the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risks as the entity fulfils insurance contracts) differs from a risk margin under PBE IFRS 4 *Insurance Contracts* (the inherent uncertainty in the central estimate of the present value of the expected future payments);

(b) that there is a presumption that for-profit private sector entities would need to be compensated for bearing risk and, as risk is released, that revenue would be recognised;

(c) that public sector entities may have a different perspective and not need to be compensated for bearing risk on the basis that (i) they are often monopolies and there may be the opportunity to increase premiums/levies to meet future claims; and (ii) they have explicit or implicit government guarantees of financial support; and

(d) the comments from respondents to NZASB ED 2018-7 and feedback received from stakeholder outreach conducted in 2020 and 2021.

30. The Boards also noted that entities typically use a confidence level (probability of adequacy approach) to measure risk adjustments. The 75% confidence level benchmark originally arose from a minimum prudential reporting benchmark. It has become a widely used reference point in Australia and New Zealand.

31. The Boards observed that:

   (a) most of the public sector entities applying PBE IFRS 4 recognise risk margins at a 75% confidence level, or some level close to that benchmark;

   (b) some of the Australian public sector entities applying AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* also recognise risk margins at a 75% confidence level, or some level close to that benchmark; and

   (c) in outreach previously conducted, some stakeholders indicated that information about uncertainties in the cash flows are important to them.

~~30.~~32. The Boards considered the following possible approaches regarding the risk adjustment requirements:

   (a) Approach 1: require public sector entities to apply AASB 17/PBE IFRS 17 with no modifications or guidance;

   (b) Approach 2: require public sector entities to have a zero risk adjustment; and

   (c) Approach 3: require a particular confidence level for determining risk adjustment for liabilities for incurred claims for all public sector entities.

~~31.~~33. Based on their deliberations, the Boards reached different conclusions. The AASB has proposed Approach 1 (no modification to AASB 17) while the NZASB has proposed Approach 3 (75% confidence level) (see paragraph 37.1 of the ED).

~~32.~~34. Paragraphs BC98–BC134 explain the Boards' discussions and conclusions on this matter.

Question for respondents

6. The NZASB is proposing to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted. The proposed paragraph 37.1 of PBE IFRS 17 states:

   37.1 **Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to reflect a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).**

~~T~~In contrast, the AASB is proposing no modifications to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

(a) ~~Which of these approaches dD~~o you support: ~~and why?~~ (i) the NZASB approach for specifying a rebuttable presumption that a a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level is included for measuring a liability for incurred claims; or (ii) the AASB approach for not modifying AASB 17 regarding the risk adjustment requirement? Please provide your reasons. (b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.

Scope

~~33.~~35. The Boards have identified a range of indicators for identifying which arrangements in the public sector should be accounted for as insurance contracts. The indicators are to be considered collectively, along with related guidance. The indicators were identified taking into consideration the definitions and guidance on 'insurance contracts', 'insurance contract services' and 'insurance risk' in PBE IFRS 17.

~~34.~~36. Paragraphs AG16.1–AG16.25 provide guidance on the indicators for identifying arrangements that should be accounted for as insurance contracts. These indicators are:

(a) similarity of risks covered and benefits provided (see paragraphs AG16.4–AG16.9 and paragraphs BC139–BC146);

(b) identifiable coverage (see paragraphs AG16.10–AG16.12 and paragraphs BC147–BC150);

(c) enforceable nature of arrangement (see paragraphs AG16.13–AG16.16 and paragraphs BC151–BC168);

(d) source and extent of funding (see paragraphs AG16.17–AG16.21 and paragraphs BC169–BC184);

(e) management practices and assessing financial performance (see paragraph AG16.22 and paragraphs B185–BC192); and

(f) assets held to pay benefits (see paragraphs AG16.23–AG16.25 and paragraphs BC193–BC198).

Question for respondents
7. The Boards propose that the public sector arrangements to which ~~AASB 17/~~PBE IFRS 17 should apply would be identified based on a collective assessment of the following proposed indicators [paragraphs AG 16.1–AG16.25]: (a) similarity of risks covered and benefits provided; (b) identifiable coverage; (c) enforceable nature of arrangement;

(d) source and extent of funding;

(e) management practices and assessing financial performance; and

(f) assets held to pay benefits.

Do you agree with these proposed indicators? If you disagree with the proposed indicators ~~:~~

~~(a)~~ which of them would you exclude?~~, if any?~~

8. Whether or not you agree or disagree with some or all of the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning.

9. The proposed paragraph AG16.2 requires that the indicators outlined in paragraphs AG16.3 to AG16.25 are considered collectively so that a balanced judgement can be made. The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:

(a) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?

(b) would you identify some indicators as pre-requisites for applying PBE IFRS 17 and, if so, which ones, and why?

Effective date

~~35.~~37. The proposed effective date of the modifications is annual financial statements covering periods beginning on or after 1 January 2025, with early application permitted (see paragraphs BC223 to BC226).

Question for respondents

10. Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 January 2025, with early application permitted? If not, what alternative application date would you suggest? Please provide your reasons.

Other modifications

~~36.~~38. The Boards considered, but rejected, proposing modifications in respect of public sector arrangements on the following topics ~~of~~:

(a) specifically exempting 'captive' public sector insurers from applying PBE IFRS 17 in their separate general purpose financial statements;

(b) discounting and inflating requirements applied in measuring insurance liabilities;

(c~~b~~) the measurement of investments backing insurance liabilities; and

(d~~c~~) classification and presentation of risk mitigation program and other similar costs.

~~37.~~39. The Boards' rationale for not proposing modifications are explained in paragraphs BC227–BC272.

Question for respondents
1~~1~~0. Do you consider there should be any further modifications to ~~AASB 17/~~PBE IFRS 17 in respect of public sector arrangements? If so, what modifications would you suggest and on what basis would you justify them? Please provide your reasons. Please note that the Boards considered, but rejected, proposing modifications to PBE IFRS 17 in respect of public sector arrangements on the following topics: (a) specifically exempting 'captive' public sector insurers from applying PBE IFRS 17 in their separate general purpose financial statements [paragraphs BC227–BC235]; (b) discounting and inflating requirements applied in measuring insurance liabilities [paragraphs BC236–BC258]; (c~~b~~) the measurement of investments backing insurance liabilities [paragraphs BC259–BC264]; and (d~~c~~) classification and presentation of risk mitigation program and other similar costs [paragraphs BC265–BC272].

2.3 Other comments

~~38.~~40. The Boards welcome any other comments on the ED.

Question for respondents
12~~1~~. Do you have any other comments on the ED?

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date:	4 February 2022
To:	NZASB Members
From:	Vanessa Sealy-Fisher
Subject:	***Initial Application of PBE IFRS 17 and PBE IPSAS 41—Comparative Information***

Introduction[1]

1. At this meeting we are seeking Board approval to issue NZASB Exposure Draft 2022-1 *Initial Application of PBE IFRS 17 and PBE IPSAS 41—Comparative Information* (the ED) and an accompanying Invitation to Comment.

2. The ED contains proposals to amend the transition requirements in PBE IFRS 17 *Insurance Contracts*. The amendments are based on amendments to IFRS 17 *Insurance Contracts* issued by the IASB in December 2021 and amendments to NZ IFRS 17 *Insurance Contracts* approved for issue by the NZASB also in December 2021.

Recommendations

3. We recommend that the Board:

   (a) AGREES to incorporate all the amendments in *Initial Application of IFRS 17 and IFRS 9—Comparative Information* in PBE IFRS 17 *Insurance Contracts*;

   (b) APPROVES for issue NZASB ED 2022-1 *Initial Application of PBE IFRS 17 and PBE IPSAS 41—Comparative Information* and the accompanying Invitation to Comment (ITC); and

   (c) AGREES a comment period of 90 days, with comments due by 20 May 2022.

Background

4. The IASB issued *Initial Application of IFRS 17 and IFRS 9—Comparative Information* on 9 December 2021, which amended IFRS 17 *Insurance Contracts*.

5. At its December 2021 meeting, the Board:

   (a) APPROVED *Initial Application of NZ IFRS 17 and NZ IFRS 9—Comparative Information* for issue (the amendments were Gazetted on 13 January 2022.);

   (b) CONSIDERED the application of the *Policy Approach to the Development of PBE Standards* (Policy) to *Initial Application of NZ IFRS 17 and NZ IFRS 9—Comparative Information;*

[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) AGREED to incorporate one part of these amendments into PBE IFRS 17 – being to permit use of the classification overlay for financial assets derecognised in the comparative period; and

(d) AGREED to issue a separate Invitation to Comment (ITC) and ED rather than combining the proposals with other proposals in the forthcoming PBE Omnibus because the amendments are relevant to only a few not-for-profit PBEs.

6. The amendments are effective when an entity initially applies PBE IFRS 17, which is annual reporting periods beginning on or after 1 January 2023 at the latest.

Draft ITC and ED

7. As mentioned above, at its December 2021 meeting, the Board agreed to incorporate only one part of the amendments into PBE IFRS 17. This has proved not to be straightforward.

8. The ED, therefore, includes all the IASB's amendments for the following reasons.

(a) Altering the amendments to cater only for entities that have already adopted PBE IPSAS 41 *Financial Instruments* could have unintended consequences.

(b) The amendments are to the transition requirements, so they apply only once, when an entity first applies PBE IFRS 17.

(c) The amendments are optional not mandatory.

(d) Including the IASB's amendments (updated as necessary for PBEs) maintains alignment of PBE IFRS 17 with NZ IFRS 17 *Insurance Contracts* and IFRS 17 *Insurance Contracts.*

(e) An entity will not apply the amendments if they are not relevant.

9. Attached is a draft Exposure Draft (agenda item 8.2) and an accompanying Invitation to Comment (agenda item 8.3) proposing equivalent amendments to PBE IFRS 17 in respect of *Initial Application of PBE IFRS 17 and PBE IPSAS 41—Comparative Information*.

10. We propose a comment period of 90 days, with comments due by 20 May 2022. This will enable the Board to approve the amendments at its June 2022 meeting.

Questions for the Board

Q1. Does the Board AGREE to incorporate all the amendments in *Initial Application of IFRS 17 and IFRS 9—Comparative Information* in PBE IFRS 17

Q2. Does the Board APPROVE NZASB ED 2022-1 *Initial Application of PBE IFRS 17 and PBE IPSAS 41—Comparative Information* and accompanying ITC for issue?

Q3. Does the Board AGREE to a 90-day comment period?

Attachments

Agenda item 8.2: Draft ITC to accompany NZASB ED 2022-1 *Initial Application of PBE IFRS 17 and PBE IPSAS 41—Comparative Information*

Agenda item 8.3: Draft NZASB ED 2022-1 *Initial Application of PBE IFRS 17 and PBE IPSAS 41—Comparative Information*.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB Exposure Draft 2022-1

Initial Application of PBE IFRS 17 and PBE IPSAS 41—Comparative Information

(NZASB ED 2022-1)

Invitation to Comment

Month 2022

PO Box 11250
Manners St Central, Wellington 6142
New Zealand
http://www.xrb.govt.nz

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Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposals for application by public sector entities that issue insurance contracts.

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 'Accounting Standards open for consultation' page (Domestic Consultations) at: https://www.xrb.govt.nz/consultations/accounting-standards-open-for-consultation/.

Please include *NZASB ED 2022-1 Initial Application of PBE IFRS 17 and PBE IPSAS 41—Comparative Information* 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 **20 May 2022.**

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

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

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

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

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IASB	International Accounting Standards Board
ITC	Invitation to Comment
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public benefit entity

Questions for respondents

		Paragraphs
1	Do you agree with the proposed amendments? If you disagree, please explain why.	13–16
2	Do you agree with the proposed effective date? If you disagree, please explain why.	17
3	Do you have any other comments on the ED?	–

1. Introduction

1.1 Background

1. IFRS 4 *Insurance Contracts* is superseded by IFRS 17 *Insurance Contracts*. IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023.

2. IFRS 9 *Financial Instruments* was developed by the IASB over several years, with the final standard becoming effective for annual periods beginning on or after 1 January 2018.

3. In 2016, the IASB issued *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (Amendments to IFRS 4). The amendments permitted eligible entities to:

   (a) apply the 'overlay approach' (apply IFRS 9, and also apply IAS 39 *Financial Instruments: Recognition and Measurement*, to designated financial assets to calculate a single line-item adjustment to profit or loss so that the overall impact on profit or loss is the same as if IAS 39 had been applied); or

   (b) temporarily defer IFRS 9 (the deferral approach) when their activities are predominantly connected with insurance, provided they make additional disclosures to enable users to make comparisons with insurers applying IFRS 9. Entities were permitted to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* until the new insurance standard (IFRS 17) became effective.

4. Equivalent amendments were adopted in NZ IFRS 4 *Insurance Contracts* for entities that did not apply Appendix C or Appendix D. However, in December 2016 the New Zealand Accounting Standards Board (NZASB) agreed not to incorporate equivalent amendments into PBE IFRS 4 *Insurance Contracts*

5. The NZASB issued PBE IFRS 17 *Insurance Contracts* in July 2019 and subsequently amended it in August 2020 to maintain alignment with IFRS 17 and NZ IFRS 17 *Insurance Contracts*.

6. On 9 December 2021 the IASB issued *Initial Application of IFRS 17 and IFRS 9—Comparative Information*. The amendments were issued in response to concerns raised by constituents about the usefulness of the information that would be presented for financial assets in the comparative period on initial application of IFRS 17 and IFRS 9 *Financial Instruments*. The issue arises because the transition requirements in the two standards apply at different dates. IFRS 17 and IFRS 9.[2]

7. The initial proposals were for entities that first applied IFRS 17 and IFRS 9 at the same time. However, in response to feedback received, the IASB extended the scope of the proposals to also include entities that had applied IFRS 9 before IFRS 17.

8. At its meeting in December 2021 the NZASB approved for issue *Initial Application of NZ IFRS 17 and NZ IFRS 9—Comparative Information*.

[2] IFRS 9 transition requirements apply on the date of initial application (ie 1 January 2023 for many insurers outside of New Zealand) while IFRS 17 transition requirements apply on the transition date, being the beginning of the previous annual reporting period (ie 1 January 2022 for many insurers), or earlier if the entity voluntarily restates more than one year of comparative information.

1.2 Purpose of this Invitation to Comment

9. The purpose of this ITC and associated Exposure Draft (the ED) is to seek feedback on proposed amendments to PBE IFRS 17 when an entity first applies PBE IFRS 17 and PBE IPSAS 41 *Financial Instruments*.

1.3 Timeline and next steps

10. Submissions on NZASB ED 2022-3 are due by **20 May 2022**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

11. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the amendments.

2. Overview of Invitation to Comment and ED

2.1 Proposed modifications

13. PBE IFRS 17 *Insurance Contracts* is based on IFRS 17 (and NZ IFRS 17). The NZASB is therefore proposing to incorporate the IASB's amendments *Initial Application of IFRS 17 and IFRS 9—Comparative Information* in PBE IFRS 17 *Insurance Contracts*.

14. The proposals are referred to as the classification overlay. They apply when an entity first adopts PBE IFRS 17 and PBE IPSAS 41 *Financial Instruments*.

15. The proposals will:

    (a) help insurers to avoid temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented in their financial statements when applying PBE IFRS 17 and PBE IPSAS 41 for the first time: and

    (b) improve the usefulness of comparative information for users of the financial statements by providing an option for the presentation of comparative information about financial assets.

16. The proposals also permit an entity to apply the classification overlay to financial assets derecognised between the transition date and the date of initial application of PBE IFRS 17 for entities that have applied PBE IPSAS 41 before PBE IFRS 17.

17. The IASB's rationale for the amendments can be found on the XRB website at https://xrb.govt.nz/standards/accounting-standards/for-profit-standards/standards-list/nz-ifrs-17/ (please refer to the 'Additional Material' IASB file).

2.2 Effective date

1. The proposed effective date of the modifications is annual financial statements covering periods beginning on or after 1 January 2023, with early application permitted.

Questions for respondents

1. Do you agree with the proposed amendments? If you disagree, please explain why.
2. Do you agree with the proposed effective date? If you disagree, please explain why.
3. Do you have any other comments on the ED?

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB EXPOSURE DRAFT 2022-1

Initial Application of PBE IFRS 17 and PBE IPSAS 41—Comparative Information

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 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

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

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

This [draft] Tier 1 and Tier 2 PBE Standard is based on amendments issued by the International Accounting Standards Board to address a concern raised by some insurers about the usefulness of the information that would be presented for financial assets in the comparative period on initial application of IFRS 17 *Insurance Contracts*. The amendments to PBE IFRS 17 permit (but not require) an entity to apply a classification overlay in the comparative period(s) presented on initial application of PBE IFRS 17.

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

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

ISBN

CONTENTS

Part A – Introduction

This Standard sets out amendments to PBE IFRS 17 *Insurance Contracts*. The amendments will help insurers to avoid temporary accounting mismatches due to different transition requirements in PBE IFRS 17 and PBE IPSAS 41 *Financial Instruments*.

Tier 2 entities are required to comply with all the requirements in this Standard.

Part B – Scope

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

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

> Paragraphs 132.3, 132.28A–132.28E, 132.33A and the heading before paragraph 132.28A are added. For ease of reading these paragraphs have not been underlined.
>
> Paragraph 132.29 is not amended, but is shown for context.

Effective date and transition

Effective date

…

132.3 *Initial Application of PBE IFRS 17 and PBE IPSAS 41—Comparative Information*, issued in [date], added paragraphs 132.28A–132.28E and 132.33A. An entity that chooses to apply paragraphs 132.28A–132.28E and 132.33A shall apply them on initial application of PBE IFRS 17.

Transition

…

Comparative Information

…

Entities that First Apply PBE IFRS 17 and PBE IPSAS 41 at the same time

132.28A An entity that first applies PBE IFRS 17 and PBE IPSAS 41 at the same time is permitted to apply paragraphs 132.28B–132.28E (classification overlay) for the purpose of presenting comparative information about a financial asset if the comparative information for that financial asset has not been restated for PBE IPSAS 41. Comparative information for a financial asset will not be restated for PBE IPSAS 41 if either the entity chooses not to restate prior periods (see paragraph 173 of PBE IPSAS 41), or the entity restates prior periods but the financial asset has been derecognised during those prior periods (see paragraph 158 of PBE IPSAS 41).

132.28B An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of PBE IPSAS 41 had been applied to that financial asset. The entity shall use reasonable and supportable information available at the transition date (see paragraph 132.2(b)) to determine how the entity expects the financial asset would be classified and measured on initial application of PBE IPSAS 41 (for example, an entity might use preliminary assessments performed to prepare for the initial application of PBE IPSAS 41).

132.28C In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements in paragraphs 73–93 of PBE IPSAS 41. If, based on the classification determined applying paragraph 132.28B, the financial asset would be subject to the impairment requirements in paragraphs 73–93 of PBE IPSAS 41 but the entity does not apply those requirements in applying the classification overlay, the entity shall continue to present any amount recognised in respect of impairment in the prior period in accordance with PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. Otherwise, any such amounts shall be reversed.

132.28D Any difference between the previous carrying amount of a financial asset and the carrying amount at the transition date that results from applying paragraphs 132.28B–132.28C shall be recognised in opening accumulated comprehensive revenue and expense (or other component of net assets/equity, as appropriate) at the transition date.

132.28E An entity that applies paragraphs 132.28B–132.28D shall:

(a) Disclose qualitative information that enables users of financial statements to understand:

(i) The extent to which the classification overlay has been applied (for example, whether it has been applied to all financial assets derecognised in the comparative period);

(ii) Whether and to what extent the impairment requirements in paragraphs 73–93 of PBE IPSAS 41have been applied (see paragraph 132.28C);

(b) Only apply those paragraphs to comparative information for reporting periods between the transition date to PBE IFRS 17 and the date of initial application of PBE IFRS 17 (see paragraphs 132.2 and 132.25); and

(c) At the date of initial application of PBE IPSAS 41, apply the transition requirements in PBE IPSAS 41 (see paragraphs 157.1–184A of PBE IPSAS 41)).

Redesignation of Financial Assets

132.29 At the date of initial application of PBE IFRS 17, an entity that had applied PBE IPSAS 41 to annual reporting periods before the initial application of PBE IFRS 17:

(a) May reassess whether an eligible financial asset meets the condition in paragraph 40 or paragraph 41 of PBE IPSAS 41. A financial asset is eligible only if the financial asset is not held in respect of an activity that is unconnected with contracts within the scope of PBE IFRS 17. Examples of financial assets that would not be eligible for reassessment are financial assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of PBE IFRS 17.

(b) Shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if the condition in paragraph 44 of PBE IPSAS 41 is no longer met because of the application of PBE IFRS 17.

(c) May designate a financial asset as measured at fair value through profit or loss if the condition in paragraph 44 of PBE IPSAS 41 is met.

(d) May designate an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 106 of PBE IPSAS 41.

(e) May revoke its previous designation of an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 106 of PBE IPSAS 41.

…

132.33A For a financial asset derecognised between the transition date and date of initial application of PBE IFRS 17, an entity may apply paragraphs 132.28B–132.28E (classification overlay) for the purpose of presenting comparative information as if paragraph 132.29 had been applied to that asset. Such an entity shall adapt the requirements of paragraphs 132.28B–132.28E so that the classification overlay is based on how the entity expects the financial asset would be designated applying paragraph 132.29 at the date of initial application of PBE IFRS 17.

Part D – Effective Date

This [draft] Standard shall be applied for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 9.1

Memorandum

Date:	4 February 2022
To:	NZASB Members
From:	Vanessa Sealy Fisher
Subject:	**PBE Leases: Application of PBE Policy Approach to IPSAS 43 *Leases***

Introduction[1]

1. The International Public Sector Accounting Standards Board (PSASB) approved IPSAS 43 *Leases* at its December 2021 meeting. IPSAS 43 was published on 31 January 2022, with an effective date of 1 January 2025. Earlier application is permitted.

2. IPSAS 43 supersedes IPSAS 13 *Leases* and introduces new requirements for lease accounting that are aligned with IFRS 16 *Leases* for both lessee and lessor accounting.

3. In accordance with the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach) (at the bottom of the page via the link), the Board is required to consider if and when to incorporate IPSAS 43 into the suite of PBE Standards as issued by the XRB.

4. Based on feedback received from New Zealand constituents during the development of IPSAS 43, there was general support (across both the public and not-for-profit (NFP) sectors) for the introduction of a leases standard aligned with IFRS 16 – except for mixed views on how to account for concessionary leases.

5. The development of a new PBE Standard based on IPSAS 43 (PBE IPSAS 43) is complicated by two key issues.

   (a) The IPSASB has not fully completed its leases project. The scope of IPSAS 43 does not include the accounting for concessionary leases and other public sector-specific lease type transactions. These transactions are being considered separately under Phase Two of the IPSASB's *Leases* project, with an exposure draft (ED) expected to be approved in September 2022.

   (b) IFRS 16 contains several references to IFRS 15 *Revenue from Contracts with Customers* for the accounting for certain lease transactions. For-profit entities were generally encouraged to adopt IFRS 15 before adopting IFRS 16 given their interrelationship. The IPSAB *Revenue* project (which includes seeking alignment with IFRS 15) is ongoing and a final standard is not expected to be approved until September 2022 at the earliest.

6. The content of this memo includes the application of the PBE Policy Approach to IPSAS 43 and further consideration of the two issues above.

[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).

Recommendation

7. We recommend that the Board:

   (a) NOTES that the IPSASB recently issued IPSAS 43 *Leases* (see agenda item 9.2);

   (b) APPLIES the *Policy Approach to the Development of PBE Standards* (PBE Policy Approach) and AGREES to adopt the requirements of IPSAS 43 into PBE Standards; and

   (c) AGREES to develop a PBE Standard based on IPSAS 43 with the intention of issuing a new standard in the short term.

Structure of this memo

8. This memo has the following sections:

   (a) Background;

   (b) Scope of IPSAS 43

   (c) Application of the PBE Policy Approach;

   (d) Timing of a PBE ED based on IPSAS 43; and

   (e) Next steps.

Background

9. ED 64 *Leases* was issued for comment by the IPSASB in January 2018. ED 64 proposed the lessee right-of-use model in IFRS 16 *Leases* but proposed different requirements to those in IFRS 16 for lessors.

10. The IPSASB received mixed feedback on the proposals in ED 64. Most respondents supported the proposals for lessees other than the proposals regarding concessionary leases and leases for nominal amounts. Mixed views were expressed regarding the proposals for lessors.

11. ED 75 *Leases* was issued for comment by the IPSASB in January 2021. The proposed requirements in ED 75 were substantially the same as the requirements in IFRS 16 for both lessees and lessors. At the same time, the IPSASB also issued Request for Information *Concessionary Leases and Other Arrangements Similar to Leases* (RFI). The RFI sought feedback on the accounting treatment for concessionary leases and other arrangements similar to leases.

12. Now that the IPSASB has issued IPSAS 43 we need to apply the PBE Policy Approach. Assuming the Board decides to incorporate IPSAS 43 into PBE Standards, we need to decide how and when to give effect to that decision.

Scope of IPSAS 43

13. The scope of IPSAS 43 is the same as the scope of IFRS 16 – no specific reference is made to concessionary leases in the core standard.

14. The IPSASB is currently considering feedback received on the RFI. The IPSASB Work Plan indicates the publication of an ED with proposals for concessionary leases in September 2022 and an amending IPSAS in December 2023.

15. When approval to issue IPSAS 43 was sought from the IPSASB, one member voted against the IPSAS due to concerns that the scope exclusion for concessionary leases was not clear. The Board agreed it was important that clear communications be provided when publishing the Standard to explain the two phases of the leases project.

    (a) Phase One, dealing with lease accounting model(s) for both lessees and lessors based on the same definition of leases as in IFRS 16; and

    (b) Phase Two, dealing with public sector specific issues, such as concessionary leases, access rights, and other types of arrangements in the public sector.

16. Paragraphs BC46–BC56 of the Basis for Conclusions explain the IPSASB's rationale for not providing a scope exclusion for concessionary leases.

Application of the PBE Policy Approach

17. The Board regularly considers whether a new or amending IPSAS should be incorporated into PBE Standards. These decisions are guided by the PBE Policy Approach.

18. The PBE Policy Approach identifies triggers for changes to PBE Standards. One of these triggers is the IPSASB issuing a new IPSAS. Section 4.1 (paragraphs 22–24) of the PBE Policy Approach establishes a rebuttable presumption that the NZASB will adopt a new or amended IPSAS. The PBE Policy Approach states that it is expected that the adoption of a new or amended IPSAS will lead to higher quality financial reporting by public benefit entities (PBEs) in New Zealand and the factors in the development principle are presumed to be met.

19. Table 1 below considers the factors in the development principle as they apply to IPSAS 43.

Table 1: Factors in the Development Principle

Factors in the Development Principle	Comment
Whether the potential development will lead to higher quality financial reporting by public sector PBEs and not-for-profit entities, including public sector PBE groups and not-for-profit groups, than would be the case if the development was not made.	Yes – a standard based on IFRS 16 is considered to result in a higher quality financial reporting. All leases are presented on the balance sheet of the lessee. This increases the transparency surrounding leases and makes the lessee's balance sheet better reflect the economic reality of its transactions. The lessee has the right to use the asset(s) in meeting its objectives and also has an obligation for future lease payments that cannot be avoided. It is, therefore, appropriate that these contractual arrangements be recognised on the balance sheet.

Factors in the Development Principle	**Comment**
Whether the benefits of a potential development will outweigh the costs, considering as a minimum:	
(i) *relevance to the PBE sector as a whole:* for example, where the potential development arises from the issue of a new or amended IFRS, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;	IPSAS 43 is closely aligned with IFRS 16. The type and incidence of transactions within the scope of IFRS 16 are common across the PBE sector.
(ii) *relevance to the not-for-profit or public sector sub-sectors:* whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;	The information needs of users of the financial statements of PBEs and the information needs of users of the financial statements of for-profit entities are the same regarding lease transactions.
(iii) *coherence:* the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);	The change can be adopted without destroying the coherence of the suite of PBE Standards.
(iv) *the impact on mixed groups*.	The impact on mixed groups would be positive because the PBE and for-profit requirements for leases are aligned.
In the case of a potential development arising from the issue of a new or amended IFRS, the IPSASB's likely response to the change (e.g. whether the IPSASB is developing an IPSAS on the topic).	Not applicable.

20. We recommend that we adopt the requirements of IPSAS 43 in PBE Standards for the following reasons.

    (a) IPSAS 43 is closely aligned with IFRS 16.

    (b) It would align PBE Standards with the most recent IFRS Standards and IPSAS. This would reduce mixed group issues.

    (c) The IPSASB received general support for converging with IFRS 16 while the IPSASB continues to consider the accounting for concessionary leases.

    (d) During the development of IPSAS 43 New Zealand PBE constituents were generally supportive of the introduction of a leases standard aligned with IFRS 16.

Question for the Board

Q1. Does the Board AGREE that based on the application of the PBE Policy Approach, the Board should develop proposals to adopt the requirements of IPSAS 43 in PBE Standards?

Timing of a PBE ED based on IPSAS 43

21. Once the Board agrees to incorporate a final IPSASB pronouncement into PBE Standards, the next step is to develop a domestic PBE ED for public consultation.

22. If the Board agrees to develop a PBE Standard based on IPSAS 43, the next matter for consideration is when a domestic PBE ED should be issued for public consultation. The following matters need to be considered as part of making this decision:

    (a) concessionary leases;

    (b) interaction with NZ IFRS 15; and

    (c) the lead-in time needed to prepare for the adoption of the new PBE Standard.

Concessionary leases

23. The IPSASB is considering the feedback received on the RFI to develop proposals for concessionary leases. Currently IPSAS 43 does not refer to concessionary leases and therefore applies to leases as defined in IPSAS 43 (which is the same definition as in IFRS 16) – that is, the payment for the right to use the asset.[2]

24. As mentioned in paragraph 15, the IPSASB Work Plan indicates the approval of an ED with proposals for concessionary leases in September 2022 and an amending IPSAS in December 2023. Allowing time for finalising the documents (approximately six weeks), the publication dates for the final pronouncements is expected to be October 2022 and January 2024 respectively.

25. If a PBE Standard based on IPSAS 43 is developed now, entities would be required to apply the requirements of the standard to the payment for the use of the asset but would not be required to account for the concessionary component on non-market terms of any lease.

26. In developing a PBE Standard based on IPSAS 43, we would consider New Zealand specific amendments in the scope section to make it clear that the concessionary element of a lease transaction is out of scope.

Interaction with IFRS 15

27. IFRS 16 refers to IFRS 15 *Revenue from Contracts with Customers* for the following requirements:

    (a) for a contract that contains a lease component and one or more non-lease components, the lessor allocates the consideration in the contract applying the requirements in IFRS 15; and

    (b) in determining whether the transfer of an asset in a sale and leaseback transaction is accounted for as a sale.

[2] A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

28. The IASB issued IFRS 15 in May 2014 with an effective date of annual reporting periods beginning on or after 1 January 2017. This effective date was subsequently deferred by one year to 1 January 2018. Earlier application was permitted.

29. The IASB issued IFRS 16 in January 2016 with an effective date of annual reporting periods beginning on or after 1 January 2019. Earlier application was permitted for entities that applied IFRS 15 at or before the date of initial application of IFRS 16.

30. IPSASB ED 70 *Revenue with Performance Obligations*, IPSASB ED 71 *Revenue without Performance Obligations* and IPSASB ED 72 *Transfer Expenses* were issued for comment by the IPSASB in February 2020. The requirements in ED 70 were substantially based on the requirements in IFRS 15. The IPSASB is in the process of considering the mixed feedback received on the proposals in all three EDs. This includes whether to combine the proposals in ED 70 and ED 71 and issue one IPSAS dealing with revenue.

31. ED 75 included references to ED 70 where appropriate. Consdiering the delay with the revenue project, IPSAS 43 contains references to IFRS 15 rather than references to ED 70. These references will be updated when an IPSAS dealing with revenue is issued.

32. According to the IPSASB Work Plan, final pronouncements in relation to its *Revenue and Transfer Expenses* project are not expected to be approved until the September 2022 meeting. The IPSASB is currently considering introducing requirements for the recognition of revenue and transfer expenses that are substantially different in principle than what was originally proposed in ED 70–ED 72. Therefore, in September there is a possibility that the IPSASB will decide that re-exposure is required.

33. The IPSASB acknowledged that the current situation regarding the timing of different pronouncements with linkages is not ideal – however, it was in the public interest to issue IPSAS 43 at this time. The IPSASB noted that the timing issue will be temporary and will be removed in 2025 when a new IPSAS based on IFRS 15 is also expected to have been issued.

34. Developing a PBE Standard based on IPSAS 43 ahead of introducing a PBE Standard that brings in new revenue recognition principles based on IFRS 15 would prove difficult. The New Zealand Accounting Standards Framework specifically provides for a multi-sector approach, whereby the PBE suite of Standards is intended to be applied without reference to the for-profit (IFRS based) suite of standards.

35. There is a risk that if an entity chose to early adopt the new leases standard (before the IPSAS revenue project is completed and a subsequent PBE Standard is developed), some revenue transactions may then be applied using different revenue recognition approaches.

Lead-in time needed to prepare for the adoption of the new PBE Standard

36. Both IFRS 15 and IFRS 16 had a lead-in time of at least three years given the significance of the changes introduced.

37. We are aware that the adoption of both IFRS 15 and IFRS 16 by for-profit entities needed a fair amount of time and effort by those entities. However, although revenue and lease

transactions are relevant for most entities, that workload could be spread as the standards had different effective dates.

38. Based on the IPSASB's December 2021 Work Plan, Table 2 below estimates the timing of the project and the earliest effective dates of the accounting requirements for leases assuming a three-year lead-in time.

Table 2: Completion of IPSASB *Leases* project

	IPSASB meetings		
Standard/ED	**Approved for issue**	**Deliberations**	**Effective date (earliest)**
IPSAS 43 *Leases*	Dec 2021		1 Jan 2025
IPSASB ED Concessionary Leases	Sept 2022	June–Sept 2023	
IPSAS Concessionary Leases	Dec 2023		1 Jan 2027

39. Table 3 below estimates the timing of the project and the earliest effective dates of the equivalent PBE Standards if the EDs are open for comment for 120 days and the Board allows a three-year lead in time. Black font estimates the timing and date if the Board decides to incorporate the requirements as soon as possible after the equivalent IPSASs are issued. Red font estimates the timing and date if the Board decides to wait for the IPSASB to finalise all the leases requirements.

Table 3: Estimated timeline for development of PBE IPSAS 43 *Leases*

	NZASB meetings		
Standard/ED	**Approved for issue**	**Deliberations**	**Effective date (earliest)**
ED PBE IPSAS 43 *Leases*	Apr 2022 (120 days) Mar 2023 (120 days)	Oct–Dec 2022 Aug–Nov 2023	
PBE IPSAS 43 *Leases*	Dec 2022 Dec 2023		1 Jan 2026 1 Jan 2027
ED PBE Concessionary Leases (see ED PBE IPSAS 43)	Mar/Apr 2023 (120 days)	Oct–Dec 2023	
PBE Concessionary Leases (see ED PBE IPSAS 43)	Dec 2023		1 Jan 2027

40. Although this memo focusses on leases, the timing of the IPSASB's revenue project also needs to be considered because of the interaction between the forthcoming IPSAS equivalent to IFRS 15 and IPSAS 43.

41. Table 4 is an estimate of the IPSASB's Revenue and Transfer Expenses project key milestone dates.

Table 4: Estimated timeline of IPSASB *Revenue and Transfer Expenses* project

	IPSASB meetings		
Standard/ED	**Approved for issue**	**Deliberations**	**Effective date (earliest)**
EDs 70–72 Revenue and Transfer Expenses	Feb 2020	Dec 2020–September 2022	
IPSASs Revenue and Transfer Expenses	September2022 (or decision made to re-expose)		1 Jan 2026 (estimated)

Options for developing PBE IPSAS 43

42. The options for developing PBE IPSAS 43 are listed below.

(a) **Option 1:** Develop a PBE standard based on IPSAS 43 with the intention of issuing a new standard in the short-term – expected issuance date of a domestic ED is June 2022.

We envisage the effective date being later than 2025 based on when Phase 2 of the IPSASB *Leases* project and the IPSASB *Revenue and Transfer Expenses* project are expected to be competed. This approach will allow early adoption of PBE IPSAS 43 by PBEs.

Under this option PBE IPSAS 43 would contain references to NZ IFRS 15 *Revenue from Contracts with Customers* until a new PBE Standard on revenue is issued.

(b) **Option 2:** Develop a PBE Standard based on IPSAS 43 after the IPSASB has fully completed its projects on *Leases* and *Revenue and Transfer Expenses* – estimated issuance date December 2023.[3]

43. The pros and cons of each option are outlined in Table 5 below.

Table 5: Pros and cons of each option

Option 1: Develop equivalent PBE Standards when the IPSASB issues the ED on concessionary leases	
Pros	**Cons**
• The PBE Standard would be available for early adoption. • Entities in mixed groups would have the same accounting requirements for leases. • We could propose a long lead-in time (for example, effective from 1 January 2027), which would give PBEs time to prepare for the adoption of the PBE Standard	• Changes would be needed to PBE IPSAS 43 for the requirements for concessionary leases before the mandatory effective date – this can be confusing for constituents. • Constituents would potentially have to provide feedback on two EDs dealing with leases (unless we issue the proposals for

3 The IPSASB is currently expected to issue a final pronouncement arising from its revenue project before issuing a final pronouncement on accounting for concessionary leases.

Option 1: Develop equivalent PBE Standards when the IPSASB issues the ED on concessionary leases	
Pros	**Cons**
(eg. evaluate which leases are in scope, system changes). • If the IPSASB finalises its *Revenue and Transfer Expenses* projects as expected, there could be different effective dates for the PBE Standards based on IPSAS 43 and the forthcoming IPSASs on revenue. PBEs might, therefore, not be required to adopt leases and revenue requirements at the same time (which would be less burdensome).	concessionary leases concurrently with the IPSASB). • If the IPSASB finalises its Revenue and Transfer Expenses project in June 2022, we could potentially have two domestic EDs on significant topics open for comment at the same time. This could be burdensome for PBEs. • PBEs would be required to apply relevant sections from NZ IFRS 15 *Revenue from Contracts with Customers* because IPSAS 43 refers to IFRS 15 (see paragraph 32 above).
Option 2: Wait for the IPSASB to finalise the requirements for all leases and then develop PBE IPSAS 43	
Pros	**Cons**
• Constituents would provide feedback on one ED containing all the requirements for leases and concessionary leases. This would likely be easier than commenting on two separate EDs, particularly if there are accounting requirements common to both types of leases. • Provided re-exposure is not undertaken, the IPSASB will have decided on an effective date for the revenue and transfer expenses IPSASs. We could then have an effective date for PBE IPSAS 43 which is after the effective date for the revenue standard.	• Entities in mixed groups would continue with their current consolidation practices until the PBE Standard is issued. • We could be seeking feedback on two significant domestic EDs (leases, and revenue and transfer expenses) around the same time.

44. Based on the pros and cons in Table 5 above, we recommend Option 1, that the Board develops a PBE Standard based on IPSAS 43 with the intention of issuing a new standard in the short term and a mandatory effective date later than 1 January 2025.

45. Although not ideal, PBE IPSAS 43 will, as a temporary solution, contain references to NZ IFRS 15.

46. However, this option will provide PBEs with the choice of early adopting PBE IPSAS 43 if they so desire.

Question for the Board

Q2. Does the Board AGREE to develop a PBE Standard based on IPSAS 43 with the intention of issuing a new standard in the short term?

Next steps

47. Depending on the Board's decision regarding Q2, an ED and accompanying Invitation to Comment will be drafted for consideration at a future meeting.

Attachments

Agenda item 9.2: IPSAS 43 *Leases*

Final Pronouncement
January 2022

IPSAS®

International Public Sector Accounting Standard®

IPSAS 43, *Leases*

IPSASB
International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (IPSAS™) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general-purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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IPSAS 43, LEASES

CONTENTS

Objective

1. **This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.**

2. An entity shall consider the terms and conditions of contracts and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard consistently to contracts with similar characteristics and in similar circumstances.

Scope

3. An entity shall apply this Standard to all leases, including leases of right-of-use assets in a sublease, except for:

   (a) Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;

   (b) Leases of biological assets within the scope of IPSAS 27, *Agriculture* held by a lessee;

   (c) Service concession arrangements within the scope of IPSAS 32, *Service Concession Arrangements: Grantor*; and

   (d) Rights held by a lessee under licensing agreements within the scope of IPSAS 31, *Intangible Assets* for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

4. A lessee may, but is not required to, apply this Standard to leases of intangible assets other than those described in paragraph 3(d).

Definitions

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

   The <u>commencement date of the lease</u> (commencement date) is the date on which a lessor makes an underlying asset available for use by a lessee.

   A <u>contract</u>, for the purpose of this Standard, is an agreement between two or more parties that creates enforceable rights and obligations.

   <u>Economic life</u> is either:

   (a) **The period over which an asset is expected to be economically usable by one or more users; or**

   (b) **The number of production or similar units expected to be obtained from an asset by one or more users.**

   The <u>effective date of the modification</u> is the date when both parties agree to a lease modification.

   <u>Fair value</u>, for the purpose of applying the lessor accounting requirements in this Standard, is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

Fixed payments are payments made by a lessee to a lessor for the right to use an underlying asset during the lease term, excluding variable lease payments.

Gross investment in the lease is the sum of:

(a) **The lease payments receivable by a lessor under a finance lease; and**

(b) **Any unguaranteed residual value accruing to the lessor.**

The inception date of the lease (inception date) is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease.

Initial direct costs are incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained.

The interest rate implicit in the lease is the rate of interest that causes the present value of (a) the lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.

A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Lease incentives are payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee.

Lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

Lease payments are payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:

(a) **Fixed payments (including in-substance fixed payments), less any lease incentives;**

(a) **Variable lease payments that depend on an index or a rate;**

(b) **The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and**

(c) **Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.**

For the lessee, lease payments also include amounts expected to be payable by the lessee under residual value guarantees. Lease payments do not include payments allocated to non-lease components of a contract, unless the lessee elects to combine non-lease components with a lease component and to account for them as a single lease component.

For the lessor, lease payments also include any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. Lease payments do not include payments allocated to non-lease components.

The lease term is the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

(a) **Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and**

(b) **Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.**

A lessee is an entity that obtains the right to use an underlying asset for a period of time in exchange for consideration.

The lessee's incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

A lessor is an entity that provides the right to use an underlying asset for a period of time in exchange for consideration.

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

Operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Optional lease payments are payments to be made by a lessee to a lessor for the right to use an underlying asset during periods covered by an option to extend or terminate a lease that are not included in the lease term.

Period of use is the total period of time that an asset is used to fulfil a contract with a customer (including any non-consecutive periods of time).

The residual value guarantee is a guarantee made to a lessor by a party unrelated to the lessor that the value (or part of the value) of an underlying asset at the end of a lease will be at least a specified amount.

A right-of-use asset is an asset that represents a lessee's right to use an underlying asset for the lease term.

A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.

A sublease is a transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and lessee remains in effect.

Underlying asset is an asset that is the subject of a lease, for which the right to use that asset has been provided by a lessor to a lessee.

Unearned finance revenue is the difference between:

(a) **The gross investment in the lease; and**

(b) **The net investment in the lease.**

Unguaranteed residual value is that portion of the residual value of the underlying asset, the realization of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.

Variable lease payments are the portion of payments made by a lessee to a lessor for the right to use an underlying asset during the lease term that varies because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately. The defined term useful life is used in this Standard with the same meaning as in IPSAS 17, *Property, Plant, and Equipment*.

Recognition Exemptions (see paragraphs AG4–AG9)

6. A lessee may elect not to apply the requirements in paragraphs 23–52 to:

   (a) Short-term leases; and

   (b) Leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9).

7. If a lessee elects not to apply the requirements in paragraphs 23–52 to either short-term leases or leases for which the underlying asset is of low value, the lessee shall recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis. The lessee shall apply another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

8. If a lessee accounts for short-term leases applying paragraph 7, the lessee shall consider the lease to be a new lease for the purposes of this Standard if:

   (a) There is a lease modification; or

   (b) There is any change in the lease term (for example, the lessee exercises an option not previously included in its determination of the lease term).

9. The election for short-term leases shall be made by class of underlying asset to which the right of use relates. A class of underlying asset is a grouping of underlying assets of a similar nature and use in an entity's operations. The election for leases for which the underlying asset is of low value can be made on a lease-by-lease basis.

Identifying a Lease (see paragraphs AG10–AG34)

10. **At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Paragraphs AG10–AG32 set out guidance on the assessment of whether a contract is, or contains, a lease.**

11. A period of time may be described in terms of the amount of use of an identified asset (for example, the number of production units that an item of equipment will be used to produce).

12. An entity shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

Separating Components of a Contract

13. For a contract that is, or contains, a lease, an entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless the entity applies the practical expedient in paragraph 16. Paragraphs AG33–AG34 set out guidance on separating components of a contract.

Lessee

14. For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

15. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the lessee shall estimate the stand-alone price, maximizing the use of observable information.

16. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. A lessee shall not apply this practical expedient to embedded derivatives that meet the criteria in paragraph 49 of IPSAS 41, *Financial Instruments*.

17. Unless the practical expedient in paragraph 16 is applied, a lessee shall account for non-lease components applying other applicable Standards.

Lessor

18. For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying IFRS 15 *Revenue from Contracts with Customers*.

Lease Term (see paragraphs AG35–AG42)

19. An entity shall determine the lease term as the non-cancellable period of a lease, together with both:

    (a) Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

    (b) Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

20. In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, as described in paragraphs AG38–AG41.

21. A lessee shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:

(a) Is within the control of the lessee; and

(b) Affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term (as described in paragraph AG42).

22. An entity shall revise the lease term if there is a change in the non-cancellable period of a lease. For example, the non-cancellable period of a lease will change if:

(a) The lessee exercises an option not previously included in the entity's determination of the lease term;

(b) The lessee does not exercise an option previously included in the entity's determination of the lease term;

(c) An event occurs that contractually obliges the lessee to exercise an option not previously included in the entity's determination of the lease term; or

(d) An event occurs that contractually prohibits the lessee from exercising an option previously included in the entity's determination of the lease term.

Lessee

Recognition

23. **At the commencement date, a lessee shall recognize a right-of-use asset and a lease liability.**

Measurement

Initial Measurement

Initial Measurement of the Right-of-Use Asset

24. **At the commencement date, a lessee shall measure the right-of-use asset at cost.**

25. The cost of the right-of-use asset shall comprise:

(a) The amount of the initial measurement of the lease liability, as described in paragraph 27;

(b) Any lease payments made at or before the commencement date, less any lease incentives received;

(c) Any initial direct costs incurred by the lessee; and

(d) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

26. A lessee shall recognize the costs described in paragraph 25(d) as part of the cost of the right-of-use asset when it incurs an obligation for those costs. A lessee applies IPSAS 12, *Inventories* to costs that are incurred during a particular period as a consequence of having used the right-of-use asset to produce inventories during that period. The obligations for such costs accounted for

applying this Standard or IPSAS 12 are recognized and measured applying IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*.

Initial Measurement of the Lease Liability

27. **At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.**

28. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

    (a) Fixed payments (including in-substance fixed payments as described in paragraph AG43), less any lease incentives receivable;

    (b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (as described in paragraph 29);

    (c) Amounts expected to be payable by the lessee under residual value guarantees;

    (d) The exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraphs AG38–AG41); and

    (e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

29. Variable lease payments that depend on an index or a rate described in paragraph 28(b) include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates.

Subsequent Measurement

Subsequent Measurement of the Right-of-Use Asset

30. **After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies either of the measurement models described in paragraphs 35 and 36**.

Cost Model

31. To apply a cost model, a lessee shall measure the right-of-use asset at cost:

    (a) Less any accumulated depreciation and any accumulated impairment losses; and

    (b) Adjusted for any remeasurement of the lease liability specified in paragraph 37(c).

32. A lessee shall apply the depreciation requirements in IPSAS 17 in depreciating the right-of-use asset, subject to the requirements in paragraph 33.

33. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the

commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

34. A lessee shall apply IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets,* as appropriate, to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Other Measurement Models

35. If a lessee applies the fair value model in IPSAS 16, *Investment Property* to its investment property, the lessee shall also apply that fair value model to right-of-use assets that meet the definition of investment property in IPSAS 16.

36. If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in IPSAS 17, a lessee may elect to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment.

Subsequent Measurement of the Lease Liability

37. **After the commencement date, a lessee shall measure the lease liability by:**

    (a) **Increasing the carrying amount to reflect interest on the lease liability;**

    (b) **Reducing the carrying amount to reflect the lease payments made; and**

    (c) **Remeasuring the carrying amount to reflect any reassessment or lease modifications specified in paragraphs 40–47, or to reflect revised in-substance fixed lease payments (see paragraph AG43).**

38. Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate described in paragraph 27, or if applicable the revised discount rate described in paragraph 42, paragraph 44 or paragraph 46(c).

39. After the commencement date, a lessee shall recognize in surplus or deficit, unless the costs are included in the carrying amount of another asset applying other applicable Standards, both:

    (a) Interest on the lease liability; and

    (b) Variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

Reassessment of the Lease Liability

40. After the commencement date, a lessee shall apply paragraphs 41–44 to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognize any remaining amount of the remeasurement in surplus or deficit.

41. A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:

(a) There is a change in the lease term, as described in paragraphs 21–22. A lessee shall determine the revised lease payments on the basis of the revised lease term; or

(b) There is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances described in paragraphs 21–22 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

42. In applying paragraph 41, a lessee shall determine the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

43. A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:

(a) There is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.

(b) There is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments.

44. In applying paragraph 43, a lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the lessee shall use a revised discount rate that reflects changes in the interest rate.

Lease Modifications

45. A lessee shall account for a lease modification as a separate lease if both:

(a) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

46. For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification a lessee shall:

(a) Allocate the consideration in the modified contract applying paragraphs 14–17;

(b) Determine the lease term of the modified lease applying paragraphs 19–20; and

(c) Remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

47. For a lease modification that is not accounted for as a separate lease, the lessee shall account for the remeasurement of the lease liability by:

    (a) Decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognize in surplus or deficit any gain or loss relating to the partial or full termination of the lease.

    (b) Making a corresponding adjustment to the right-of-use asset for all other lease modifications.

48. As a practical expedient, a lessee may elect not to assess whether a rent concession that meets the conditions in paragraph 49 is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification.

49. The practical expedient in paragraph 48 applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

    (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

    (b) Any reduction in lease payments affects only payments originally due on or before June 30, 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before June 30, 2022 and increased lease payments that extend beyond June 30, 2022); and

    (c) There is no substantive change to other terms and conditions of the lease.

Presentation

50. A lessee shall either present in the statement of financial position, or disclose in the notes:

    (a) Right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:

        (i) Include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and

        (ii) Disclose which line items in the statement of financial position include those right-of-use assets.

    (b) Lease liabilities separately from other liabilities. If the lessee does not present lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those liabilities.

51. The requirement in paragraph 50(a) does not apply to right-of-use assets that meet the definition of investment property, which shall be presented in the statement of financial position as investment property.

52. In the statement of financial performance, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which paragraph 102(b) of IPSAS 1, *Presentation of Financial Statements* requires to be presented separately in the statement of financial performance.

53. In the cash flow statement, a lessee shall classify:

    (a) Cash payments for the principal portion of the lease liability within financing activities;

    (b) Cash payments for the interest portion of the lease liability applying the requirements in IPSAS 2, *Cash Flow Statement* for interest paid; and

    (c) Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

Disclosure

54. **The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and cash flow statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 55–64 specify requirements on how to meet this objective.**

55. A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.

56. A lessee shall disclose the following amounts for the reporting period:

    (a) Depreciation charge for right-of-use assets by class of underlying asset;

    (b) Interest expense on lease liabilities;

    (c) The expense relating to short-term leases accounted for applying paragraph 7. This expense need not include the expense relating to leases with a lease term of one month or less;

    (d) The expense relating to leases of low-value assets accounted for applying paragraph 7. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 56(c);

    (e) The expense relating to variable lease payments not included in the measurement of lease liabilities;

    (f) Revenue from subleasing right-of-use assets;

    (g) Total cash outflow for leases;

    (h) Additions to right-of-use assets;

    (i) Gains or losses arising from sale and leaseback transactions; and

    (j) The carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.

57. A lessee shall provide the disclosures specified in paragraph 56 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.

58. A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 7 if the portfolio of short-term leases to which it is committed at the end of the

reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 56(c) relates.

59. If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in IPSAS 16. In that case, a lessee is not required to provide the disclosures in paragraph 56(a), 56(f), 56(h) or 56(j) for those right-of-use assets.

60. If a lessee measures right-of-use assets at revalued amounts applying IPSAS 17, the lessee shall disclose the information required by paragraph 92 of IPSAS 17 for those right-of-use assets.

61. A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 46 and AG12 of IPSAS 30, *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities.

62. In addition to the disclosures required in paragraphs 56–61, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 54 (as described in paragraph AG49). This additional information may include, but is not limited to, information that helps users of financial statements to assess:

    (a) The nature of the lessee's leasing activities;

    (b) Future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:

        (i) Variable lease payments (as described in paragraph AG50);

        (ii) Extension options and termination options (as described in paragraph AG51);

        (iii) Residual value guarantees (as described in paragraph AG52); and

        (iv) Leases not yet commenced to which the lessee is committed.

    (c) Restrictions or covenants imposed by leases; and

    (d) Sale and leaseback transactions (as described in paragraph AG53).

63. A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 7 shall disclose that fact.

64. If a lessee applies the practical expedient in paragraph 48, the lessee shall disclose:

    (a) That it has applied the practical expedient to all rent concessions that meet the conditions in paragraph 49 or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient (see paragraph 2); and

    (b) The amount recognized in surplus or deficit for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient in paragraph 48.

Lessor

Classification of Leases (see paragraphs AG54–AG59)

65. **A lessor shall classify each of its leases as either an operating lease or a finance lease.**

66. **A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if**

it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

67. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

    (a) The lease transfers ownership of the underlying asset to the lessee by the end of the lease term;

    (b) The lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;

    (c) The lease term is for the major part of the economic life of the underlying asset even if title is not transferred;

    (d) At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and

    (e) The underlying asset is of such a specialized nature that only the lessee can use it without major modifications.

68. Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

    (a) If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

    (b) Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and

    (c) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

69. The examples and indicators in paragraphs 67–68 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset, the lease is classified as an operating lease. For example, this may be the case if ownership of the underlying asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are variable lease payments, as a result of which the lessor does not transfer substantially all such risks and rewards.

70. Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

Finance Leases

Recognition and Measurement

71. **At the commencement date, a lessor shall recognize assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.**

Initial Measurement

72. The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sublease, if the interest rate implicit in the sublease cannot be readily determined, an intermediate lessor may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease.

73. Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of revenue recognized over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the net investment in the lease; there is no need to add them separately.

Initial Measurement of the Lease Payments Included in the Net Investment in the Lease

74. At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

    (a) Fixed payments (including in-substance fixed payments as described in paragraph AG43), less any lease incentives payable;

    (b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

    (c) Any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;

    (d) The exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraph AG38); and

    (e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent Measurement

75. **A lessor shall recognize finance revenue over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.**

76. A lessor aims to allocate finance revenue over the lease term on a systematic and rational basis. A lessor shall apply the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance revenue.

77. A lessor shall apply the derecognition and impairment requirements in IPSAS 41 to the net investment in the lease. A lessor shall regularly review estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the lessor shall revise the revenue allocation over the lease term and recognize immediately any reduction in respect of amounts accrued.

78. A lessor that classifies an asset under a finance lease as held for sale (or includes it in a disposal group that is classified as held for sale) applying the relevant national or international accounting standard dealing with non-current assets held for sale and discontinued operations shall account for the asset in accordance with that Standard.

Lease Modifications

79. A lessor shall account for a modification to a finance lease as a separate lease if both:

    (a) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and

    (b) The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

80. For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows:

    (a) If the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall:

        (i) Account for the lease modification as a new lease from the effective date of the modification; and

        (ii) Measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.

    (b) Otherwise, the lessor shall apply the requirements of IPSAS 41.

Operating Leases

Recognition and Measurement

81. **A lessor shall recognize lease payments from operating leases as revenue on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.**

82. A lessor shall recognize costs, including depreciation, incurred in earning the lease revenue as an expense.

83. A lessor shall add initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognize those costs as an expense over the lease term on the same basis as the lease revenue.

84. The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor's normal depreciation policy for similar assets. A lessor shall calculate depreciation in accordance with IPSAS 17 and IPSAS 31.

85. A lessor shall apply IPSAS 21 or IPSAS 26, as appropriate, to determine whether an underlying asset subject to an operating lease is impaired and to account for any impairment loss identified.

Lease Modifications

86. A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Presentation

87. A lessor shall present underlying assets subject to operating leases in its statement of financial position according to the nature of the underlying asset.

Disclosure

88. **The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and cash flow statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. Paragraphs 89–96 specify requirements on how to meet this objective.**

89. A lessor shall disclose the following amounts for the reporting period:

    (a) For finance leases:

        (i) Selling surplus or deficit;

        (ii) Finance revenue on the net investment in the lease; and

        (iii) Revenue relating to variable lease payments not included in the measurement of the net investment in the lease.

    (b) For operating leases, lease revenue, separately disclosing revenue relating to variable lease payments that do not depend on an index or a rate.

90. A lessor shall provide the disclosures specified in paragraph 89 in a tabular format, unless another format is more appropriate.

91. A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 88. This additional information includes, but is not limited to, information that helps users of financial statements to assess:

    (a) The nature of the lessor's leasing activities; and

    (b) How the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

Finance Leases

92. A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.

93. A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance revenue relating to the lease payments receivable and any discounted unguaranteed residual value.

Operating Leases

94. For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of IPSAS 17. In applying the disclosure requirements in IPSAS 17, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by IPSAS 17 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.

95. A lessor shall apply the disclosure requirements in IPSAS 16, IPSAS 21 or IPSAS 26, as appropriate, IPSAS 27 and IPSAS 31 for assets subject to operating leases.

96. A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

Sale and Leaseback Transactions

97. If an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying paragraphs 98–102.

Assessing Whether the Transfer of the Asset is a Sale

98. An entity shall apply the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset.

Transfer of the Asset is a Sale

99. If the transfer of an asset by the seller-lessee satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset:

    (a) The seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognize only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

    (b) The buyer-lessor shall account for the purchase of the asset applying applicable Standards, and for the lease applying the lessor accounting requirements in this Standard.

100. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:

    (a) Any below-market terms shall be accounted for as a prepayment of lease payments; and

    (b) Any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

101. The entity shall measure any potential adjustment required by paragraph 100 on the basis of the more readily determinable of:

    (a) The difference between the fair value of the consideration for the sale and the fair value of the asset; and

(b) The difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

Transfer of the Asset is not a Sale

102. If the transfer of an asset by the seller-lessee does not satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset:

(a) The seller-lessee shall continue to recognize the transferred asset and shall recognize a financial liability equal to the transfer proceeds. It shall account for the financial liability applying IPSAS 41.

(b) The buyer-lessor shall not recognize the transferred asset and shall recognize a financial asset equal to the transfer proceeds. It shall account for the financial asset applying IPSAS 41.

Effective Date and Transition

Effective Date

103. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted for entities that apply IPSAS 41, at or before the date of initial application of this Standard. If an entity applies this Standard earlier, it shall disclose that fact.**

104. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* 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 IPSASs.

105. If a lessee elects to apply this Standard early, a lessee shall apply paragraphs 48, 49, 64, 124, 125 and 126 for annual financial statements covering periods beginning on or after February 1, 2022. Earlier application is permitted, including in financial statements not authorized for issue at January 31, 2022.

Transition

106. For the purposes of the requirements in paragraphs 103–123, the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard.

Definition of a Lease

107. As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the entity is permitted:

(a) To apply this Standard to contracts that were previously identified as leases applying IPSAS 13, *Leases*. The entity shall apply the transition requirements in paragraphs 109–122 to those leases.

(b) To not apply this Standard to contracts that were not previously identified as containing a lease applying IPSAS 13.

108. If an entity chooses the practical expedient in paragraph 107, it shall disclose that fact and apply the practical expedient to all of its contracts. As a result, the entity shall apply the requirements in

paragraphs 10–12 only to contracts entered into (or changed) on or after the date of initial application.

Lessees

109. A lessee shall apply this Standard to its leases either:

   (a) Retrospectively to each prior reporting period presented applying IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; or

   (b) Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application in accordance with paragraphs 111–117.

110. A lessee shall apply the election described in paragraph 109 consistently to all of its leases in which it is a lessee.

111. If a lessee elects to apply this Standard in accordance with paragraph 109(b), the lessee shall not restate comparative information. Instead, the lessee shall recognize the cumulative effect of initially applying this Standard as an adjustment to the opening balance of accumulated surpluses/(deficits) (or other component of net assets/equity, as appropriate) at the date of initial application.

Leases Previously Classified as Operating Leases

112. If a lessee elects to apply this Standard in accordance with paragraph 109(b), the lessee shall:

   (a) Recognize a lease liability at the date of initial application for leases previously classified as an operating lease applying IPSAS 13. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

   (b) Recognize a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IPSAS 13. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:

      (i) Its carrying amount as if the Standard had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application; or

      (ii) An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

   (c) Apply IPSAS 21 or IPSAS 26, as appropriate, to right-of-use assets at the date of initial application, unless the lessee applies the practical expedient in paragraph 114(b).

113. Notwithstanding the requirements in paragraph 112, for leases previously classified as operating leases applying IPSAS 13, a lessee:

   (a) Is not required to make any adjustments on transition for leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9) that will be accounted for applying paragraph 7. The lessee shall account for those leases applying this Standard from the date of initial application.

   (b) Is not required to make any adjustments on transition for leases previously accounted for as investment property using the fair value model in IPSAS 16. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IPSAS 16 and this Standard from the date of initial application.

(c) Shall measure the right-of-use asset at fair value at the date of initial application for leases previously accounted for as operating leases applying IPSAS 13 and that will be accounted for as investment property using the fair value model in IPSAS 16 from the date of initial application. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IPSAS 16 and this Standard from the date of initial application.

114. A lessee may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph 109(b) to leases previously classified as operating leases applying IPSAS 13. A lessee is permitted to apply these practical expedients on a lease-by-lease basis:

(a) A lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

(b) A lessee may rely on its assessment of whether leases are onerous applying IPSAS 19 immediately before the date of initial application as an alternative to performing an impairment review. If a lessee chooses this practical expedient, the lessee shall adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognized in the statement of financial position immediately before the date of initial application.

(c) A lessee may elect not to apply the requirements in paragraph 112 to leases for which the lease term ends within 12 months of the date of initial application. In this case, a lessee shall:

(i) Account for those leases in the same way as short-term leases as described in paragraph 7; and

(ii) Include the cost associated with those leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.

(d) A lessee may exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

(e) A lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Leases Previously Classified as Finance Leases

115. If a lessee elects to apply this Standard in accordance with paragraph 109(b), for leases that were classified as finance leases applying IPSAS 13, the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IPSAS 13. For those leases, a lessee shall account for the right-of-use asset and the lease liability applying this Standard from the date of initial application.

Disclosure

116. If a lessee elects to apply this Standard in accordance with paragraph 109(b), the lessee shall disclose information about initial application required by paragraph 33 of IPSAS 3, except for the

information specified in paragraph 33(f) of IPSAS 3. Instead of the information specified in paragraph 33(f) of IPSAS 3, the lessee shall disclose:

(a) The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the statement of financial position at the date of initial application; and

(b) An explanation of any difference between:

  (i) Operating lease commitments disclosed applying IPSAS 13 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application as described in paragraph 112(a); and

  (ii) Lease liabilities recognized in the statement of financial position at the date of initial application.

117. If a lessee uses one or more of the specified practical expedients in paragraph 114, it shall disclose that fact.

Lessors

118. Except as described in paragraph 119, a lessor is not required to make any adjustments on transition for leases in which it is a lessor and shall account for those leases applying this Standard from the date of initial application.

119. An intermediate lessor shall:

(a) Reassess subleases that were classified as operating leases applying IPSAS 13 and are ongoing at the date of initial application, to determine whether each sublease should be classified as an operating lease or a finance lease applying this Standard. The intermediate lessor shall perform this assessment at the date of initial application on the basis of the remaining contractual terms and conditions of the head lease and sublease at that date.

(b) For subleases that were classified as operating leases applying IPSAS 13 but finance leases applying this Standard, account for the sublease as a new finance lease entered into at the date of initial application.

Sale and Leaseback Transactions Before the Date of Initial Application

120. An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale.

121. If a sale and leaseback transaction was accounted for as a sale and a finance lease applying IPSAS 13, the seller-lessee shall:

(a) Account for the leaseback in the same way as it accounts for any other finance lease that exists at the date of initial application; and

(b) Continue to amortize any gain on sale over the lease term.

122. If a sale and leaseback transaction was accounted for as a sale and operating lease applying IPSAS 13, the seller-lessee shall:

(a) Account for the leaseback in the same way as it accounts for any other operating lease that exists at the date of initial application; and

(b) Adjust the leaseback right-of-use asset for any deferred gains or losses that relate to off-market terms recognized in the statement of financial position immediately before the date of initial application.

Amounts Previously Recognized in Respect of Public Sector Combinations

123. If a lessee previously recognized an asset or a liability applying IPSAS 40, *Public Sector Combinations* relating to favorable or unfavorable terms of an operating lease acquired as part of a public sector combination, the lessee shall derecognize that asset or liability and adjust the carrying amount of the right-of-use asset by a corresponding amount at the date of initial application.

COVID-19-Related Rent Concessions for Lessees

124. A lessee shall apply paragraphs 48, 49, and 64 retrospectively, recognizing the cumulative effect of initially applying that amendment as an adjustment to the opening balance of accumulated surpluses/(deficits) (or other component of net assets/equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.

125. In the reporting period in which a lessee first applies paragraph 48, 49, and 64, a lessee is not required to disclose the information required by paragraph 33(f) of IPSAS 3.

126. Applying paragraph 2 of this Standard, a lessee shall apply the practical expedient in paragraph 48 consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient as a result of the lessee applying the COVID-19-Related Rent Concessions requirements.

Withdrawal and Replacement of IPSAS 13 (December 2006)

127. This Standard supersedes IPSAS 13 issued in 2006. IPSAS 13 remains applicable until this Standard is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 43.

Portfolio Application

AG1. This Standard specifies the accounting for an individual lease. However, as a practical expedient, an entity may apply this Standard to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual leases within that portfolio. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Combination of Contracts

AG2. In applying this Standard, an entity shall combine two or more contracts entered into at or near the same time with the same counterparty (or related parties of the counterparty), and account for the contracts as a single contract if one or more of the following criteria are met:

(a) The contracts are negotiated as a package with an overall commercial objective that cannot be understood without considering the contracts together;

(b) The amount of consideration to be paid in one contract depends on the price or performance of the other contract; or

(c) The rights to use underlying assets conveyed in the contracts (or some rights to use underlying assets conveyed in each of the contracts) form a single lease component as described in paragraph AG33.

Definitions (see paragraph 5)

AG3. An entity considers the substance rather than the legal form of an arrangement in determining whether it is a "contract" for the purposes of this Standard. Contracts, for the purposes of this Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):

- Contracts involve willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party; and
- The remedy for non-performance is enforceable by law.

Recognition Exemption: Leases for Which the Underlying Asset is of Low Value (paragraphs 6–9)

AG4. Except as specified in paragraph AG8, this Standard permits a lessee to apply paragraph 7 to account for leases for which the underlying asset is of low value. A lessee shall assess the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased.

AG5. The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify for the accounting treatment in paragraph 7 regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee. Accordingly, different lessees are expected to reach similar conclusions about whether a particular underlying asset is of low value.

AG6. An underlying asset can be of low value only if:

(a) The lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and

(b) The underlying asset is not highly dependent on, or highly interrelated with, other assets.

AG7. A lease of an underlying asset does not qualify as a lease of a low-value asset if the nature of the asset is such that, when new, the asset is typically not of low value. For example, leases of cars would not qualify as leases of low-value assets because a new car would typically not be of low value.

AG8. If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset.

AG9. Examples of low-value underlying assets can include tablet and personal computers, small items of office furniture and telephones.

Identifying a Lease (paragraphs 10–12)

AG10. To assess whether a contract conveys the right to control the use of an identified asset (see paragraphs AG14–AG21) for a period of time, an entity shall assess whether, throughout the period of use, the customer has both of the following:

(a) The right to obtain substantially all of the economic benefits or service potential from use of the identified asset (as described in paragraphs AG22–AG24); and

(b) The right to direct the use of the identified asset (as described in paragraphs AG25–AG31).

AG11. If the customer has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.

AG12. A contract to receive goods or services may be entered into by a joint arrangement, or on behalf of a joint arrangement, as defined in IPSAS 37, *Joint Arrangements*. In this case, the joint arrangement is considered to be the customer in the contract. Accordingly, in assessing whether such a contract contains a lease, an entity shall assess whether the joint arrangement has the right to control the use of an identified asset throughout the period of use.

AG13. An entity shall assess whether a contract contains a lease for each potential separate lease component. Refer to paragraph AG33 for guidance on separate lease components.

Identified Asset

AG14. An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.

Substantive Substitution Rights

AG15. Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use. A supplier's right to substitute an asset is substantive only if both of the following conditions exist:

(a) The supplier has the practical ability to substitute alternative assets throughout the period of use (for example, the customer cannot prevent the supplier from substituting the asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and

(b) The supplier would benefit economically from the exercise of its right to substitute the asset (i.e. the economic benefits associated with substituting the asset are expected to exceed the costs associated with substituting the asset).

AG16. If the supplier has a right or an obligation to substitute the asset only on or after either a particular date or the occurrence of a specified event, the supplier's substitution right is not substantive because the supplier does not have the practical ability to substitute alternative assets throughout the period of use.

AG17. An entity's evaluation of whether a supplier's substitution right is substantive is based on facts and circumstances at inception of the contract and shall exclude consideration of future events that, at inception of the contract, are not considered likely to occur. Examples of future events that, at inception of the contract, would not be considered likely to occur and, thus, should be excluded from the evaluation include:

(a) An agreement by a future customer to pay an above market rate for use of the asset;

(b) The introduction of new technology that is not substantially developed at inception of the contract;

(c) A substantial difference between the customer's use of the asset, or the performance of the asset, and the use or performance considered likely at inception of the contract; and

(d) A substantial difference between the market price of the asset during the period of use, and the market price considered likely at inception of the contract.

AG18. If the asset is located at the customer's premises or elsewhere, the costs associated with substitution are generally higher than when located at the supplier's premises and, therefore, are more likely to exceed the benefits associated with substituting the asset.

AG19. The supplier's right or obligation to substitute the asset for repairs and maintenance, if the asset is not operating properly or if a technical upgrade becomes available does not preclude the customer from having the right to use an identified asset.

AG20. If the customer cannot readily determine whether the supplier has a substantive substitution right, the customer shall presume that any substitution right is not substantive.

Portions of Assets

AG21. A capacity portion of an asset is an identified asset if it is physically distinct (for example, a floor of a building). A capacity or other portion of an asset that is not physically distinct (for example, a capacity portion of a fiber optic cable) is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits or service potential from use of the asset.

Right to Obtain Economic Benefits or Service Potential from Use

AG22. To control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits or service potential from use of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits or service potential from use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits or service potential from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits or service potential from using the asset that could be realized from a commercial transaction with a third party.

AG23. When assessing the right to obtain substantially all of the economic benefits or service potential from use of an asset, an entity shall consider the economic benefits or service potential that result from use of the asset within the defined scope of a customer's right to use the asset (see paragraph AG31). For example:

(a) If a contract limits the use of a motor vehicle to only one particular territory during the period of use, an entity shall consider only the economic benefits or service potential from use of the motor vehicle within that territory, and not beyond.

(b) If a contract specifies that a customer can drive a motor vehicle only up to a particular number of miles during the period of use, an entity shall consider only the economic benefits or service potential from use of the motor vehicle for the permitted mileage, and not beyond.

AG24. If a contract requires a customer to pay the supplier or another party a portion of the cash flows derived from use of an asset as consideration, those cash flows paid as consideration shall be considered to be part of the economic benefits that the customer obtains from use of the asset. For example, if the customer is required to pay the supplier a percentage of sales from use of space as consideration for that use, that requirement does not prevent the customer from having the right to obtain substantially all of the economic benefits from use of the space. This is because the cash flows arising from those sales are considered to be economic benefits that the customer obtains from use of the space, a portion of which it then pays to the supplier as consideration for the right to use that space.

Right to Direct the Use

AG25. A customer has the right to direct the use of an identified asset throughout the period of use only if either:

(a) The customer has the right to direct how and for what purpose the asset is used throughout the period of use (as described in paragraphs AG26–AG31); or

(b) The relevant decisions about how and for what purpose the asset is used are predetermined and:

(i) The customer has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions; or

(ii) The customer designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

How and For What Purpose the Asset is Used

AG26. A customer has the right to direct how and for what purpose the asset is used if, within the scope of its right of use defined in the contract, it can change how and for what purpose the asset is used throughout the period of use. In making this assessment, an entity considers the decision-making rights that are most relevant to changing how and for what purpose the asset is used throughout the period of use. Decision-making rights are relevant when they affect the economic benefits or service potential to be derived from use. The decision-making rights that are most relevant are likely to be different for different contracts, depending on the nature of the asset and the terms and conditions of the contract.

AG27. Examples of decision-making rights that, depending on the circumstances, grant the right to change how and for what purpose the asset is used, within the defined scope of the customer's right of use, include:

(a) Rights to change the type of output that is produced by the asset (for example, to decide whether to use a shipping container to transport goods or for storage, or to decide upon the mix of products sold from a tourism outlet);

(b) Rights to change when the output is produced (for example, to decide when an item of machinery or a power plant will be used);

(c) Rights to change where the output is produced (for example, to decide upon the destination of a truck or a ship, or to decide where an item of equipment is used); and

(d) Rights to change whether the output is produced, and the quantity of that output (for example, to decide whether to produce energy from a power plant and how much energy to produce from that power plant).

AG28. Examples of decision-making rights that do not grant the right to change how and for what purpose the asset is used include rights that are limited to operating or maintaining the asset. Such rights can be held by the customer or the supplier. Although rights such as those to operate or maintain an asset are often essential to the efficient use of an asset, they are not rights to direct how and for what purpose the asset is used and are often dependent on the decisions about how and for what purpose the asset is used. However, rights to operate an asset may grant the customer the right to direct the use of the asset if the relevant decisions about how and for what purpose the asset is used are predetermined (see paragraph AG25(b)(i)).

Decisions Determined During and Before the Period of Use

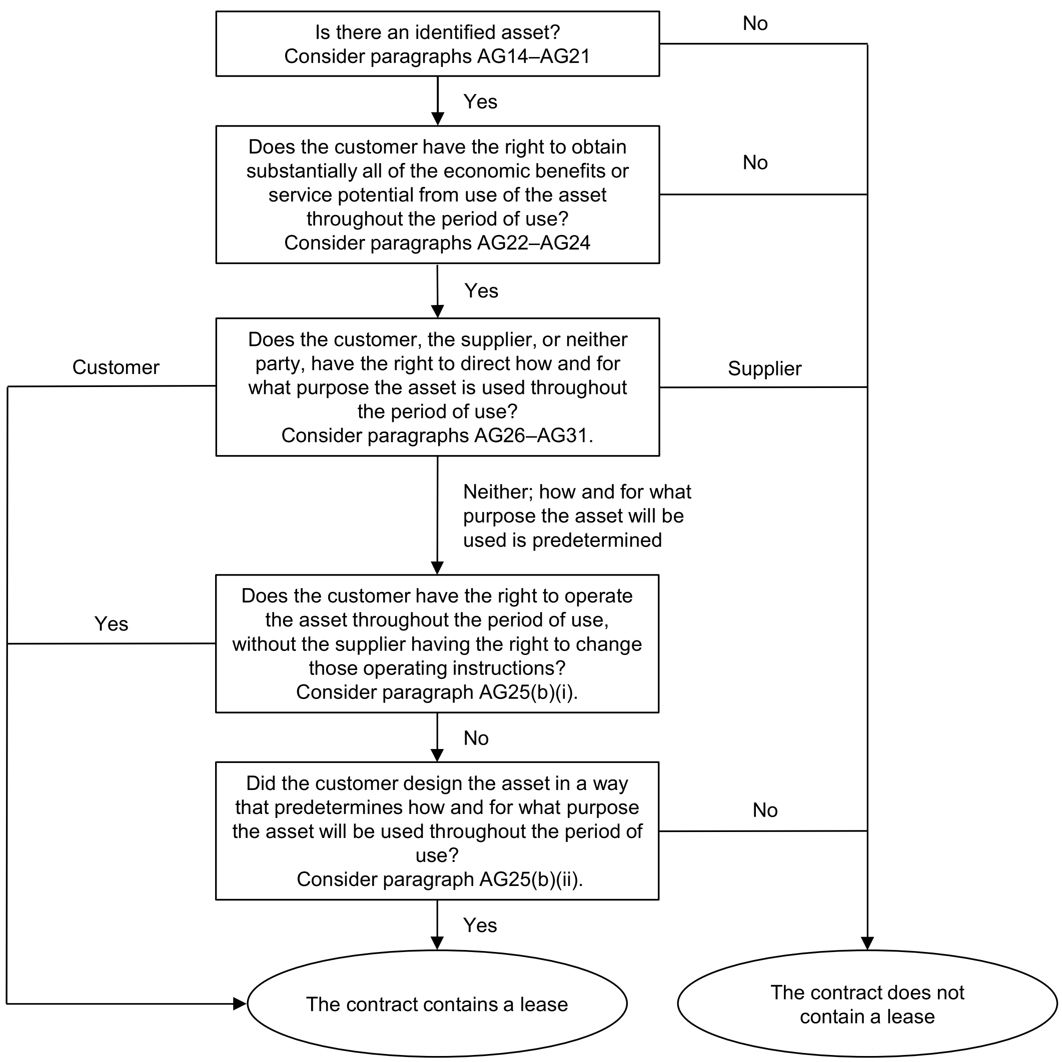
AG29. The relevant decisions about how and for what purpose the asset is used can be predetermined in a number of ways. For example, the relevant decisions can be predetermined by the design of the asset or by contractual restrictions on the use of the asset.

AG30. In assessing whether a customer has the right to direct the use of an asset, an entity shall consider only rights to make decisions about the use of the asset during the period of use, unless the customer designed the asset (or specific aspects of the asset) as described in paragraph AG25(b)(ii). Consequently, unless the conditions in paragraph AG25(b)(ii) exist, an entity shall not consider decisions that are predetermined before the period of use. For example, if a customer is able only to specify the output of an asset before the period of use, the customer does not have the right to direct the use of that asset. The ability to specify the output in a contract before the period of use, without any other decision-making rights relating to the use of the asset, gives a customer the same rights as any customer that purchases goods or services.

Protective Rights

AG31. A contract may include terms and conditions designed to protect the supplier's interest in the asset or other assets, to protect its personnel, or to ensure the supplier's compliance with laws or regulations. These are examples of protective rights. For example, a contract may (i) specify the maximum amount of use of an asset or limit where or when the customer can use the asset, (ii) require a customer to follow particular operating practices, or (iii) require a customer to inform the supplier of changes in how an asset will be used. Protective rights typically define the scope of the customer's right of use but do not, in isolation, prevent the customer from having the right to direct the use of an asset.

AG32. The following flowchart may assist entities in making the assessment of whether a contract is, or contains, a lease.



Separating Components of a Contract (paragraphs 13–18)

AG33. The right to use an underlying asset is a separate lease component if both:

(a) The lessee can benefit from use of the underlying asset either on its own or together with other resources that are readily available to the lessee. Readily available resources are goods or services that are sold or leased separately (by the lessor or other suppliers) or resources that the lessee has already obtained (from the lessor or from other transactions or events); and

(b) The underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract. For example, the fact that a lessee could decide not to lease the underlying asset without significantly affecting its rights to use other underlying assets in the contract might indicate that the underlying asset is not highly dependent on, or highly interrelated with, those other underlying assets.

AG34. A contract may include an amount payable by the lessee for activities and costs that do not transfer a good or service to the lessee. For example, a lessor may include in the total amount payable a charge for administrative tasks, or other costs it incurs associated with the lease, that do not transfer a good or service to the lessee. Such amounts payable do not give rise to a separate component of the contract, but are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

Lease Term (paragraphs 19–22)

AG35. In determining the lease term and assessing the length of the non-cancellable period of a lease, an entity shall apply the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

AG36. If only a lessee has the right to terminate a lease, that right is considered to be an option to terminate the lease available to the lessee that an entity considers when determining the lease term. If only a lessor has the right to terminate a lease, the non-cancellable period of the lease includes the period covered by the option to terminate the lease.

AG37. The lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor.

AG38. At the commencement date, an entity assesses whether the lessee is reasonably certain to exercise an option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease. The entity considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option. Examples of factors to consider include, but are not limited to:

(a) Contractual terms and conditions for the optional periods compared with market rates, such as:

(i) The amount of payments for the lease in any optional period;

(ii) The amount of any variable payments for the lease or other contingent payments, such as payments resulting from termination penalties and residual value guarantees; and

(iii) The terms and conditions of any options that are exercisable after initial optional periods (for example, a purchase option that is exercisable at the end of an extension period at a rate that is currently below market rates).

(b) Significant leasehold improvements undertaken (or expected to be undertaken) over the term of the contract that are expected to have significant economic benefit for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;

(c) Costs relating to the termination of the lease, such as negotiation costs, relocation costs, costs of identifying another underlying asset suitable for the lessee's needs, costs of integrating a new asset into the lessee's operations, or termination penalties and similar costs, including costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location;

(d) The importance of that underlying asset to the lessee's operations, considering, for example, whether the underlying asset is a specialized asset, the location of the underlying asset and the availability of suitable alternatives; and

(e) Conditionality associated with exercising the option (i.e. when the option can be exercised only if one or more conditions are met), and the likelihood that those conditions will exist.

AG39. An option to extend or terminate a lease may be combined with one or more other contractual features (for example, a residual value guarantee) such that the lessee guarantees the lessor a minimum or fixed cash return that is substantially the same regardless of whether the option is exercised. In such cases, and notwithstanding the guidance on in-substance fixed payments in paragraph AG43, an entity shall assume that the lessee is reasonably certain to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

AG40. The shorter the non-cancellable period of a lease, the more likely a lessee is to exercise an option to extend the lease or not to exercise an option to terminate the lease. This is because the costs associated with obtaining a replacement asset are likely to be proportionately higher the shorter the non-cancellable period.

AG41. A lessee's past practice regarding the period over which it has typically used particular types of assets (whether leased or owned), and its economic reasons for doing so, may provide information that is helpful in assessing whether the lessee is reasonably certain to exercise, or not to exercise, an option. For example, if a lessee has typically used particular types of assets for a particular period of time or if the lessee has a practice of frequently exercising options on leases of particular types of underlying assets, the lessee shall consider the economic reasons for that past practice in assessing whether it is reasonably certain to exercise an option on leases of those assets.

AG42. Paragraph 21 specifies that, after the commencement date, a lessee reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. Examples of significant events or changes in circumstances include:

(a) Significant leasehold improvements not anticipated at the commencement date that are expected to have significant economic benefit for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;

(b) A significant modification to, or customization of, the underlying asset that was not anticipated at the commencement date;

(c) The inception of a sublease of the underlying asset for a period beyond the end of the previously determined lease term; and

(d) A decision of the lessee that is directly relevant to exercising, or not exercising, an option (for example, a decision to extend the lease of a complementary asset, to dispose of an alternative asset or to dispose of an operation within which the right-of-use asset is employed).

In-Substance Fixed Lease Payments (paragraphs 28(a), 37(c) and 74(a))

AG43. Lease payments include any in-substance fixed lease payments. In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable. In-substance fixed lease payments exist, for example, if:

(a) Payments are structured as variable lease payments, but there is no genuine variability in those payments. Those payments contain variable clauses that do not have real economic substance. Examples of those types of payments include:

(i) Payments that must be made only if an asset is proven to be capable of operating during the lease, or only if an event occurs that has no genuine possibility of not occurring; or

(ii) Payments that are initially structured as variable lease payments linked to the use of the underlying asset but for which the variability will be resolved at some point after the commencement date so that the payments become fixed for the remainder of the lease term. Those payments become in-substance fixed payments when the variability is resolved.

(b) There is more than one set of payments that a lessee could make, but only one of those sets of payments is realistic. In this case, an entity shall consider the realistic set of payments to be lease payments.

(c) There is more than one realistic set of payments that a lessee could make, but it must make at least one of those sets of payments. In this case, an entity shall consider the set of payments that aggregates to the lowest amount (on a discounted basis) to be lease payments.

Lessee Involvement with the Underlying Asset before the Commencement Date

Costs of the Lessee relating to the Construction or Design of the Underlying Asset

AG44. An entity may negotiate a lease before the underlying asset is available for use by the lessee. For some leases, the underlying asset may need to be constructed or redesigned for use by the lessee. Depending on the terms and conditions of the contract, a lessee may be required to make payments relating to the construction or design of the asset.

AG45. If a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable Standards, such as IPSAS 17. Costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. Payments for the right to use an underlying asset are payments for a lease, regardless of the timing of those payments.

Legal Title to the Underlying Asset

AG46. A lessee may obtain legal title to an underlying asset before that legal title is transferred to the lessor and the asset is leased to the lessee. Obtaining legal title does not in itself determine how to account for the transaction.

AG47. If the lessee controls (or obtains control of) the underlying asset before that asset is transferred to the lessor, the transaction is a sale and leaseback transaction that is accounted for applying paragraphs 97–102.

AG48. However, if the lessee does not obtain control of the underlying asset before the asset is transferred to the lessor, the transaction is not a sale and leaseback transaction. For example, this may be the case if a producer, a lessor and a lessee negotiate a transaction for the purchase of an asset from the producer by the lessor, which is in turn leased to the lessee. The lessee may obtain legal title to the underlying asset before legal title transfers to the lessor. In this case, if the lessee obtains legal title to the underlying asset but does not obtain control of the asset before it is transferred to the lessor, the transaction is not accounted for as a sale and leaseback transaction, but as a lease.

Lessee Disclosures (paragraph 62)

AG49. In determining whether additional information about leasing activities is necessary to meet the disclosure objective in paragraph 54, a lessee shall consider:

(a) Whether that information is relevant to users of financial statements. A lessee shall provide additional information specified in paragraph 62 only if that information is expected to be relevant to users of financial statements. In this context, this is likely to be the case if it helps those users to understand:

   (i) The flexibility provided by leases. Leases may provide flexibility if, for example, a lessee can reduce its exposure by exercising termination options or renewing leases with favorable terms and conditions.

   (ii) Restrictions imposed by leases. Leases may impose restrictions, for example, by requiring the lessee to maintain particular financial ratios.

   (iii) Sensitivity of reported information to key variables. Reported information may be sensitive to, for example, future variable lease payments.

   (iv) Exposure to other risks arising from leases.

   (v) Deviations from industry practice. Such deviations may include, for example, unusual or unique lease terms and conditions that affect a lessee's lease portfolio.

(b) Whether that information is apparent from information either presented in the primary financial statements or disclosed in the notes. A lessee need not duplicate information that is already presented elsewhere in the financial statements.

AG50. Additional information relating to variable lease payments that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 54 could include information that helps users of financial statements to assess, for example:

(a) The lessee's reasons for using variable lease payments and the prevalence of those payments;

(b) The relative magnitude of variable lease payments to fixed payments;

(c) Key variables upon which variable lease payments depend and how payments are expected to vary in response to changes in those key variables; and

(d) Other operational and financial effects of variable lease payments.

AG51. Additional information relating to extension options or termination options that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 54 could include information that helps users of financial statements to assess, for example:

(a) The lessee's reasons for using extension options or termination options and the prevalence of those options;

(b) The relative magnitude of optional lease payments to lease payments;

(c) The prevalence of the exercise of options that were not included in the measurement of lease liabilities; and

(d) Other operational and financial effects of those options.

AG52. Additional information relating to residual value guarantees that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 54 could include information that helps users of financial statements to assess, for example:

(a) The lessee's reasons for providing residual value guarantees and the prevalence of those guarantees;

(b) The magnitude of a lessee's exposure to residual value risk;

(c) The nature of underlying assets for which those guarantees are provided; and

(d) Other operational and financial effects of those guarantees.

AG53. Additional information relating to sale and leaseback transactions that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 54 could include information that helps users of financial statements to assess, for example:

(a) The lessee's reasons for sale and leaseback transactions and the prevalence of those transactions;

(b) Key terms and conditions of individual sale and leaseback transactions;

(c) Payments not included in the measurement of lease liabilities; and

(d) The cash flow effect of sale and leaseback transactions in the reporting period.

Lessor Lease Classification (paragraphs 65–70)

AG54. The classification of leases for lessors in this Standard is based on the extent to which the lease transfers the risks and rewards incidental to ownership of an underlying asset. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of service potential or profitable operation over the underlying asset's economic life and of gain from appreciation in value or realization of a residual value.

AG55. A lease contract may include terms and conditions to adjust the lease payments for particular changes that occur between the inception date and the commencement date (such as a change in the lessor's cost of the underlying asset or a change in the lessor's cost of financing the lease). In that case, for the purposes of classifying the lease, the effect of any such changes shall be deemed to have taken place at the inception date.

AG56. When a lease includes both land and buildings elements, a lessor shall assess the classification of each element as a finance lease or an operating lease separately applying paragraphs 66–70 and AG54–AG55. In determining whether the land element is an operating lease or a finance lease, an important consideration is that land normally has an indefinite economic life.

AG57. Whenever necessary in order to classify and account for a lease of land and buildings, a lessor shall allocate lease payments (including any lump-sum upfront payments) between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception date. If the lease payments cannot be allocated reliably[1] between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

AG58. For a lease of land and buildings in which the amount for the land element is immaterial to the lease, a lessor may treat the land and buildings as a single unit for the purpose of lease classification and classify it as a finance lease or an operating lease applying paragraphs 66–70 and AG54–AG55. In such a case, a lessor shall regard the economic life of the buildings as the economic life of the entire underlying asset.

Sublease Classification

AG59. In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows:

(a) If the head lease is a short-term lease that the entity, as a lessee, has accounted for applying paragraph 6, the sublease shall be classified as an operating lease.

(b) Otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset (for example, the item of property, plant or equipment that is the subject of the lease).

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[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 2, *Cash Flow Statements*

Paragraphs 26 and 55 are amended. Paragraph 63J is added. New text is underlined and deleted text is struck through.

Presentation of a Cash Flow Statement

…

Financing Activities

26. The separate disclosure of cash flows arising from financing activities is important, because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

    (a) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages, and other short or long-term borrowings;

    (b) Cash repayments of amounts borrowed; and

    (c) Cash payments by a lessee for the reduction of the outstanding liability relating to a ~~finance~~ lease.

…

Noncash Transactions

…

55. Many investing and financing activities do not have a direct impact on current cash flows, although they do affect the capital and asset structure of an entity. The exclusion of noncash transactions from the cash flow statement is consistent with the objective of a cash flow statement, as these items do not involve cash flows in the current period. Examples of noncash transactions are:

    (a) The acquisition of assets through the exchange of assets, the assumption of directly related liabilities, or by means of a ~~finance~~ lease; ~~and~~

    (b) The conversion of debt to equity;

…

Effective Date

63J. **Paragraphs 26 and 55 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

Paragraph 17 is amended. Paragraph 71F is added. New text is underlined and deleted text is struck through.

Definitions

…

Monetary Items

17. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: social policy obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; <u>lease liabilities</u>; and cash dividends or similar distributions that are recognized as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services ~~(e.g., prepaid rent)~~; goodwill; intangible assets; inventories; property, plant, and equipment<u>; right-of-use assets</u>; and provisions that are to be settled by the delivery of a non-monetary asset.

…

Effective Date

…

71F. <u>**Paragraph 17 was amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**</u>

Amendments to IPSAS 5, *Borrowing Costs*

Paragraph 6 is amended. Paragraph 42F is added. New text is underlined and deleted text is struck through.

Definitions

Borrowing Costs

…

6. Borrowing costs may include:

    (a) Interest on bank overdrafts and short-term and long-term borrowings;

    (b) Amortization of discounts or premiums relating to borrowings;

    (c) Amortization of ancillary costs incurred in connection with the arrangement of borrowings;

    (d) ~~Finance charges~~ <u>Interest</u> in respect of ~~finance~~ lease~~s~~ <u>liabilities</u> and service concession arrangements; and

(e) Exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs.

…

Effective Date

…

42F. **Paragraph 6 was amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

Amendments to IPSAS 12, *Inventories*

Paragraph 20 is amended. Paragraph 51I is added. New text is underlined and deleted text is struck through.

Measurement of Inventories

…

Cost of Inventories

…

Costs of Conversion

20. The costs of converting work-in-progress inventories into finished goods inventories are incurred primarily in a manufacturing environment. The costs of conversion of inventories include costs directly related to the units of production, such as direct labor. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of (a) the volume of production, such as depreciation and maintenance of factory buildings, ~~and~~ equipment and right-of-use assets used in the production process, and (b) the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labor.

Effective date

51I. **Paragraph 20 was amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

Amendments to IPSAS 16, *Investment Property*

Paragraphs 7, 10, 12, 13, 20, 26, 27, 39, 49, 50, 59, 62, 62A, 63, 65, 71, 72, 73, 78, 80, 85, 86, 88, and 89 were amended. Paragraphs 25A, 38A, 41A, 41B, 41C, 49A, 100A and its related heading and paragraph 101K were added. Paragraphs 5, 8, 34, 35 and 43 were deleted.

Scope

…

5. [Deleted] ~~This Standard applies to accounting for investment property, including (a) the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease, and to (b) the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with matters covered in IPSAS 13, *Leases*, including:~~

    ~~(a) Classification of leases as finance leases or operating leases;~~

    ~~(b) Recognition of lease revenue from investment property (see also IPSAS 9, Revenue from Exchange Transactions);~~

    ~~(c) Measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;~~

    ~~(d) Measurement in a lessor's financial statements of its net investment in a finance lease;~~

    ~~(e) Accounting for sale and leaseback transactions; and~~

    ~~(f) Disclosure about finance leases and operating leases.~~

…

Definitions

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

    …

    Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation, or both, rather than for:

    (a) **Use in the production or supply of goods or services, or for administrative purposes; or**

    (b) **Sale in the ordinary course of operations.**

    Owner-occupied property is property held (by the owner or by the lessee ~~under a finance lease~~ as a right-of-use asset) for use in the production or supply of goods or services, or for administrative purposes.

    …

Property Interest Held by a Lessee under an Operating Lease

8. [Deleted] **~~A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, (a) the property would otherwise meet the definition of an investment property, and (b) the lessee uses the fair~~**

~~**value model set out in paragraphs 42–64 for the asset recognized. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 85–89.**~~

Investment Property

…

10. Investment property is held to earn rentals or for capital appreciation, or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by public sector entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, public sector entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services, and the cash flows are attributable not only to the building, but also to other assets used in the production or supply process. IPSAS 17, *Property, Plant, and Equipment*, applies to owned owner-occupied property and IPSAS 43, *Leases* applies to owner-occupied property held by a lessee as a right-of-use asset.

…

12. The following are examples of investment property:

    (a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a hospital for capital appreciation that may be sold at a beneficial time in the future.

    (b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation).

    (c) A building owned by the entity (or a right-of-use asset relating to a building held by the entity ~~under a finance lease~~) and leased out under one or more operating leases on a commercial basis. For example, a university may own a building that it leases on a commercial basis to external parties.

    (d) A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

    (e) Property that is being constructed or developed for future use as investment property.

13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

    (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see IPSAS 12, *Inventories*). For example, a municipal government may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory.

(b) Property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see IPSAS 11, *Construction Contracts*).

(c) Owner-occupied property (see IPSAS 17 and IPSAS 43), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.

(d) [Deleted]

(e) Property that is leased to another entity under a finance lease.

(f) Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with IPSAS 17.

(g) Property held for strategic purposes which would be accounted for in accordance with IPSAS 17.

…

Recognition

20. **An owned ~~Investment~~ investment property shall be recognized as an asset when, and only when:**

(a) **It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and**

(b) **The cost or fair value of the investment property can be measured reliably.**

…

25A. An investment property held by a lessee as a right-of-use asset shall be recognized in accordance with IPSAS 43.

Measurement at Recognition

26. **An owned ~~Investment~~ investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).**

27. **Where an owned investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.**

…

34. [Deleted] ~~**The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 28 of IPSAS 13, i.e., the asset shall be recognized at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognized as a liability in accordance with that same paragraph.**~~

35. [Deleted] ~~Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on determining the fair value of a property interest is set out for the fair value model in paragraphs 42–61. That guidance is also relevant to the determination of fair value when that value is used as cost for initial recognition purposes.~~

…

38A. An investment property held by a lessee as a right-of-use asset shall be measured initially in accordance with IPSAS 43.

Measurement after Recognition

Accounting Policy

39. **With the exception noted in paragraph ~~43~~ 41A, an entity shall choose as its accounting policy either the fair value model in paragraphs 42–64 or the cost model in paragraph 65, and shall apply that policy to all of its investment property.**

…

41A. **An entity may:**

(a) **Choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and**

(b) **Choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a).**

41B. Some insurers and other entities operate an internal property fund that issues notional units, with some units held by investors in linked contracts and others held by the entity. Paragraph 41A does not permit an entity to measure the property held by the fund partly at cost and partly at fair value.

41C. If an entity chooses different models for the two categories described in paragraph 41A, sales of investment property between pools of assets measured using different models shall be recognized at fair value and the cumulative change in fair value shall be recognized in surplus or deficit. Accordingly, if an investment property is sold from a pool in which the fair value model is used into a pool in which the cost model is used, the property's fair value at the date of the sale becomes its deemed cost.

Fair Value Model

…

43. [Deleted] ~~**When a property interest held by a lessee under an operating lease is classified as an investment property under paragraph 8, paragraph 39 is not elective; the fair value model shall be applied.**~~

…

49. The fair value of investment property reflects, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in the light of current conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property. ~~Some of those outflows are reflected in the liability whereas others relate to outflows that are not recognized in the financial statements until a later date (e.g. periodic payments such as contingent rents).~~

49A. When a lessee uses the fair value model to measure an investment property that is held as a right-of-use asset, it shall measure the right-of-use asset, and not the underlying asset, at fair value.

50. ~~Paragraph 34~~ IPSAS 43 specifies the basis for initial recognition of the cost of ~~an interest in a leased property~~ an investment property held by a lessee as a right-of-use asset. Paragraph 42 requires ~~the interest in the leased property~~ investment property held by a lessee as a right-of-use asset to be remeasured, if necessary, to fair value if the entity chooses the fair value model. ~~In a lease negotiated~~ When lease payments are at market rates, the fair value of ~~an interest in a leased property~~ an investment property held by a lessee as a right-of-use asset at acquisition, net of all expected lease payments (including those relating to recognized lease liabilities), should be zero. ~~This fair value does not change regardless of whether, for accounting purposes, a leased asset and liability are recognized at fair value or at the present value of minimum lease payments, in accordance with paragraph 28 of IPSAS 13.~~ Thus, remeasuring a ~~leased~~ right-of-use asset from cost in accordance with ~~paragraph 34~~ IPSAS 43 to fair value in accordance with paragraph 42 (taking into account the requirements in paragraph 59) should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair value model is made after initial recognition.

…

59. In determining the carrying amount of investment property under the fair value model, an entity does not double-count assets or liabilities that are recognized as separate assets or liabilities. For example:

    (a) Equipment such as elevators or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognized separately as property, plant, and equipment.

    (b) If an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental revenue relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognize that furniture as a separate asset.

    (c) The fair value of investment property excludes prepaid or accrued ~~operating~~ lease revenue, because the entity recognizes it as a separate liability or asset.

(d) The fair value of investment property held by a lessee as a right-of-use asset ~~under a lease~~ reflects expected cash flows (including ~~contingent rent that is~~ variable lease payments that are expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognized lease liability, to arrive at the carrying amount of the investment property using the fair value model.

…

Inability to Determine Fair Value Reliably

62. **There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity shall measure that investment property using the cost model in IPSAS 17 for owned investment property or in accordance with IPSAS 43 for investment property held by a lessee as a right-of-use asset. The residual value of the investment property shall be assumed to be zero. The entity shall continue to apply IPSAS 17 or IPSAS 43 until disposal of the investment property.**

62A. Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 62, the property shall be accounted for using the cost model in accordance with IPSAS 17 for owned assets or IPSAS 43 for investment property held by a lessee as a right-of-use asset.

…

63. In the exceptional cases when an entity is compelled, for the reason given in paragraph 62, to measure an investment property using the cost model in accordance with IPSAS 17 or IPSAS 43, it measures at fair value all its other investment property, including investment property under construction. In these cases, although an entity may use the cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.

Cost Model

65. ~~**After initial recognition, an entity that chooses the cost model shall measure all of its investment property in accordance with IPSAS 17's requirements for that model, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.**~~

After initial recognition, an entity that chooses the cost model shall measure investment property:

(a) **In accordance with IPSAS 43 if it is held by a lessee as a right-of-use asset; and**

(b) **In accordance with the requirements in IPSAS 17 for the cost model if it is held by an owner as an owned investment property.**

Transfers

…

71. **For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting in accordance with IPSAS 17, IPSAS 43 or IPSAS 12, shall be its fair value at the date of change in use.**

72. **If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply IPSAS 17 for owned property and IPSAS 43 for property held by a lessee as a right-of-use asset up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with IPSAS 17 or IPSAS 43, and its fair value in the same way as a revaluation in accordance with IPSAS 17.**

73. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property (or right-of-use asset) and recognizes any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with IPSAS 17 or IPSAS 43, and its fair value in the same way as a revaluation in accordance with IPSAS 17. In other words:

    (a) Any resulting decrease in the carrying amount of the property is recognized in surplus or deficit. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that revaluation surplus.

    (b) Any resulting increase in the carrying amount is treated as follows:

        (i) To the extent that the increase reverses a previous impairment loss for that property, the increase is recognized in surplus or deficit. The amount recognized in surplus or deficit does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) if no impairment loss had been recognized.

        (ii) Any remaining part of the increase is credited directly to net assets/equity in revaluation surplus. On subsequent disposal of the investment property, the revaluation surplus included in net assets/equity may be transferred to accumulated surpluses or deficits. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.

…

Disposals

…

78. The disposal of an investment property may be achieved by sale or by entering into a finance lease. In determining the date of disposal for investment property that is sold, an entity applies the criteria in IPSAS 9 for recognizing revenue from the sale of goods and considers the related guidance in the Implementation Guidance to IPSAS 9. ~~IPSAS 13~~ IPSAS 43 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

…

80. **Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and shall be recognized in surplus or deficit (unless ~~IPSAS 13~~ IPSAS 43 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.**

…

Disclosure

Fair Value Model and Cost Model

85. The disclosures below apply in addition to those in ~~IPSAS 13~~ IPSAS 43. In accordance with ~~IPSAS 13~~ IPSAS 43, the owner of an investment property provides lessors' disclosures about leases into which it has entered. ~~An entity~~ A lessee that holds an investment property ~~under a finance lease or operating lease~~ as a right-of-use asset provides lessees' disclosures ~~for finance leases~~ as required by IPSAS 43 and lessors' disclosures as required by IPSAS 43 for any operating leases into which it has entered.

86. **An entity shall disclose:**

    (a) **Whether it applies the fair value or the cost model;**

    (b) [Deleted] ~~**If it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property**~~;

    (c) **When classification is difficult (see paragraph 18), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;**

    (d) **The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence, or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;**

    (e) **The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;**

(f) **The amounts recognized in surplus or deficit for:**

(i) **Rental revenue from investment property;**

(ii) **Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and**

(iii) **Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period.**

(g) **The existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal; and**

(h) **Contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance, or enhancements.**

Fair Value Model

…

88. **When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognized as separate assets and liabilities as described in paragraph 59, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognized lease ~~obligations~~ liabilities that have been added back, and any other significant adjustments.**

89. **In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the cost model in IPSAS 17 or in accordance with IPSAS 43, the reconciliation required by paragraph 87 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:**

(a) **A description of the investment property;**

(b) **An explanation of why fair value cannot be determined reliably;**

(c) **If possible, the range of estimates within which fair value is highly likely to lie; and**

(d) **On disposal of investment property not carried at fair value:**

(i) **The fact that the entity has disposed of investment property not carried at fair value;**

(ii) **The carrying amount of that investment property at the time of sale; and**

(iii) **The amount of gain or loss recognized.**

Transitional Provisions

…

Fair Value Model

…

IPSAS 43

100A. **An entity applying IPSAS 43, and its related amendments to this Standard, for the first time shall apply the transition requirements in IPSAS 43 to its investment property held as a right-of-use asset.**

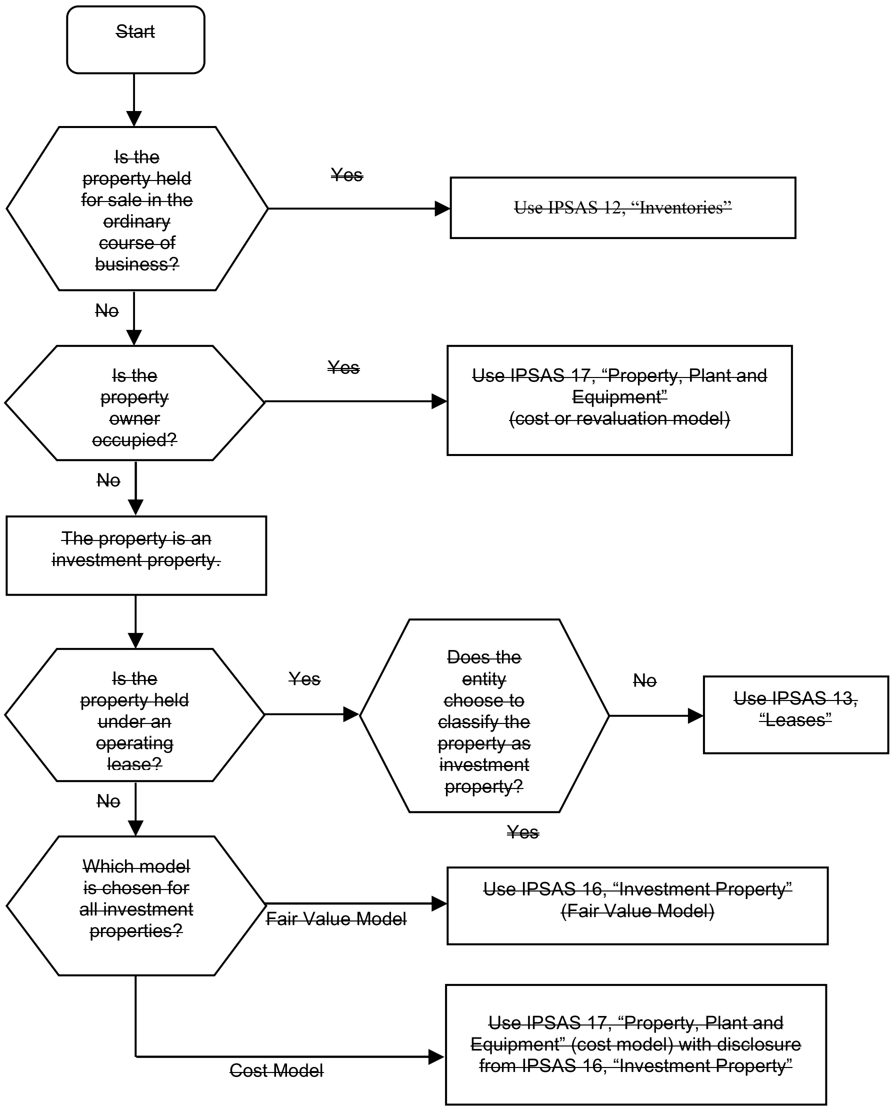
Effective Date

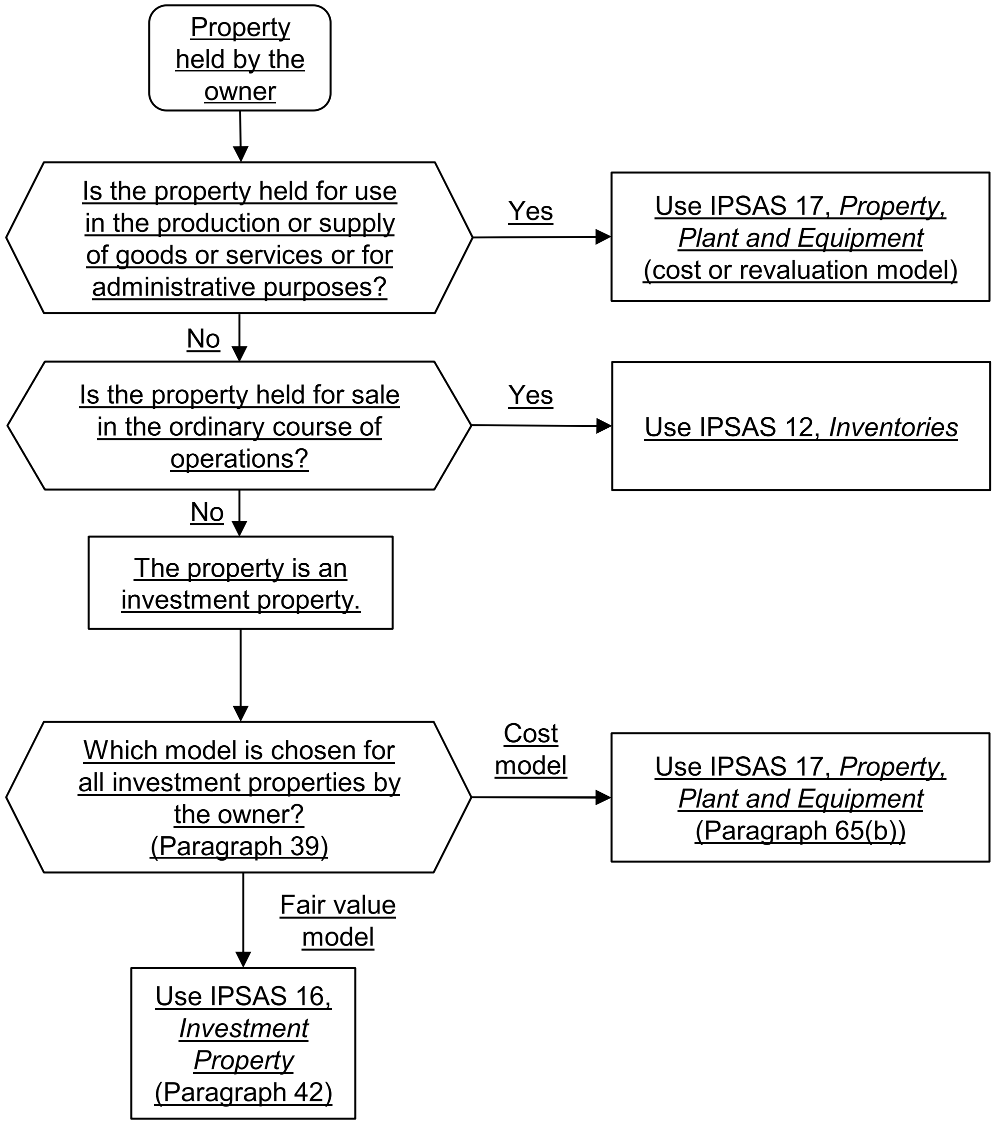
…

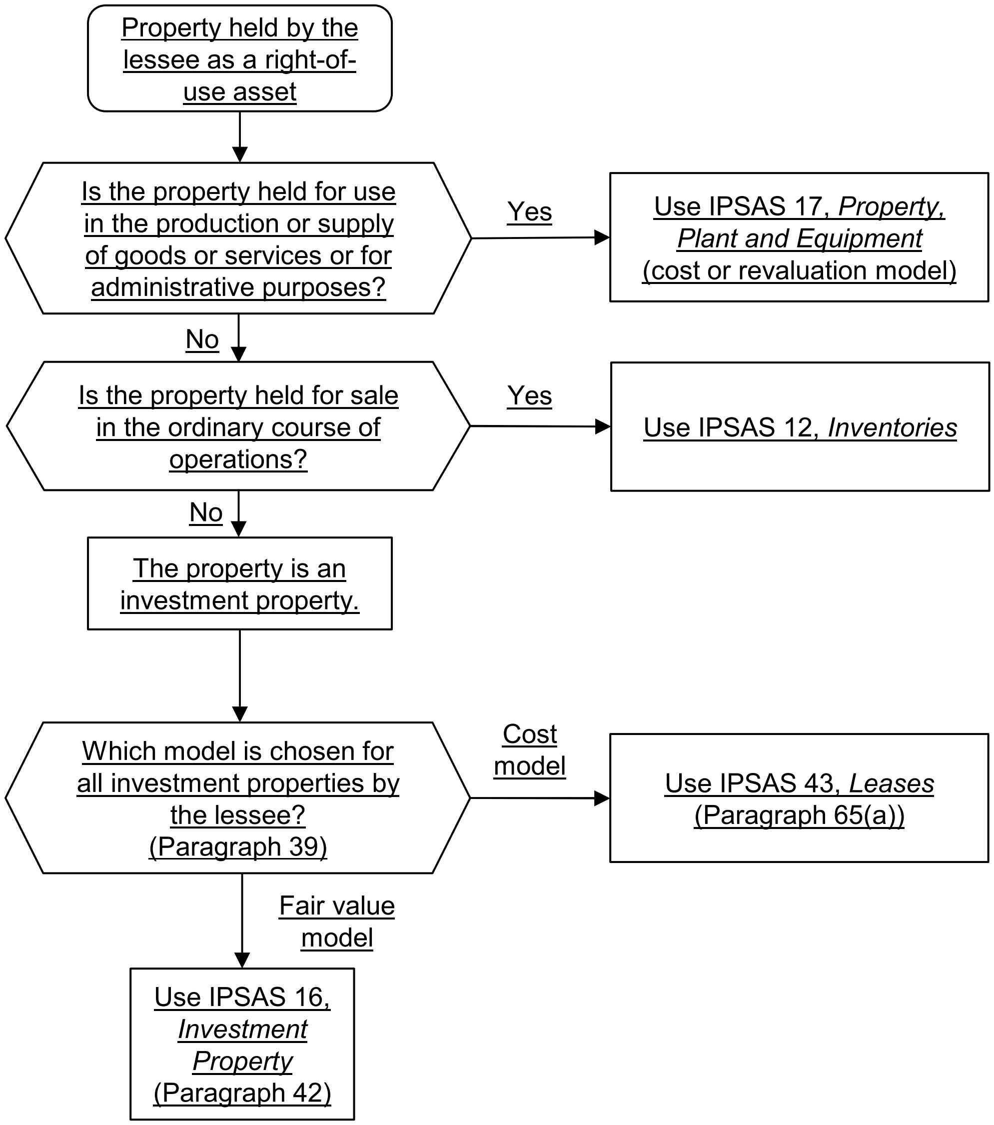
101K. **IPSAS 43 issued in January 2022, amended the scope of IPSAS 16 by defining investment property to include both owned investment property and property held by a lessee as a right-of-use asset. Paragraphs 7, 10, 12, 13, 14, 20, 26, 27, 39, 49, 50, 59, 62, 62A, 63, 65, 71, 72, 73, 78, 80, 85, 86, 88, and 89 were amended, paragraphs 25A, 38A, 41A, 41B, 41C, 49A and 100A and its related heading were added, and paragraphs 5, 8, 34, 35 and 43 were deleted by IPSAS 43. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

Illustrative Decision Tree<u>s</u>

~~This~~ <u>These</u> decision tree<u>s</u> ~~accompanies~~ <u>accompany</u>, but ~~is~~ <u>are</u> not part of, IPSAS 16.




Property held by the owner
Is the property held for use in the production or supply of goods or services or for administrative purposes?
Yes
Use IPSAS 17, Property, Plant and Equipment (cost or revaluation model)
No
Is the property held for sale in the ordinary course of operations?
Yes
Use IPSAS 12, Inventories
No
The property is an investment property.
Which model is chosen for all investment properties by the owner? (Paragraph 39)
Cost model
Use IPSAS 17, Property, Plant and Equipment (Paragraph 65(b))
Fair value model
Use IPSAS 16, Investment Property (Paragraph 42)



Amendments to IPSAS 17, *Property, Plant, and Equipment*

Paragraphs 8, 19, 60, 83, 84 are amended. Paragraph 107T is added. Paragraphs 7 and 41 are deleted. New text is underlined and deleted text is struck through.

Scope

…

7. [Deleted] ~~Other IPSASs may require recognition of an item of property, plant, and equipment based on an approach different from that in this Standard. For example, IPSAS 13, *Leases*, requires an entity to evaluate its recognition of an item of leased property, plant, and equipment on the basis of the transfer of risks and rewards. IPSAS 32 requires an entity to evaluate the recognition of an item of property, plant, and equipment used in a service concession arrangement on the basis of control of the asset. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.~~

8. An entity using the cost model for investment property in accordance with IPSAS 16, *Investment Property* shall use the cost model in this Standard for owned investment property.

Recognition

…

19. An entity evaluates under this recognition principle all its property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant, and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of property, plant, and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant and equipment, such as depreciation of right-of-use assets.

Measurement at Recognition

…

Measurement of Cost

…

41. [Deleted] ~~The cost of an item of property, plant, and equipment held by a lessee under a finance lease is determined in accordance with IPSAS 13.~~

Measurement after Recognition

…

Depreciation

…

60. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges, and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft~~, whether owned or subject to a finance lease~~. Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.

…

Derecognition

…

83. **The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be included in surplus or deficit when the item is derecognized (unless ~~IPSAS 13~~ IPSAS 43, *Leases* requires otherwise on a sale and leaseback).**

…

84. The disposal of an item of property, plant and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in IPSAS 9 for recognizing revenue from the sale of goods. ~~IPSAS 13~~ <u>IPSAS 43</u> applies to disposal by a sale and leaseback.

…

Effective Date

…

107T. <u>**Paragraphs 8, 19, 60, 83, 84 were amended and paragraphs 7 and 41 were deleted by IPSAS 43 issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**</u>

Amendments to IPSAS 18, *Segment Reporting*

Paragraphs 33 and 35 are amended. Paragraph 76G is added. New text is underlined and deleted text is struck through.

Definitions of Segment Revenue, Expense, Assets, Liabilities, and Accounting Policies

…

Segment Assets, Liabilities, Revenue, Expense, and Accounting Policies

33. Examples of segment assets include current assets that are used in the operating activities of the segment: property, plant, and equipment; <u>right-of-use</u> assets ~~that are the subject of finance leases~~; and intangible assets. If a particular item of depreciation or amortization is included in segment expense, the related asset is also included in segment assets. Segment assets do not include assets used for general entity or head office purposes. For example:

    (a) The office of the central administration and policy development unit of a department of education is not included in segments reflecting the delivery of primary, secondary and tertiary educational services; or

    (b) The parliamentary or other general assembly building is not included in segments reflecting major functional activities such as education, health, and defense when reporting at the whole-of-government level.

    Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists.

…

35. Examples of segment liabilities include trade and other payables, accrued liabilities, advances from members of the community for the provision of partially subsidized goods and services in the future, product warranty provisions arising from any commercial activities of the entity, and other claims relating to the provision of goods and services. Segment liabilities do not include borrowings, liabilities related to <u>right-of-use</u> assets ~~that are the subject of finance leases~~, and other liabilities

that are incurred for financing rather than operating purposes. If interest expense is included in segment expense, the related interest-bearing liability is included in segment liabilities.

Effective Date

…

76G. **Paragraphs 33 and 35 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 13 is amended. Paragraph 111N is added. New text is underlined and deleted text is struck through.

Scope

13. Where another IPSAS deals with a specific type of provision, contingent liability, or contingent asset, an entity applies that standard instead of this Standard. For example, certain types of provisions are also addressed in Standards on:

    (a) Construction contracts (see IPSAS 11, *Construction Contracts*); and

    (b) Leases (see ~~IPSAS 13~~ IPSAS 43, *Leases*). However, ~~as IPSAS 13 contains no specific requirements to deal with operating leases that have become onerous, this Standard applies to such cases~~ this Standard applies to any lease that becomes onerous before the commencement date of the lease as defined in IPSAS 43. This Standard also applies to short-term leases and leases for which the underlying asset is of low value accounted for in accordance with paragraph 7 of IPSAS 43 and that have become onerous.

Effective Date

…

111N. **Paragraph 13 was amended by IPSAS 43 issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 19.

…

An Onerous Contract

IG13. [Deleted] ~~A hospital laundry operates from a building that the hospital (the reporting entity) has leased under an operating lease. During December 2004, the laundry relocates to a new building.~~

~~The lease on the old building continues for the next four years; it cannot be canceled. The hospital has no alternative use for the building and the building cannot be re-let to another user.~~

~~Analysis~~

~~Present obligation as a result of a past obligating event – The obligating event is the signing of the lease contract, which gives rise to a legal obligation.~~

~~An outflow of resources embodying economic benefits or service potential in settlement – When the lease becomes onerous, an outflow of resources embodying economic benefits is probable. (Until the lease becomes onerous, the hospital accounts for the lease under IPSAS 13, Leases).~~

~~Conclusion~~

~~A provision is recognized for the best estimate of the unavoidable lease payments (see paragraphs 13(b), 22 and 76).~~

Amendments to IPSAS 27, *Agriculture*

Paragraph 3 is amended. Paragraph 56I is added. New text is underlined and deleted text is struck through.

Scope

3. This Standard does not apply to:

   (a) Land related to agricultural activity (see IPSAS 16, *Investment Property* and IPSAS 17, *Property, Plant, and Equipment*);

   (b) Intangible assets related to agricultural activity (see IPSAS 31, *Intangible Assets*); and

   (c) Biological assets held for the provision or supply of services.

   (d) <u>Right-of-use assets arising from a lease of land related to agricultural activity (see IPSAS 43, *Leases*).</u>

Effective Date

…

<u>56I.</u> **<u>Paragraph 3 was amended by IPSAS 43 issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.</u>**

Amendments to IPSAS 28, *Financial Instruments: Presentation*

Paragraphs AG16 and AG17 are amended. Paragraph 60J is added. New text is underlined and deleted text is struck through.

Effective Date

…

60J. **Paragraphs AG16 and AG17 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

Definitions (paragraphs 9 and 10)

Designation as at Fair Value through Surplus or Deficit

…

AG16. ~~Under IPSAS 13, *Leases*, a finance lease is regarded as primarily~~ A lease typically creates an entitlement of the lessor to receive, and an obligation of the lessee to pay, a stream of payments that are substantially the same as blended payments of principal and interest under a loan agreement. The lessor accounts for its investment in the amount receivable under ~~the~~ a finance lease rather than the ~~leased~~ underlying asset itself that is subject to the finance lease. Accordingly, a lessor regards a finance lease as a financial instrument. Under IPSAS 43, *Leases* a lessor does not recognize its entitlement to receive lease payments under an operating lease. ~~An operating lease, on the other hand, is regarded as primarily an uncompleted contract committing the lessor to provide the use of an asset in future periods in exchange for consideration similar to a fee for a service.~~ The lessor continues to account for the ~~leased~~ underlying asset itself rather than any amount receivable in the future under the contract. Accordingly, a lessor ~~finance lease is regarded as a financial instrument and~~ does not regard an operating lease ~~is not regarded~~ as a financial instrument, ~~(~~except as regards individual payments currently due and payable ~~by the lessee)~~.

AG17. Physical assets (such as inventories, property, plant and equipment), ~~leased~~ right-of-use assets and intangible assets (such as patents and trademarks) are not financial assets. Control of such physical assets, right-of-use assets and intangible assets creates an opportunity to generate an inflow of cash or another financial asset, but it does not give rise to a present right to receive cash or another financial asset.

Amendments to IPSAS 29, *Financial Instruments: Recognition and Measurement*

Paragraph 125A is amended. New text is underlined and deleted text is struck through.

Effective Date

…

125A. **Paragraph 2 was amended by IPSAS 32, *Service Concession Arrangements: Grantor* issued in October 2011. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2014, it shall disclose that fact and at the same time apply IPSAS 32, the amendments to paragraphs 6 and 42A of IPSAS 5, ~~the amendments to paragraphs 25–27 and 85B of~~**

~~IPSAS 13~~, the amendments to paragraphs 5, 7 and 107C of IPSAS 17 and the amendments to paragraphs 6 and 132A of IPSAS 31.

Amendments to IPSAS 30, *Financial Instruments: Disclosures*

Paragraphs 35 and AG16 are amended. Paragraph 52I is added. New text is underlined and deleted text is struck through.

Significance of Financial Instruments for Financial Position and Financial Performance

…

Other Disclosures

…

Fair Value

…

35. Disclosures of fair value are not required:

    (a) When the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;

    (b) For an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with IPSAS 29 because its fair value cannot be measured reliably; ~~and~~

    (c) For a contract containing a discretionary participation feature if the fair value of that feature cannot be measured reliably~~.~~<u>; or</u>

    <u>(d) For lease liabilities.</u>

…

Effective Date and Transition

…

52I. <u>**Paragraphs 35 and AG16 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**</u>

Appendix A

Application Guidance

…

Nature and Extent of Risks Arising from Financial Instruments (paragraphs 38–49)

…

Quantitative Liquidity Risk Disclosures (paragraphs 41(a), and 46(a) and (b))

…

AG16. The contractual amounts disclosed in the maturity analyses as required by paragraph 46(a) and (b) are the contractual undiscounted cash flows, for example:

(a) Gross ~~finance~~ lease ~~obligations~~ liabilities (before deducting finance charges);

(b) Prices specified in forward agreements to purchase financial assets for cash;

(c) Net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;

(d) Contractual amounts to be exchanged in a derivative financial instrument (e.g., a currency swap) for which gross cash flows are exchanged; and

(e) Gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 6, 9, 112, 113 and AG6 are amended. Paragraph 132N is added. New text is underlined and deleted text is struck through.

Scope

…

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:

(a) Intangible assets held by an entity for sale in the ordinary course of operations (see IPSAS 11, *Construction Contracts*, and IPSAS 12, *Inventories*);

(b) Leases ~~that are within the scope of IPSAS 13~~ of intangible assets accounted for in accordance with IPSAS 43, *Leases*;

(c) Assets arising from employee benefits (see IPSAS 39, *Employee Benefits*);

(d) Financial assets as defined in IPSAS 28. The recognition and measurement of some financial assets are covered by IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements* and IPSAS 36, *Investments in Associates and Joint Ventures*; and

(e) Recognition and initial measurement of service concession assets that are within the scope of IPSAS 32, *Service Concession Assets: Grantor*. However, this Standard applies to the subsequent measurement and disclosure of such assets.

9. ~~In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard~~. Rights held by a lessee under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents, and copyrights ~~are excluded from the scope of IPSAS 13 and~~ are within the scope of this Standard and are excluded from the scope of IPSAS 43.

…

Retirements and Disposals

…

112. **The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognized in surplus or deficit when the asset is derecognized (unless ~~IPSAS 13~~ IPSAS 43 requires otherwise on a sale and leaseback).**

113. The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a non-exchange transaction). In determining the date of disposal of such an asset, an entity applies the criteria in IPSAS 9, *Revenue from Exchange Transactions* for recognizing revenue from the sale of goods. ~~IPSAS 13~~ IPSAS 43 applies to disposal by a sale and leaseback.

Effective Date

…

132N. **Paragraphs 6, 9, 112, 113 and AG6 were amended by IPSAS 43 issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

Appendix A

Application Guidance

Website costs

…

AG6. IPSAS 31 does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see IPSAS 11 and IPSAS 12) or leases ~~that fall within the scope of IPSAS 13~~ of intangible assets accounted for in accordance with IPSAS 43. Accordingly, this Application

Guidance does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity or that is accounted for in accordance with IPSAS 43. ~~When a website is leased under an operating lease, the lessor applies this Application Guidance. When a website is leased under a finance lease, the lessee applies this Application Guidance after initial recognition of the leased asset.~~

Amendments to IPSAS 32, *Service Concession Arrangements: Grantor*

Paragraphs AG13 and AG17 are amended. Paragraph 36G is added. New text is underlined and deleted text is struck through.

Effective Date

…

36G. **Paragraphs AG13 and AG17 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 32

…

AG13. The operator may have a right to use the separable asset described in paragraph AG12(a), or the facilities used to provide ancillary unregulated services described in paragraph AG12(b). In either case, there may in substance be a lease from the grantor to the operator; if so, it is accounted for in accordance with ~~IPSAS 13~~ IPSAS 43.

…

AG17. If the asset no longer meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor follows the derecognition principles in IPSAS 17 or IPSAS 31, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it is derecognized. If the asset is transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognized. In such cases, the grantor also considers whether the arrangement is a lease transaction or a sale and leaseback transaction that should be accounted for in accordance with ~~IPSAS 13~~ IPSAS 43.

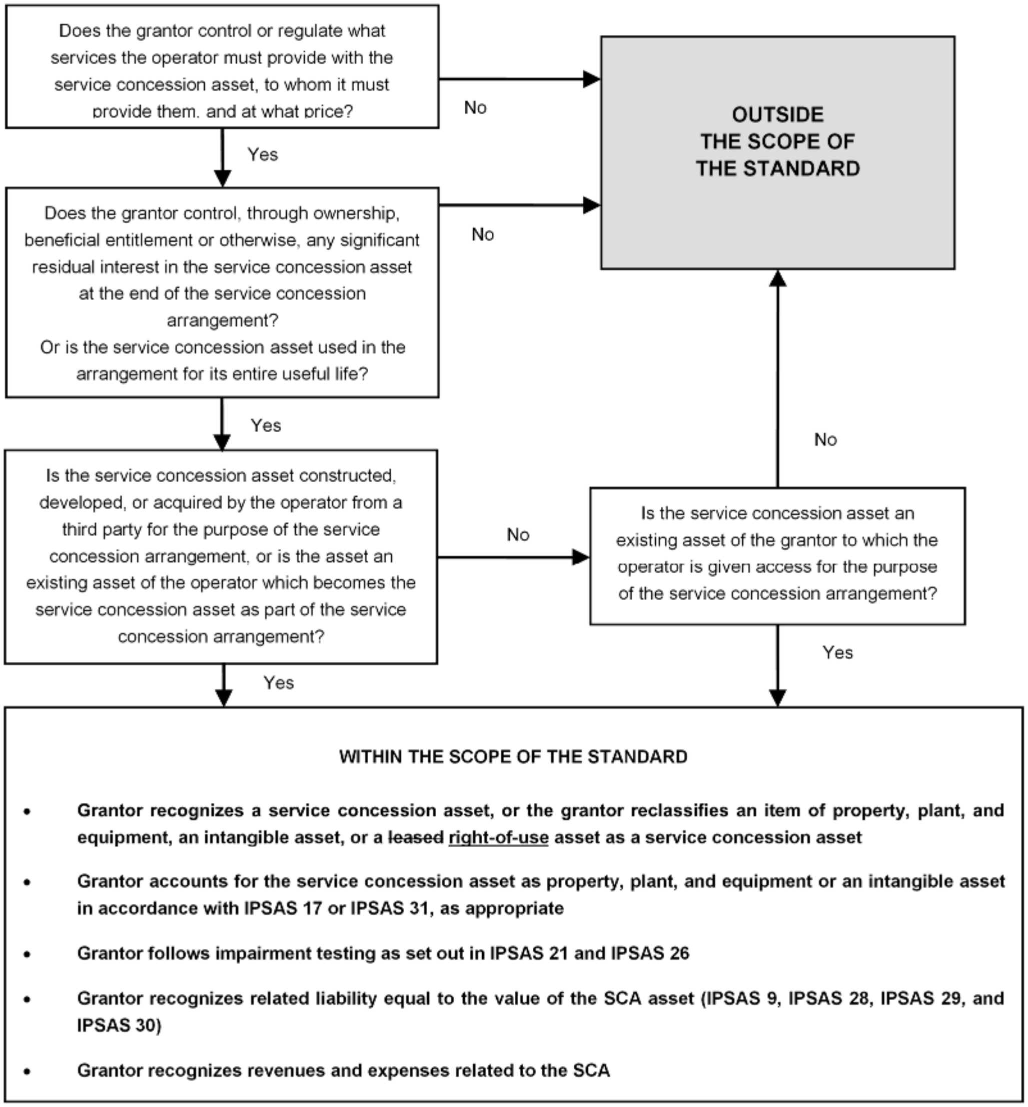
Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 32.

(…)

Accounting Framework for Service Concession Arrangements

IG2. The diagram below summarizes the accounting for service concession arrangements established by IPSAS 32.



References to IPSASs that Apply to Typical Types of Arrangements Involving an Asset Combined with Provision of a Service

(…)

IG4. Shaded text shows arrangements within the scope of IPSAS 32.

Category	Lessee	Service provider			Owner	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/ Privatization/ Corporation
Asset	Grantor				Operator	

ownership				
Capital investment	Grantor		Operator	
Demand risk	Shared	Grantor	Grantor and/or Operator	Operator
Typical duration	8–20 years	1–5 years	25–30 years	Indefinite (or may be limited by binding arrangement or license)
Residual interest	Grantor			Operator
Relevant IPSASs	~~IPSAS 13~~ IPSAS 43	IPSAS 1	This IPSAS/IPSAS 17/ IPSAS 31	IPSAS 17/IPSAS 31 (derecognition) IPSAS 9 (revenue recognition)

Amendments to IPSAS 33, *First-Time Adoption of Accrual Basis IPSASs*

Paragraphs 36, 46, 47, 64, 95, and 148 and the headings above paragraphs 46, 95, 148 are amended. Paragraphs 96A, 96B, 96C, 96D, and 154M are added. Paragraph 96 is deleted. New text is underlined and deleted text is struck through.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

…

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

36. Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs:

(a) Inventories (see IPSAS 12, *Inventories*);

(b) Investment property (see IPSAS 16, *Investment Property*);

(c) Property, plant and equipment (see IPSAS 17, *Property, Plant and Equipment*);

(d) Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);

(e) Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);

(f) Intangible assets (see IPSAS 31, *Intangible Assets*);

(fa) Right-of-use assets and the related lease liabilities (see IPSAS 43, *Leases*);

(g) Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*); and

(h) Financial instruments (see IPSAS 29, *Financial Instruments; Recognition and Measurement*).

Other Exemptions

…

~~IPSAS 13~~ IPSAS 43, *Leases*

46. Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three year transitional relief period to not recognize assets, it is not required to apply the requirements related to ~~finance~~ leases until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSASs (whichever is earlier).

47. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSASs to not recognize assets in accordance with IPSASs 16, 17, 27, 31 and 32. During this period, a first-time adopter may need to consider the recognition requirements of those IPSASs at the same time as considering the recognition of ~~finance~~ leases in this IPSAS. Where a first-time adopter takes advantage of the exemption in accordance with IPSASs 16, 17, 27, 31 and 32 it is not required to recognize ~~finance~~ lease assets and/or liabilities until the exemptions that provided the relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSASs (whichever is earlier).

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Adoption

…

Using Deemed Cost to Measure Assets and/or Liabilities

64. A first-time adopter may elect to measure the following assets and/or liabilities at their fair value when reliable cost information about the assets and liabilities is not available, and use that fair value as the deemed cost for:

    (a) Inventory (see IPSAS 12);

    (b) Investment property, if the first-time adopter elects to use the cost model in IPSAS 16;

    (ba) Right-of-use assets (see IPSAS 43);

    (c) Property, plant and equipment (see IPSAS 17);

    (d) Intangible assets, other than internally generated intangible assets (see IPSAS 31) that meets:

        (i) The recognition criteria in IPSAS 31 (excluding the reliable measurement criterion); and

        (ii) The criteria in IPSAS 31 for revaluation (including the existence of an active market);

    (e) Financial Instruments (see IPSAS 29); or

    (f) Service concession assets (see IPSAS 32).

…

~~IPSAS 13~~ IPSAS 43, *Leases*

95. A first-time adopter that is a lessor shall on the date of adoption of IPSAS, classify all existing leases as operating or finance leases on the basis of circumstances existing at the inception of the lease, to the extent that these are known on the date of adoption of IPSASs. A first-time adopter may assess whether a contract existing at the date of adoption of IPSASs contains a lease by applying paragraphs 10–12 of IPSAS 43 to those contracts on the basis of facts and circumstances existing at that date.

96. [Deleted] ~~If, however, the lessee and the lessor have agreed to change the provisions of the lease between the date of inception of the lease and the date of adoption of accrual basis IPSASs in a manner that would have resulted in a different classification of the lease identification of a lease at the date of adoption, the revised agreement contract shall be regarded as a new agreement contract. A first-time adopter shall consider the provisions of the new agreement contract at the date of adoption of accrual basis IPSASs in classifying the lease as an operating or finance lease identifying a lease~~.

96A. When a fist-time adopter that is a lessee recognizes lease liabilities and right-of-use assets, it may apply the following approach to all of its leases (subject to the practical expedients described in paragraph 96C):

(a) Measure a lease liability at the date of adoption of IPSASs. A lessee following this approach shall measure that lease liability at the present value of the remaining lease payments (see paragraph 96D), discounted using the lessee's incremental borrowing rate (see paragraph 96D) at the date of adoption of IPSASs.

(b) Measure a right-of-use asset at the date of adoption of IPSASs. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:

(i) Its carrying amount as if IPSAS 43 had been applied since the commencement date of the lease (see paragraph 96D), but discounted using the lessee's incremental borrowing rate at the date of adoption of IPSASs; or

(ii) An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of adoption of IPSASs;

(c) Apply IPSAS 21 or IPSAS 26 to right-of-use assets at the date of adoption of IPSASs.

96B. Notwithstanding the requirements in paragraph 96A, a first-time adopter that is a lessee shall measure the right-of-use asset at fair value at the date of adoption of IPSASs for leases that meet the definition of investment property in IPSAS 16 and are measured using the fair value model in IPSAS 16 from the date of adoption of IPSASs.

96C. A first-time adopter that is a lessee may do one or more of the following at the date of adoption of IPSASs, applied on a lease-by-lease basis:

(a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics (for example, a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

(b) Elect not to apply the requirements in paragraph 96A to leases for which the lease term (see paragraph 96D) ends within 12 months of the date of adoption of IPSASs. Instead, the entity shall account for (including disclosure of information about) these leases as if they were short-term leases accounted for in accordance with paragraph 7 of IPSAS 43.

(c) Elect not to apply the requirements in paragraph 96A to leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9 of IPSAS 43). Instead, the entity shall account for (including disclosure of information about) these leases in accordance with paragraph 7 of IPSAS 43.

(d) Exclude initial direct costs (see paragraph 96D) from the measurement of the right-of-use asset at the date of adoption of IPSASs.

(e) Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

96D. Lease payments, lessor, lessee, lessee's incremental borrowing rate, commencement date of the lease, initial direct costs and lease term are defined terms in IPSAS 43 and are used in this Standard with the same meaning.

Disclosures

…

Disclosures where Deemed Cost is Used for Inventory, Investment Property, Property, Plant and Equipment, Intangible Assets, Right-of-Use Assets, Financial Instruments or Service Concession Assets

148. If a first-time adopter uses fair value, or the alternative in paragraphs 64, 67 or 70, as deemed cost for inventory, investment property, property, plant and equipment, intangible assets, right-of-use assets, financial instruments, or service concession assets, its financial statements shall disclose:

(a) The aggregate of those fair values or other measurement alternatives that were considered in determining deemed cost;

(b) The aggregate adjustment to the carrying amounts recognized under the previous basis of accounting; and

(c) Whether the deemed cost was determined on the date of adoption of IPSASs or during the period of transition.

Effective Date

…

154M. **Paragraphs 36, 46, 47, 64, 95, and 148, and the headings above paragraphs 46, 95, and 148 were amended, paragraph 96 was deleted, and paragraphs 96A, 96B, 96C, and 96D were added by IPSAS 43 issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

…

Transitional Exemptions that Provide Three Year Relief for the Recognition and/or Measurement of Assets and/or Liabilities

…

Accounting for ~~Finance~~ Leases ~~Assets and Finance Lease Liabilities~~

IG20. Where a first-time adopter that is a lessee takes advantage of the exemption that provides a three year transitional relief period to not recognize its ~~finance lease~~ right-of-use assets, it will also not be able to comply with the recognition requirements relating to the ~~finance~~ lease liabilities, until the transitional exemptions related to the ~~finance leased~~ right-of-use assets have expired~~, or the finance leased assets have been recognized in accordance with IPSAS 13~~.

IG21. For example, assume that a first-time adopter that is a lessee has a ~~motor vehicle~~ right-of-use asset ~~that is subject to a finance~~ as a result of a lease ~~agreement~~ contract on the date of adoption of accrual basis IPSASs on January 1, 20X1. The first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize the ~~motor vehicle~~ right-of-use asset. The ~~motor vehicle~~ right-of-use asset is recognized on December 31, 20X3 when the exemption expires. IPSAS 33 requires the first-time adopter to only recognize the corresponding ~~finance~~ lease liability for the ~~motor vehicle~~ right-of-use asset on December 31, 20X3, i.e. on the date that the ~~finance lease asset (the motor vehicle)~~ right-of-use asset is recognized.

…

IG51. Paragraphs 23–26 of the IPSAS 33 do not override requirements in other IPSASs that base classifications or measurements on circumstances existing at a particular date. Examples include:

(a) The ~~distinction between finance leases and operating leases~~ identification of a lease (see ~~IPSAS 13, *Leases*~~ IPSAS 43, *Leases*; and

(b) The distinction between financial liabilities and equity instruments (see IPSAS 28, *Financial Instruments: Presentation*).

~~IPSAS 13,~~ IPSAS 43, *Leases*

IG52. In accordance with paragraph 95 of IPSAS 33 and paragraph ~~18 of IPSAS 13~~ 70 of IPSAS 43, a ~~lessee or~~ lessor classifies leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease, on the date of adoption of accrual basis IPSASs. In some cases, the lessee and the lessor may agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification for the lessor in accordance with ~~IPSAS 13~~ IPSAS 43 had the changed terms been in effect at the inception of the lease. If so, the revised agreement is considered as a new ~~agreement~~ contract over its term from the date of adoption of accrual basis IPSASs. ~~However, changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property) or changes in circumstances (for example, default by the lessee) do not give rise to a new classification of a lease.~~

Summary of Transitional Exemptions and Provisions Included in IPSAS 33, *First-time Adoption of Accrual Basis IPSASs*

IG91.

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
IPSAS ~~13~~43~~,~~ *Leases*			√ Leased assets and/or liabilities not recognized under previous basis of accounting	√ Leased assets and/or liabilities recognized under previous basis of accounting				

Appendix

Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSASs

This Appendix summarises how the transitional exemptions and provisions that a first-time adopter is required to apply in terms of this IPSAS, and those that a first-time adopter may elect to apply on adoption of accrual basis IPSASs.

As the transitional exemptions and provisions that may be elected can also affect the fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSASs as explained in paragraphs 27 to 32 of IPSAS 33, the Appendix makes a distinction between those transitional exemptions and provisions that affect fair presentation and the ability to assert compliance with accrual basis IPSASs, and those that do not.

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
~~IPSAS 13~~ IPSAS 43 • Where a first-time adopter is a lessee~~,~~ ~~N~~no recognition and/or measurement of ~~finance~~ lease liability and ~~finance lease~~ right-of-use asset if relief period for recognition and/or measurement of assets is adopted • ~~Classification~~ Identification of a lease based on circumstances at adoption of accrual basis IPSAS	 √		√

Amendments to IPSAS 40, *Public Sector Combinations*

Paragraphs 68, 71, 120, AG76, and AG89 are amended. Paragraphs AG72–AG74 and their related heading are deleted. Paragraphs 82A, 82B, and 126H are added. The heading before paragraph 82A is added. New text is underlined and deleted text is struck through.

The Acquisition Method of Accounting

…

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

Recognition Principle

…

Recognition Conditions

…

68. Paragraphs ~~AG72–AG84~~ AG75–AG84 provide guidance on recognizing ~~operating leases and~~ intangible assets. Paragraphs 76–82D specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the recognition principle and conditions.

…

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

…

71. This Standard provides two exceptions to the principle in paragraph 69:

    (a) Classification of a lease ~~arrangement~~ contract in which the acquiree is the lessor as either an operating lease or a finance lease in accordance with ~~IPSAS 13, *Leases*~~ IPSAS 43, *Leases*; and

    (b) Classification of a contract as an insurance contract in accordance with the relevant international or national accounting standard dealing with insurance contracts.

Exceptions to the Recognition or Measurement Principles

…

Exceptions to both the Recognition and Measurement Principles

…

Leases in Which the Acquiree is the Lessee

82A. The acquirer shall recognize right-of-use assets and lease liabilities for leases identified in accordance with IPSAS 43 in which the acquiree is the lessee. The acquirer is not required to recognize right-of-use assets and lease liabilities for:

    (a) Leases for which the lease term (as defined in IPSAS 43) ends within 12 months of the acquisition date; or

    (b) Leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9 of IPSAS 43).

82B. The acquirer shall measure the lease liability at the present value of the remaining lease payments (as defined in IPSAS 43) as if the acquired lease were a new lease at the acquisition date. The acquirer shall measure the right-of-use asset at the same amount as the lease liability, adjusted to reflect favorable or unfavorable terms of the lease when compared with market terms.

Disclosures

…

120. To meet the objective in paragraph 119, the acquirer shall disclose the following information for each acquisition that occurs during the reporting period:

    (a) The name and a description of the acquired operation.

    (b) The acquisition date.

    (c) The percentage of voting equity interests or equivalent acquired.

    (d) The primary reasons for the acquisition and a description of how the acquirer obtained control of the acquired operation including, where applicable, the legal basis for the acquisition.

(e) A qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining the operations of the acquired operation and the acquirer, intangible assets that do not qualify for separate recognition or other factors.

(f) The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:

(i) Cash;

(ii) Other tangible or intangible assets, including an operation or controlled entity of the acquirer;

(iii) Liabilities incurred, for example, a liability for contingent consideration; and

(iv) Equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.

(g) For contingent consideration arrangements and indemnification assets:

(i) The amount recognized as of the acquisition date;

(ii) A description of the arrangement and the basis for determining the amount of the payment; and

(iii) An estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.

(h) For acquired receivables:

(i) The fair value of the receivables;

(ii) The gross amounts receivable in accordance with a binding arrangement; and

(iii) The best estimate at the acquisition date of the cash flows in accordance with a binding arrangement not expected to be collected.

The disclosures shall be provided by major class of receivable, such as loans, ~~direct finance~~ leases and any other class of receivables.

(i) (…)

Effective Date and Transition

Effective Date

…

126H. **<u>Paragraphs 68, 71, 120, AG76 and AG89 were amended, paragraphs AG72–AG74 and their related heading were deleted, and paragraphs 82A and 82B and the related heading were added by IPSAS 43 issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.</u>**

Application Guidance

This Appendix is an integral part of IPSAS 40.

Recognizing Particular Assets Acquired and Liabilities Assumed in an Acquisition (see paragraphs 64–68)

~~Operating leases~~

AG72. [Deleted] ~~The acquirer shall recognize no assets or liabilities related to an operating lease in which the acquired operation is the lessee except as required by paragraphs AG73–AG74.~~

AG73. [Deleted] ~~The acquirer shall determine whether the terms of each operating lease in which the acquired operation is the lessee are favorable or unfavorable. The acquirer shall recognize an intangible asset if the terms of an operating lease are favorable relative to market terms and a liability if the terms are unfavorable relative to market terms. Paragraph AG89 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquired operation is the lessor.~~

AG74. [Deleted] ~~An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms. For example, a lease of gates at an airport or of retail space in a prime shopping area might provide entry into a market or other future economic benefits or service potential that qualify as identifiable intangible assets, for example, as a relationship with users of a service. In that situation, the acquirer shall recognize the associated identifiable intangible asset(s) in accordance with paragraph AG75.~~

…

Intangible Assets

…

AG76. An intangible asset that meets the binding arrangement criterion is identifiable even if the asset is not transferable or separable from the acquired operation or from other rights and obligations. For example:

(a) [Deleted] ~~An acquired operation leases a facility under an operating lease that has terms that are favorable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The amount by which the lease terms are favorable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even though the acquirer cannot sell or otherwise transfer the lease arrangement.~~

(b) An acquired operation owns and operates a nuclear power plant. The license to operate that power plant is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognize the fair value of the operating license and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.

(c) An acquired operation owns a technology patent. It has licensed that patent to others for their exclusive use outside the domestic market, receiving a specified percentage of future foreign revenue in exchange. Both the technology patent and the related license agreement meet the binding arrangement criterion for recognition separately from goodwill even if selling or exchanging the patent and the related license agreement separately from one another would not be practical.

…

Assets Subject to Operating Leases in Which the Acquired Operation is the Lessor

AG89. In measuring the acquisition-date fair value of an asset such as a building that is subject to an operating lease in which the acquired operation is the lessor, the acquirer shall take into account the terms of the lease. ~~In other words, t~~The acquirer does not recognize a separate asset or liability if the terms of an operating lease are either favorable or unfavorable when compared with market terms ~~as paragraph AG73 requires for leases in which the acquired operation is the lessee~~.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 40

…

Identifiable Intangible Assets in an Acquisition

…

Binding Arrangement-Based Intangible Assets

IE224. Binding arrangement-based intangible assets represent the value of rights that arise from binding arrangements. Binding arrangements with customers are one type of binding arrangement-based intangible asset. If the terms of a binding arrangement give rise to a liability (for example, if the terms of ~~an operating lease or~~ a binding arrangement with a customer are unfavorable relative to market terms), the acquirer recognizes it as a liability assumed in the acquisition. Examples of binding arrangement-based intangible assets are:

Class	**Basis**
Licensing, royalty and standstill agreements	Binding arrangement
Advertising, construction, management, service or supply binding arrangements	Binding arrangement
~~Lease agreements (whether the acquired operation is the lessee or the lessor)~~	~~Binding arrangement~~
Construction permits	Binding arrangement
Franchise agreements	Binding arrangement
Operating and broadcast rights	Binding arrangement
Servicing binding arrangements, such as mortgage servicing binding arrangements	Binding arrangement
Binding arrangements for employment	Binding arrangement
Use rights, such as drilling, water, air, timber cutting and route authorities	Binding arrangement

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs 2, 87, AG198, and AG210 are amended. Paragraph 156D is added. New text is underlined and deleted text is struck through.

Scope

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

   (a) …

   (b) **Rights and obligations under leases to which ~~IPSAS 13, *Leases*~~ <u>IPSAS 43, *Leases*</u> applies. However:**

      (i) **Finance lease receivables (i.e., net investments in finance leases) and operating lease receivables recognized by a lessor are subject to the derecognition and impairment requirements of this Standard;**

      (ii) **Lease liabilities recognized by a lessee are subject to the derecognition requirements in paragraph 35 of this Standard; and**

      (iii) **Derivatives that are embedded in leases are subject to the embedded derivatives requirements of this Standard.**

   (c) …

Simplified Approach for Receivables

87. **Despite paragraphs 75 and 77, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:**

   (a) **Receivables that result from exchange transactions that are within the scope of IPSAS 9 and non-exchange transactions within the scope of IPSAS 23.**

   (b) **Lease receivables that result from transactions that are within the scope of ~~IPSAS 13~~ <u>IPSAS 43</u>, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all lease receivables but may be applied separately to finance and operating lease receivables.**

Effective Date and Transition

Effective Date

…

156D. **<u>Paragraphs 2, 87, AG198 and AG210 were amended by IPSAS 43 issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.</u>**

Application Guidance

…

Measurement of Expected Credit Losses

Expected Credit Losses

…

AG198. When measuring a loss allowance for a lease receivable, the cash flows used for determining the expected credit losses should be consistent with the cash flows used in measuring the lease receivable in accordance with ~~IPSAS 13, Leases~~ IPSAS 43, *Leases.*

…

Time Value of Money

…

AG210. Expected credit losses on lease receivables shall be discounted using the same discount rate used in the measurement of the lease receivable in accordance with ~~IPSAS 13~~ IPSAS 43, *Leases.*

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 43, Leases*.*

Introduction

BC1. IPSAS 13, *Leases*, was drawn primarily from International Accounting Standard (IAS) 17, *Leases*, (revised 2003) issued by the International Accounting Standards Board (IASB). In January 2016, the IASB issued International Financial Reporting Standard (IFRS) 16, *Leases*. IFRS 16 replaced IAS 17 and a number of related interpretations[2].

BC2. In June 2016, the IPSASB approved a project brief to develop revised requirements for accounting for leases. This brief acknowledged, and reconfirmed, the IPSASB's conclusion in IPSAS 13 that the economics of a lease transaction are the same in both the public and private sectors, resulting in the decision that this should be an IFRS 16 alignment project.

BC3. The IPSASB's policy document, *Process for Reviewing and Modifying IASB Documents*, sets out the process the IPSASB follows when developing an aligned Standard. The first step of the process is to consider whether there are any public sector issues that warrant a departure from an IASB document.

BC4. In determining whether public sector issues warrant a departure from an IASB document, the IPSASB considers the following:

(a) Whether applying the requirements of the IASB document would mean that the objectives of public sector financial reporting would not be adequately met;

(b) Whether applying the requirements of the IASB document would mean that the qualitative characteristics of public sector financial reporting would not be adequately met; and

(c) Whether applying the requirements of the IASB document would require undue cost or effort.

BC5. The *Process for Reviewing and Modifying IASB Documents* requires the IPSASB to make its decisions in the context of the following:

(a) Consistency with the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*);

(b) Internal consistency with existing IPSAS; and

(c) Consistency with the statistical bases.

---

[2] International Financial Reporting Interpretations Committee Interpretation IFRIC-4, *Determining whether an Arrangement contains a Lease* and Standing Interpretations Committee Interpretations SIC-15, *Operating Leases—Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Background

Development of ED 64, Leases

Lessee Accounting

BC6. IFRS 16 introduced a new lease accounting model for lessees—the right-of-use model. The right-of-use model is based on the foundational principle that leases are financings of the right to use an underlying asset, and results in lessee accounting as follows[3]:

(a) Recognizes a 'right-of-use asset'; and

(b) Recognizes a lease liability related to the future lease payments.

BC7. When developing ED 64, *Leases*, the IPSASB had considered whether there were any public sector issues that warranted a departure from the right-of-use model for lessee accounting in IFRS 16. In so doing, the IPSASB came to the following conclusions:

(a) The right-of-use asset satisfies the definition of, and recognition criteria for, an asset in the IPSASB's *Conceptual Framework*.

(b) The right-of-use asset is recognized when the lessee controls the asset, which is consistent with the IPSASB's *Conceptual Framework*.

(c) The information reported under the single right-of-use lessee accounting model specified in IFRS 16 would provide the most useful information to the broadest range of users of financial statements.

(d) The right-of-use model prevents accounting arbitrage and information asymmetry. It improves comparability between public sector entities that lease assets and public sector entities that purchase assets.

(e) The IPSASB acknowledged that there would be costs for lessees associated with implementing the right-of-use model in the public sector. However, the IPSASB considered that the benefits outweigh the costs, particularly if the IPSASB also adopted the exemptions in IFRS 16.

BC8. Consequently, the IPSASB had agreed that there were no public sector issues that warranted a departure from the right-of-use model for lessee accounting in IFRS 16. The IPSASB therefore had decided to develop ED 64 with lessee accounting requirements that were aligned with the requirements in IFRS 16.

Lessor Accounting

BC9. IFRS 16 retained the 'risks and rewards incidental to ownership' model applied in IAS 17 (and IPSAS 13). The IPSASB had considered whether there were any public sector issues that warranted a departure from the lessor accounting requirements in IFRS 16. In developing ED 64, the IPSASB had come to the view that the 'risks and rewards incidental to ownership' model:

(a) Is not based on control and would not be consistent with the IPSASB's *Conceptual Framework*.

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[3] Except for short-term leases and leases for which the underlying asset is of low value, as described in IFRS 16.5–8.

(b) Does not distinguish between the right-of-use asset and the underlying asset. The IPSASB considered these to be different economic phenomena which should both be accounted for.

(c) If applied for lessor accounting, while a control-based model was applied for lessee accounting, would:

(i) Be inconsistent with IPSAS 17, *Property, Plant, and Equipment* and IPSAS 32, *Service Concession Arrangements: Grantor*, which are based on control; and

(ii) Raise consolidation issues and impair understandability and the decision usefulness of information where the lessor and the lessee are part of the same economic entity. For example, if the lessor classifies the lease as a finance lease, the underlying asset is not recognized by either party, and separate records will need to be maintained to report the underlying asset in the consolidated financial statements. In this context, the IPSASB had formed the view that a lessor would not be expected to derecognize a leased asset because the lessor has only transferred the right to use an underlying asset, not the underlying asset itself.

BC10. As a consequence, the IPSASB had decided to develop a right-of-use model for lessor accounting specifically designed for public sector financial reporting.

IPSASB Consultative Advisory Group

BC11. The IPSASB Consultative Advisory Group (CAG) had been consulted during the development of ED 64, in particular on the IPSASB's decision to depart from IFRS 16 in lessor accounting.

BC12. At its December 2016 meeting, the CAG advised the IPSASB of its views that:

(a) Symmetry may not be needed in lease accounting;

(b) The treatment of the underlying asset is an important issue in the public sector, and it needs to be recognized in the financial statements; and

(c) An approach drawn from IFRS 16 would result in the underlying asset not appearing in the statement of financial position of either the lessor or lessee in some cases and expressed a view that this would give rise to a public interest concern.

BC13. The CAG also advised the IPSASB that if it wants to pursue proposals other than IFRS 16 lessor accounting it may take a long time to develop an appropriate lessor accounting model given the experiences and challenges the IASB faced in attempting to do so.

ED 64, Leases

BC14. In January 2018, the IPSASB published ED 64, *Leases* proposing a single right-of-use model for lease accounting for lessees and lessors under which:

(a) The lessee would recognize a 'right-of-use asset' and a lease liability related to the future lease payments at the commencement of a lease; and

(b) The lessor would recognize a lease receivable and a lease liability (unearned revenue) at the commencement of a lease, while continuing to recognize and measure the underlying asset according to the applicable Standards.

BC15. ED 64 also proposed specific public sector accounting requirements on leases at below-market terms, also known as concessionary leases. The proposal was that such leases be measured at fair value leading to recognition of the implicit subsidy (the difference between the market value and the lease contract value) in both lessees' and lessors' financial statements.

Feedback from Constituents on ED 64, Leases

BC16. The IPSASB received 39 comment letters in response to ED 64. This feedback indicated that:

(a) The vast majority of respondents agreed with the right-of-use model for lessee accounting. Many respondents who agreed with the proposals noted that their thinking was generally consistent with IPSASB's reasoning set out in the Basis for Conclusions to ED 64.

(b) Respondents that disagreed or partially agreed with the right-of-use model for lessees were of the view that:

(i) The proposed model was too complicated, costly and focused on the statement of financial position;

(ii) The right-of-use model for lessee accounting by itself was inadequate for public sector reporting because the IPSASB did not consider sufficiently the allocations of rights, which pertain to physical and intangible assets, which are prevalent in the public sector;

(iii) An exemption should be provided for leases between public sector entities; and

(iv) Guidance should be provided on the recognition and measurement of the transferred asset at the end of the lease term.[4]

(c) Respondents were almost equally divided over whether a departure from IFRS 16 lessor accounting was justified, with a small majority supporting departure. Generally, those in support of IFRS 16 lessor accounting, were of the view that the IPSASB had not made a strong enough case to depart from IFRS 16. On the other hand, those supporting departure from IFRS 16 lessor accounting on conceptual grounds agreed with the IPSASB's reasoning set out in the Basis for Conclusions, but did not agree consistently with the proposals for lessor accounting set out in ED 64.

(d) Respondents that did not agree with ED 64 proposals for lessor accounting did not have a unified view on the approach that should be adopted for lessor accounting and proposed a number of alternatives. The lack of consensus among respondents on the economics of, and accounting for, leases by lessors highlighted significant differences across jurisdictions.

(e) Respondents were of the view that the IPSASB needed to address public sector specific issues related to leases (for example, concessionary leases, access rights, and other types of arrangements in the public sector, etc.). However, respondents provided diverse views on how to address these public sector specific issues.

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[4] See paragraph BC27.

IPSASB's Response to Constituents' Feedback on ED 64, Leases

IPSASB Consultative Advisory Group

BC17. After considering constituents' feedback on ED 64, at the December 2018 CAG meeting the IPSASB sought CAG's views on actions to move the Leases project forward in light of the responses to ED 64.

BC18. The CAG advised the IPSASB that at this stage of the Leases project it would be in the public interest to:

(a) Slow down the Leases project by extending its timeline to better understand the issues raised by respondents to ED 64;

(b) Further consider alignment with IFRS 16 regarding lessor accounting; and

(c) Focus on public sector differences related to lease transactions.

Other IPSASB initiatives

BC19. The IPSASB decided to:

(a) Create a Task Force in December 2018, with members from several jurisdictions, including preparers, users, auditors and standard-setters, to undertake an in-depth review of all constituent comments; and

(b) Invite guest speakers to the June and September 2019 IPSASB meetings to provide their views on lease accounting and the implementation challenges of applying IFRS 16 in both the private and public sectors. Speakers included national standard-setters, auditors, preparers and the statistical accounting community.

BC20. The guest speakers highlighted that the new lessee accounting model in IFRS 16 was raising significant implementation issues in both the private and public sectors. The IPSASB considered that leases are a very common transaction in the public sector, and that any changes on how to account for leases would have similar or greater implementation cost and challenges for the public sector. IFRS 16 also presents significant conceptual and practical challenges for the statistical community.

New Approach to the Leases Project

BC21. In the light of these presentations and the responses to ED 64, in March 2020 the IPSASB decided to revisit its overall approach to the Leases project, and to adopt a phased approach as follows:

(a) Phase One, dealing with lease accounting model(s) for both lessees and lessors based on the same definition of a lease as in IFRS 16; and

(b) Phase Two, dealing with public sector specific issues, such as concessionary leases, access rights, and other types of arrangements in the public sector. The IPSASB also decided to issue a 'Request for Information' to better inform this Phase Two work.

BC22. In determining how to approach the first phase of the project, the IPSASB discussed whether it should consider a variant to IFRS 16 lessor accounting that would require all lessors to account for leases as operating leases only. The aim of this variant would be to deal with the concern raised by respondents regarding the non-recognition of the underlying asset by both the lessor and the lessee if the lessor classifies the lease as a finance lease.

BC23. The IPSASB decided not to proceed with this IFRS 16 variant for lessors because:

(a) Requiring operating lease accounting for all lessor transactions would remove the judgement by preparers that is inherent to the risks and rewards model and would transform it into a rules-based model without sufficient economic rationale;

(b) It would create consolidation issues where both lessor and lessee are part of the same economic entity applying IPSAS; and

(c) It would create mixed group[5] issues where some commercial public sector entities apply IFRS Standards but are controlled by public sector entities that apply IPSAS. Different requirements are costly to those applying IPSAS when there is no public sector specific reason to develop different accounting treatments.

Three Strategic Options for the Leases Project

BC24. After making this decision, the IPSASB discussed three strategic options:

(a) Option 1 – Retain IPSAS 13, which would pause the project;

(b) Option 2 – Proceed with the right-of-use model for lessees and risks and rewards model for lessors in developing a Standard aligned with IFRS 16; or

(c) Option 3 – Proceed with the right-of-use model for both lessees and lessors and develop a Standard based on ED 64.

BC25. In order to make this strategic decision on the overall future direction of the project, the IPSASB considered the following six factors alongside the public interest:

(a) Public Financial Management (PFM)[6] benefits;

(b) Implementation costs and challenges—training, information technology changes, change of processes, accounting changes (first-time implementation of new Standard), and on-going accounting (maintenance);

(c) Government Finance Statistics (GFS) alignment—at the conceptual level, when comparing IPSAS and GFS accounting frameworks, and at the practical level, when compiling GFS accounts using information from accrual-based IPSAS accounts;

[5] Mixed groups are groups that encompass public sector entities that apply IPSAS and commercial public sector entities that apply IFRS Standards.

[6] Defined in *The CIPFA FM Model, Statements of Good Practice* as "Public Financial Management is the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective achievement of public service outcomes." (see https://www.cipfa.org//media/files/training%20and%20qualifications/keystone%20guides/cipfa%20fm%20model.pdf).

This definition is aligned with the principles in the *IFAC/CIPFA International Framework: Good Governance in the Public Sector* (see https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/international-framework-good-governance-public-sector)

(d) IPSASB's *Conceptual Framework*—public sector financial reporting objectives of accountability and decision-making, and whether transactions and events meet the definition of elements[7];

(e) IFRS Alignment—alignment with IFRS 16; and

(f) Feasibility of the Leases project—timeliness, and impact on project management, IPSASB's resource allocation, and IPSASB's Work Program.

BC26. The IPSASB first considered whether to pause with the leases project by retaining IPSAS 13 (Option 1). The IPSASB was of the view that retaining IPSAS 13 would be the least favorable option in terms of PFM benefits, consistency with the IPSASB's *Conceptual Framework* and IFRS Alignment because it would:

(a) Continue to allow off-balance sheet financing of operating leases for lessees;

(b) Create mixed group issues where some controlled entities are required to apply IFRS Standards;

(c) Result in some cases the underlying asset not being recognized by either the lessee or the lessor, or being recognized by both;

(d) Be inconsistent with the control-based approach to asset recognition and derecognition in the IPSASB's *Conceptual Framework*; and

(e) Retain an accounting model that differs from that in IFRS 16 for both lessees and, to a lesser extent, lessors[8].

BC27. During its discussion of Option 1, the IPSASB also considered the comments made by respondents that disagreed or partially agreed with the right-of-use model for lessees (see paragraphs BC16(b)(i)–BC16(b)(ii)). The IPSASB concluded that the respondents' concerns were not public sector specific and, therefore, did not warrant a departure from IFRS 16. The IPSASB also concluded that the benefits of the right-of-use model for lessees would outweigh the costs of the accounting changes as there would be a number of simplifications, such as:

(a) Providing a single accounting model for lessees which would remove the different lease classifications in IPSAS 13;

(b) Permitting a lessee not to recognize assets and liabilities, for short-term leases and leases of low-value assets;

(c) Permitting application of the Standard by entities on a portfolio basis for leases with similar characteristics;

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[7] The main difference between the three options is related to recognition of elements and how this impacts accountability and decision-making.

[8] For lessees, IPSAS 13 includes the risks and rewards incidental to ownership model and IFRS 16 includes the right-of-use model. For lessors, IFRS 16 changed the risks and rewards incidental to ownership model compared to IAS 17 (the Standard from which IPSAS 13 was drawn primarily) because it made changes to the requirements for subleases, lease modifications, initial direct costs, variable lease payments, and disclosures.

(d) Simplifying the measurement requirements for lease liabilities, in particular the requirements for variable lease payments, payments during optional periods and the reassessment of lease liabilities;

(e) Establishing requirements for separating lease and non-lease components included in the same contract;

(f) Establishing lessee disclosure requirements focused on the most significant features of their lease portfolios; and

(g) Simplifying lessee transition requirements.

BC28. Consequently, the IPSASB decided that it would be in the public interest not to proceed with Option 1, and so to replace IPSAS 13 with a new Standard.

BC29. The IPSASB then considered whether to proceed with Option 2 (an IFRS 16-aligned Standard) or to proceed with Option 3 (ED 64) by applying the six factors outlined in paragraph BC25. Since the main difference between these two options was the lessor accounting model, this was the focus for the Board's discussions, and therefore the paragraphs below focus on lessor accounting, except where otherwise stated.

BC30. Regarding PFM benefits, it was not clear from the responses to ED 64 which option provides the greater overall benefits. For example, some respondents argued that the recognition of a liability would lead to increased financial leverage reflected in the lessor's statement of financial position. Therefore, this factor did not provide a clear indication of which option was preferable.

BC31. Option 3 would entail greater implementation costs and challenges than Option 2 because IFRS 16 substantially carried forward the lessor accounting model in IAS 17 (with which IPSAS 13 is aligned), making only relatively minor changes.

BC32. With respect to alignment with GFS, wherein the lessees and lessors both follow the concept of risks and rewards, the Option 2 accounting model would be aligned for lessors, but not for lessees. From a GFS perspective Option 2 would still require the use of surveys to obtain data on the underlying asset in a lease (when the lessor has a finance lease). However, Option 2 is currently being applied in the private sector and any additional statistical information or data processes required by GFS can be replicated in the public sector if the IPSASB chose this option. Under Option 3, the accounting model would not be aligned with GFS for both lessees and lessors.

BC33. Option 3, under which both the lessees and lessors would follow the concept of control, would be more consistent with the IPSASB's *Conceptual Framework*, while Option 2 would be less consistent with the IPSASB's *Conceptual Framework*[9].

BC34. On the other hand, Option 2 would be aligned with IFRS Standards, while Option 3 would not be so aligned.

BC35. From a project management perspective, Option 2 would have the advantage of being more straightforward and therefore more feasible than Option 3. Additionally, Option 3 would be more challenging from a project delivery perspective because of the probable continued variations in

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[9] Where a Standard is developed that departs from the *Conceptual Framework*, the IPSASB explains the reasons.

views in further developing the ED 64 lessor accounting proposals, which could therefore extend the project timeline.

BC36. After careful consideration of the respective arguments for and against the Options for each of the six factors, the IPSASB decided that, on balance, the public interest would be better served by proceeding with Option 2 (an IFRS 16–aligned Standard) because it would:

(a) Be less costly and challenging to implement by changing only lessee accounting, and the public sector could benefit from the private sector experience in implementing IFRS 16;

(b) Align with the IPSASB's Strategy & Work Plan strategic theme of Maintaining IFRS Alignment, which was an original objective of the Leases project;

(c) Address more quickly the important off-balance sheet financing of operating leases by lessees that IPSAS 13 permits, without waiting for a new accounting model for lessors; and

(d) Facilitate Phase One delivery, thus permitting the IPSASB to focus on Phase Two of the project, and so to address the important public sector specific issues described in paragraph BC21(b) in a more timely manner.

Exposure Draft (ED) 75, *Leases* and Request for Information

BC37. In January 2020, the IPSASB published:

(a) ED 75, *Leases* as part of Phase One of the Leases project; and

(b) Request for Information, *Concessionary Leases and Other Arrangements Similar to Leases* as part of the Phase Two of the Leases project.

BC38. The IPSASB received 48 and 37 comment letters in response to ED 75 and Request for Information, respectively.

BC39. The feedback received on the proposals in ED 75[10] indicated that:

(a) The majority of respondents agree or partially agreed with the ED 75 proposals for alignment with IFRS 16 and consequently with the right-of-use model for lessees[11] and risks and rewards model for lessors; and

(b) Some respondents who agreed with ED 75 noted that their thinking was generally consistent with IPSASB's reasoning set out in the Basis for Conclusions (BC) to ED 75. Other respondents agreed with ED 75 without providing additional reasons.

BC40. The IPSASB noted that the ED 75 proposals for lessor accounting have much stronger support from respondents when comparing with the ED 64 proposals, which received mixed support.

BC41. Some respondents, while agreeing with the ED 75 proposals for lessee and lessor accounting, provided minor points for further consideration by the IPSASB.

BC42. The few respondents that partially agreed or disagreed with ED 75 provided the following reasons:

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[10] The analysis of the responses to the Request for Information will be made in Phase Two of the Leases project.

[11] This feedback was consistent with ED 64 lessee accounting model aligned with IFRS 16, which was also supported.

(a) Exemption should be added for public sector entities to provide relief from applying the proposed accounting requirements for leases between entities of the public sector because of cost-benefit reasons;

(b) Accounting asymmetry between lessee and lessor;

(c) The underlying asset is recognized neither in the lessor's nor in the lessee's financial statements in the case of a finance lease from the lessor's perspective;

(d) Divergence with Government Finance Statistics (GFS) in lessee accounting;

(e) Scope of public debt for lessees;

(f) The Leases project should have a single phase;

(g) Continue adopting IPSAS 13; and

(h) Proposed model for lessees is too complicated, costly and concentrated on the statement of financial position

BC43. The IPSASB considered the overall feedback received and concluded that the issues raised by respondents that partially agreed or disagreed with ED 75 were:

(a) Not public sector specific that warrant departure from IFRS 16; or

(b) Considered by the IPSASB during the development of ED 75 as set out in its Basis for Conclusions (see BC21–BC36).

BC44. Therefore, the IPSASB decided to proceed with the ED 75 proposals for lessee and lessor accounting, subject to addressing the minor points raised by respondents that in the view of the IPSASB would enhance ED 75.

IPSAS 43, *Leases*

BC45. This Standard is based on IFRS 16, *Leases* issued by the IASB. In accordance with existing practice, this Basis for Conclusions outlines only those areas where IPSAS 43 departs from the main requirements of IFRS 16, or where the IPSASB considered such departures taking into consideration the feedback received to ED 75.

Scope (see paragraph 3)

BC46. In developing ED 75, the IPSASB had considered whether to provide an explicit scope exclusion for concessionary leases. The IPSASB had decided not to provide that explicit scope exclusion because:

(a) IPSAS 13 does not have a scope exclusion for concessionary leases;

(b) ED 75 is an IFRS aligned Standard, and IFRS 16 does not exclude concessionary leases from its scope; and

(c) Any issues in applying ED 75 to concessionary leases, including the concession component, will be considered further in Phase Two of the Leases project (see paragraph BC21(b)).

BC47. In reaching this decision, the IPSASB had noted that ED 75 already addressed lease incentives paid by the lessor to the lessee to entice the lessee to enter into the lease. However, in this situation the lease incentives do not modify the nature of the lease as being a lease at market terms. The leases to be considered in Phase Two of the Leases project are concessionary leases where the lessor has the intention of providing a concession that modifies the nature of the lease into a lease at below-market terms.

Responses to ED 75, *Leases*

BC48. The majority of respondents to ED 75 supported the proposed scope based on the same reasons as set out in paragraphs BC39.

BC49. The minority respondents who did not support the proposed scope in ED 75 commented that they would prefer to explicitly scope out concessionary lease because:

(a) The separation of the lease component requirement cannot be applied to leases with no consideration or the exchange is insignificant;

(b) It would help clarify whether ED 75 (measured at cost) or IPSAS 23 (measured at fair value) applies to concessionary leases;

(c) It would help clarify whether ED 75 or the future pronouncement based on the RFI apply to concessionary leases;

(d) Preparers may have to change their accounting treatment of concessionary leases in order to comply with ED 75 following Phase One, and later on have to again change their accounting treatment of concessionary leases in order to comply with the pronouncement issued following Phase Two of IPSASB's Leases project.

BC50. The IPSASB considered the issues raised by the respondents and decided to proceed with the ED 75 proposals as the basis for IPSAS 43 due to:

(a) The reasons identified in paragraph BC46; and

(b) The issues raised by respondents to ED 75 were not persuasive enough to justify a different approach.

Definitions

Definition of a Lease

BC51. In developing ED 75, the IPSASB decided to adopt the IFRS 16 definition of a lease because it had not identified a public sector specific reason that warranted departure from IFRS 16.

Responses to ED 75, *Leases*

BC52. While the majority of respondents agreed with the ED 75 proposal, a few respondents suggested that the IPSASB should:

(a) Clarify the term consideration to refer to financial or nonfinancial consideration as public sector entities may also enter into lease contracts in exchange for consideration that is nonfinancial;

(b) Clarify the difference between concessionary leases and nominal leases and quantifying the value and the basis of a nominal lease from the definition of a lease perspective; and

(c) Amend the definition of a lease by adding the term "control the" before "use of an identified asset" [footnote omitted] to be consistent with the application guidance of ED 75.10 because inconsistent references to the right to use make it difficult to decide whether the analysis should focus on the right to use, the right to control the use or the right to direct the use.

BC53. The IPSASB noted that ED 75 deals with consideration in the form of cash flows because:

(a) The definition of a lease is linked to the definition of lease payments, and

(b) This approach is consistent with both IPSAS 13, *Leases* and IFRS 16, *Leases*.

BC54. The IPSASB also noted that Phase Two of the Leases project will address concessionary leases, which the Request for Information, *Concessionary Leases and Other Arrangements Similar to Leases* is part of.

BC55. The IPSASB considered the consistency between the definition of a lease and its application guidance. The IPSASB concluded that the application guidance in ED 75 clarifies the principle set out in the definition of a lease about conveying the right to use an identified asset by explicitly referring to the right to control the use of an identified asset, without the need to include it in the definition of a lease. The IPSASB noted that this approach is consistent with the approach in IFRS 16.

BC56. In conclusion, the IPSASB decided to retain the ED 75 proposals in IPSAS 43, *Leases* because it did not identify a public sector specific reason that would warrant a departure from IFRS 16.

Contractual Arrangements

BC57. In developing ED 75, the IPSASB had noted that, in certain jurisdictions, public sector entities are precluded from entering into formal contracts but do enter into arrangements that have the substance of contracts. These arrangements may be known by another term, e.g., a “government order.” To assist entities in identifying contracts, which either have the substance or legal form of a contract, the IPSASB had considered it appropriate to issue additional Application Guidance explaining the factors an entity should consider in assessing whether an arrangement is contractual or non-contractual.

BC58. Consideration was given to whether the term “binding arrangement” should be used to describe the arrangements highlighted in paragraph AG3. The term “binding arrangement” is defined in IPSAS 32, *Service Concession Arrangements: Grantor* as contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract. For example, an arrangement between two government departments that do not have the power to contract may be a binding arrangement. The IPSASB had concluded that the term “binding arrangements,” as used in IPSASs, embraces a wider set of arrangements than those identified in paragraph AG3 and therefore concluded that it should not be used in this Standard. Entities in a binding arrangement would enforce their rights and obligations through legal (enforceable through judicial system) or equivalent means (enforceable through cabinet and ministerial directives, executive authority, or other means that are similar). However, entities in a contract would enforce their rights and obligations only through legal means (i.e., by law, through judicial system).

Responses to ED 75, *Leases*

BC59. ED 75 specifically referred to contracts in the definition of a lease. Although the majority of respondents agreed with the ED 75 proposals, some respondents disagreed with limiting the definition of a lease to contracts because it would scope out from the final IPSAS on Leases types of arrangements that are not contracts, but are prevalent in the public sector because:

(a) There might not be willing parties to the arrangement; or

(b) Many public sector entities do not have the power to enter into contracts but enter into binding arrangements that confer similar rights and obligations on the parties as if they were a form of contract.

BC60. As a result of these concerns, the IPSASB decided to clarify that IPSAS 43 is designed only for transactions that have the three elements identified in paragraph AG3.

BC61. As noted in BC58, the IPSASB differentiated contracts as enforced by legal means whereas binding arrangements are enforced by legal or equivalent means. A transaction that does not have willing parties is neither a contract nor a binding arrangement.

BC62. As a result, the IPSASB decided to retain the term “contract” in the definition of a lease in IPSAS 43.

Initial Direct Costs

BC63. The IPSASB decided not to include the IFRS 16 requirements for a manufacturer or dealer lessor (see paragraph BC93) in IPSAS 43. Therefore, the IFRS 16 definition of ‘initial direct costs’ has also been amended to remove the reference to a manufacturer or dealer lessor.

Fair Value

BC64. In developing ED 75, the IPSASB had considered whether to retain the fair value definition consistent with IFRS 16 and IPSAS 13 or to include the fair value definition consistent with ED 77, *Measurement*.

BC65. The IPSASB had noted that including the fair value definition consistent with ED 77 might significantly change the lease classification and the timing of recognizing gains or losses for sale and leaseback transactions.

BC66. Therefore, the IPSASB had decided to retain the fair value definition consistent with IFRS 16 because:

(a) It is consistent with the IPSASB’s March 2020 decision to retain the IPSAS 13 lessor requirements and align with IFRS 16 for cost-benefit reasons (see paragraph BC36); and

(b) It is consistent with the IASB’s decision to retain in IFRS 16 the fair value definition that existed in IAS 17*,* as the previous lessor accounting model in IAS 17 was not fundamentally flawed and should not be changed.

Responses to ED 75, *Leases*

BC67. While the majority of respondents agreed with the ED 75 proposals, some respondents disagreed with the retention of the fair value definition from IFRS 16, *Leases* and IPSAS 13, *Leases* in ED 75 because:

(a) Of the possible confusion for users and preparers of having two different fair value definitions in IPSASB’s literature;

(b) Sale and leaseback transactions (where the definition of fair value is used) occur infrequently in the public sector;

(c) Of the benefits of the consistent use of terminology in IPSASB literature; and

(d) Most countries are still in the process of implementing IPSAS and, therefore, the change to the ED 77 fair value definition would not cause significant change for their accounting system.

BC68. The IPSASB decided to retain the ED 75 fair value definition in IPSAS 43 because there was no compelling public sector reason to depart from IFRS 16.

Identifying a Lease

BC69. In developing ED 75, the IPSASB had considered whether to refer to both "economic benefits" and "service potential" in the application guidance section in ED 75 on identifying a lease, rather than "economic benefits" alone.

BC70. If the guidance referred only to "economic benefits", the IPSASB had noted that an entity that intends to use the identified asset to provide services to the community might reach the conclusion that the transaction is not a lease because it does not derive economic benefits from the use of that asset, despite the fact that the transaction meets the definition of a lease in ED 75.5. Therefore, the IPSASB had decided to add the term "service potential" in the application guidance section on identifying a lease, where appropriate.

BC71. In reaching this conclusion, the IPSASB had also noted that this approach is consistent with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (2014) in referring to assets in terms of both economic benefits and service potential.

Responses to ED 75, *Leases*

BC72. All respondents to ED 75 supported referring to both "economic benefits" and "service potential" in the application guidance section on identifying a lease, rather than "economic benefits" alone.

BC73. Based on a respondent's suggestion, the IPSASB decided to extend this approach, where appropriate, to the Illustrative Examples. In doing so, the IPSASB's rationale was to refer to "service potential" in all illustrative examples that have generic references to the benefits of the lease.

Lessee Accounting

Recognition Exemptions

BC74. The IPSASB considered the recognition exemptions in IFRS 16. The IPSASB did not identify a public sector specific reason that would warrant different recognition exemptions in this Standard.

BC75. The IPSASB also considered whether the permissible recognition exemptions in IFRS 16 should be a requirement or an option in this IPSAS. The IPSASB noted that, according to the IASB's research, leases of low-value assets represent less than 1% of total non-current assets. In this context, the IPSASB considered that, on the one hand, making the recognition exemptions a requirement rather than an option would enhance the comparability between public sector entities and provide increased cost relief to them, with a low probability of a negative impact on the reliability and accuracy of financial statements. However, on the other hand, the IPSASB noted that requiring recognition exemptions for short-term leases may create a new arbitrage point, where entities could design their lease contracts to achieve desired accounting outcomes.

BC76. On balance, the IPSASB concluded that there was no public sector specific reason to require rather than permit recognition exemptions. The IPSASB also considered that, by not requiring the application of the exemptions, public sector entities would be able to adopt an approach that appropriately provides a faithful representation of leasing transactions in terms of their own statements of financial position.

BC77. The IPSASB noted that IFRS 16 does not set a specific monetary amount for a lease of a low-value asset. Instead, the IASB included in paragraph BC100 of the Basis for Conclusions: "the IASB had in mind leases of underlying assets with a value, when new, in the order of the magnitude of US$5,000 or less". The IPSASB considered whether it was appropriate for public sector financial reporting to use the same or a different dollar amount, or not make any reference to a threshold in the Basis for Conclusions of this Standard.

BC78. The IPSASB acknowledged that, for many public sector entities that are services-based, a figure of US$5,000 might represent the value of most of their individual assets. The IPSASB concluded that public sector entities, if they decide to apply the exemption, should use a threshold for determining leases of low-value assets, considering the materiality of leasing transactions in relation to their financial statements. The IPSASB concluded that it would not provide guidance on a specific monetary amount. In assessing materiality, preparers consider whether the omission of information could influence financial statement users' assessments of accountability or their decision-making.

Responses to ED 75, *Leases*

BC79. In determining a dollar amount for leases of low-value assets, the IPSASB considered the following feedback received on ED 75:

(a) There is an apparent inconsistency between the application guidance on leases of low value assets that refers to an assessment on an absolute basis and the Basis for Conclusions where it refers to an assessment in terms of materiality; and

(b) There is no public sector specific reason for public sector entities not to benefit from the same monetary amount to guide entities in applying the exemption.

BC80. Based on the feedback received, the IPSASB concluded that public sector entities, if they decide to apply the exemption, should use a threshold for determining leases of low-value assets, considering the guidance in IPSAS 43.AG4–AG9. The IPSASB noted that the exemption is to apply to leases for which the underlying asset, when new, is of low value. A lease will not qualify for the exemption if the nature of the underlying asset is such that, when new, its value is typically not low.

BC81. The IPSASB concluded that it would not provide a specific monetary amount in the Basis for Conclusions because the application guidance already provides guidance for applying the requirements consistent with IFRS 16. The IPSASB decided that the outcome of the assessment of whether an underlying asset is of low value should not be affected by the size, nature, or circumstances of the lessee—i.e., the exemption is based on the value, when new, of the asset being leased; it is not based on the size or nature of the entity that leases the asset.

Discount Rate

BC82. In developing ED 75, the IPSASB had considered whether to provide additional guidance where:

(a) The lessee's incremental borrowing rate is different from the likely interest rate implicit in the lease; or

(b) The lessee is unable to determine the interest rate implicit in the lease or has difficulties in determining the incremental borrowing rate.

BC83. The IPSASB had decided that this issue is not public sector specific because private sector entities encounter similar difficulties in determining the implicit rate in the lease and the incremental borrowing rate.

BC84. The IPSASB had noted that the incremental borrowing rate can be determined by:

(a) Taking into account the terms and conditions of the lease;

(b) Referring to a rate that is readily observable as a starting point (for example, the rate that a lessee has paid, or would pay, to borrow money to purchase the type of asset being leased, or the property yield when determining the discount rate to apply to property leases); and

(c) Adjusting such observable rates as is needed to determine the lessee's incremental borrowing rate as defined in ED 75.

Responses to ED 75, *Leases*

BC85. While the majority of respondents agreed with the ED 75 proposals, a few respondents suggested including some guidance on determining the discount rate because of:

(a) Difficulties in determining the implicit rate in the lease, where public sector entities have challenges in accessing borrowings to determine the incremental borrowing rate;

(b) Differences between real and nominal interest rates in non-developed countries with high inflation; and

(c) The lack of guidance on the meaning of "similar value" in the definition of lessee's incremental borrowing rate.

BC86. The IPSASB decided to proceed with the proposals in ED 75 and not provide additional guidance on the discount rate because:

(a) Lack of incremental borrowing rate is also prevalent in the private sector;

(b) The IPSASB has already clarified in BC84 how to identify an appropriate incremental borrowing rate based on similar transactions; and

(c) Differences between real and nominal interest rates are not a public sector specific issue.

COVID-19 Requirements

BC87. In developing ED 75, the IPSASB had included the 2020 amendments to IFRS 16 for COVID-19-related rent concessions. The IPSASB was of the view that the inclusion of these requirements might be useful to preparers and users of general purpose financial reports (GPFRs) because of the uncertain duration and future impacts of the pandemic.

Responses to ED 75, *Leases*

BC88. While the majority of respondents agreed with the ED 75 proposals, a few respondents suggested that these requirements should be applicable to pandemics in general due to the:

(a) Applicability of these requirements may be overtaken by events and therefore will be of no value to the preparers and users of GPFRs; and

(b) Delayed effective dates of other IPSAS.

BC89. The IPSASB noted that the IASB also considered the risk of the practical expedient being applied too broadly, which could result in unintended consequences. Therefore, the IASB decided to limit the scope of the practical expedient so that it applies only to rent concessions that occur as a direct consequence of the COVID-19 pandemic if other conditions are met.

BC90. Additionally, some respondents suggested changing the date until which the practical expedient can be applied because it will date the Standard and will limit the duration affected by COVID-19. In the end, having the same affected period for all might not work because it might not be the case for everyone.

BC91. The IPSASB noted that, in March 2021, the IASB published Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16). In this publication, the IASB only extended the date of the practical expedient to end on June 30, 2022—it did not introduce either a new practical expedient or a new option to apply (or not apply) the practical expedient. The IASB only wanted these requirements to be applicable to the COVID-19 pandemic by providing a single criterion to be applicable in all jurisdictions.

BC92. The IPSASB decided to retain the ED 75 proposals in IPSAS 43 because it did not identify a public sector specific reason that would warrant a departure from IFRS 16.

Lessor Accounting

Manufacturer or Dealer Lessors

BC93. The IPSASB decided not to include in this Standard the manufacturer or dealer lessor requirements included in IFRS 16 because:

(a) They are not expected to be applied to public sector entities for which IPSAS are designed; and

(b) The IPSASB's constituents did not request its inclusion during consultation on ED 64, which also excluded those requirements.

Responses to ED 75, *Leases*

BC94. While respondents strongly agreed with the ED 75 proposal, one respondent was of the view that the rationale for excluding manufacturer or dealer lessor requirements was not persuasive because although it might not be expected, the public sector is not prohibited from manufacturing or dealing activities.

BC95. The IPSASB recognizes that the relative importance of manufacturer or dealer lessors requirements might vary across jurisdictions. However, the IPSASB decided to proceed with the ED 75 proposal to exclude the manufacturer or dealer lessors requirements in IPSAS 43 because of the:

(a) Reasons identified in paragraph BC93;

(b) Overwhelming support for the ED 75 proposal.

BC96. In reaching this conclusion, the IPSASB noted that if a public sector entity does have manufacturer or dealer lessor arrangements, they could follow IFRS 16 under the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Intermediate Lessors

Responses to ED 75, *Leases*

BC97. While respondents strongly agreed with the ED 75 proposal, one respondent suggested that the IPSASB consider adding guidance related to the scenario where there is a head lease with fixed payments and a sublease with variable lease payments linked to sales, when both have the same lease period. This respondent was of the view that judgements may differ on whether the lease should be classified as an operating lease or a finance lease by the intermediate lessor. A further consideration was related to the recognition of profit and loss related to the right-of-use asset at the commencement date of the sublease.

BC98. The IPSASB decided to proceed with the ED 75 proposals in IPSAS 43 because the IPSASB did not identify a public sector specific reason to depart from the IFRS 16 requirements for intermediate lessors.

Cross-Reference to IFRS 15 Revenue from Contracts with Customers

BC99. The IPSASB decided to refer to IFRS 15 instead of the relevant national or international accounting standard dealing with revenue from contracts with customers, where appropriate, because it is consistent with the:

(a) Control-based approach to lessee accounting in IPSAS 43; and

(b) IFRS 16 reference to IFRS 15 in the corresponding requirements.

BC100. In reaching this decision, the IPSASB noted that these references will be updated when a new IPSAS on Revenue is issued.

Effective Date

BC101. The IPSASB decided that IPSAS 43 should have an effective date of annual financial statements covering periods beginning on or after January 1, 2025, with earlier application permitted.

BC102. In deciding the effective date, the IPSASB considered that:

(a) IFRS 16 also had a three-year period for its application;

(b) IPSAS 41, *Financial Instruments* will be effective in January 1, 2023, which will add to the workload for preparers before having to apply IPSAS 43;

(c) It provides sufficient time for the IPSASB to finalize a new IPSAS on Revenue and other IPSAS under development in the IPSASB's Work Program, which may have consequential amendments to IPSAS 43;

(d) It allows the IPSASB time to finish Phase Two of the Leases project; and

(e) It allows public sector entities time to identify the impacts of and to prepare for the implementation of the new Leases Standard.

BC103. The IPSASB decided to permit the earlier application of IPSAS 43, instead of encouraging it, because, ideally, the Standard should be applied together with the new IPSAS on Revenue aligned with IFRS 15. However, the principles in IFRS 15 are currently under consideration by the IPSASB.

BC104. For those public sector entities that elect to apply IPSAS 43 early, there might be greater complexity in analyzing revenue transactions under different principles: some lease transactions would be accounted for according to the principles in IFRS 15, while the revenue from other non-lease transactions will still be accounted for according to the principles in IPSAS 9, *Revenue from Exchange Transactions*, until the IPSASB publishes a new IPSAS on Revenue. However, cross-referencing to IFRS 15, where appropriate for revenue recognition, provides a temporary solution that allows public sector entities to prepare for the future changes that might be required when the IPSASB completes its Revenue project.

ILLUSTRATIVE EXAMPLES

CONTENTS

Illustrative Examples

These examples accompany, but are not part of, IPSAS 43

IE1. These examples portray hypothetical situations illustrating how an entity might apply some of the requirements in IPSAS 43 to particular aspects of a lease (or other contracts) on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific industry illustrated. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 43.

Identifying a Lease (see paragraphs 10–12 and AG10–AG31)

IE2. The following examples illustrate how an entity determines whether a contract is, or contains, a lease.

Example 1–Rail Cars

Example 1A: a contract between Customer and a freight carrier (Supplier) provides Customer with the use of 10 rail cars of a particular type for five years. The contract specifies the rail cars; the cars are owned by Supplier. Customer determines when, where and which goods are to be transported using the cars. When the cars are not in use, they are kept at Customer's premises. Customer can use the cars for another purpose (for example, storage) if it so chooses. However, the contract specifies that Customer cannot transport particular types of cargo (for example, explosives). If a particular car needs to be serviced or repaired, Supplier is required to substitute a car of the same type. Otherwise, and other than on default by Customer, Supplier cannot retrieve the cars during the five-year period.

The contract also requires Supplier to provide an engine and a driver when requested by Customer. Supplier keeps the engines at its premises and provides instructions to the driver detailing Customer's requests to transport goods. Supplier can choose to use any one of a number of engines to fulfil each of Customer's requests, and one engine could be used to transport not only Customer's goods, but also the goods of other customers (i.e. if other customers require the transportation of goods to destinations close to the destination requested by Customer and within a similar timeframe, Supplier can choose to attach up to 100 rail cars to the engine).

The contract contains leases of rail cars. Customer has the right to use 10 rail cars for five years.

There are 10 identified cars. The cars are explicitly specified in the contract. Once delivered to Customer, the cars can be substituted only when they need to be serviced or repaired (see paragraph AG19). The engine used to transport the rail cars is not an identified asset because it is neither explicitly specified nor implicitly specified in the contract.

Customer has the right to control the use of the 10 rail cars throughout the five-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the cars over the five-year period of use. Customer has exclusive use of the cars throughout the period of use, including when they are not being used to transport Customer's goods.

(b) Customer has the right to direct the use of the cars because the conditions in paragraph AG25(a) exist. The contractual restrictions on the cargo that can be transported by the cars are protective rights of Supplier and define the scope of Customer's right to use the cars. Within the scope of its right of use defined in the contract, Customer makes the relevant decisions about how and for what purpose the cars are used by being able to decide when and where the rail cars will be used and which goods are transported using the cars. Customer also determines whether and how the cars will be used when not being used to transport its goods (for example, whether and when they will be used for storage). Customer has the right to change these decisions during the five-year period of use.

Although having an engine and driver (controlled by Supplier) to transport the rail cars is essential to the efficient use of the cars, Supplier's decisions in this regard do not give it the right to direct how and for what purpose the rail cars are used. Consequently, Supplier does not control the use of the cars during the period of use.

Example 1B: the contract between Customer and Supplier requires Supplier to transport a specified quantity of goods by using a specified type of rail car in accordance with a stated timetable for a period of five years. The timetable and quantity of goods specified are equivalent to Customer having the use of 10 rail cars for five years. Supplier provides the rail cars, driver and engine as part of the contract. The contract states the nature and quantity of the goods to be transported (and the type of rail car to be used to transport the goods). Supplier has a large pool of similar cars that can be used to fulfil the requirements of the contract. Similarly, Supplier can choose to use any one of a number of engines to fulfil each of Customer's requests, and one engine could be used to transport not only Customer's goods, but also the goods of other customers. The cars and engines are stored at Supplier's premises when not being used to transport goods.

The contract does not contain a lease of rail cars or of an engine.

The rail cars and the engines used to transport Customer's goods are not identified assets.
Supplier has the substantive right to substitute the rail cars and engine because:

(a) Supplier has the practical ability to substitute each car and the engine throughout the period of use (see paragraph AG15(a)). Alternative cars and engines are readily available to Supplier and Supplier can substitute each car and the engine without Customer's approval.

(b) Supplier would benefit economically from substituting each car and the engine (see paragraph AG15(b)). There would be minimal, if any, cost associated with substituting each car or the engine because the cars and engines are stored at Supplier's premises and Supplier has a large pool of similar cars and engines. Supplier benefits from substituting each car or the engine in contracts of this nature because substitution allows Supplier to, for example, (i) use cars or an engine to fulfil a task for which the cars or engine are already positioned to perform (for example, a task at a rail yard close to the point of origin) or (ii) use cars or an engine that would otherwise be sitting idle because they are not being used by a customer.

Accordingly, Customer does not direct the use, nor have the right to obtain substantially all of the economic benefits or service potential from use, of an identified car or an engine. Supplier directs the use of the rail cars and engine by selecting which cars and engine are used for each particular delivery and obtains substantially all of the economic benefits from use of the rail cars and engine. Supplier is only providing freight capacity.

Example 2–Allocated Space

A coffee company (Customer) enters into a contract with an airport operator (Supplier) to use a space in the airport to sell its goods for a three-year period. The contract states the amount of space and that the space may be located at any one of several boarding areas within the airport. Supplier has the right to change the location of the space allocated to Customer at any time during the period of use. There are minimal costs to Supplier associated with changing the space for the Customer: Customer uses a kiosk (that it owns) that can be moved easily to sell its goods. There are many areas in the airport that are available and that would meet the specifications for the space in the contract.

The contract does not contain a lease.

Although the amount of space Customer uses is specified in the contract, there is no identified asset. Customer controls its owned kiosk. However, the contract is for space in the airport, and this space can change at the discretion of Supplier. Supplier has the substantive right to substitute the space Customer uses because:

(a) Supplier has the practical ability to change the space used by Customer throughout the period of use (see paragraph AG15(a)). There are many areas in the airport that meet the specifications for the space in the contract, and Supplier has the right to change the location of the space to other space that meets the specifications at any time without Customer's approval.

(b) Supplier would benefit economically from substituting the space (see paragraph AG15(b)). There would be minimal cost associated with changing the space used by Customer because the kiosk can be moved easily. Supplier benefits from substituting the space in the airport because substitution allows Supplier to make the most effective use of the space at boarding areas in the airport to meet changing circumstances.

Example 3–Fiber-Optic Cable

Example 3A: Customer enters into a 15-year contract with a utilities company (Supplier) for the right to use three specified, physically distinct dark fibers within a larger cable connecting Hong Kong to Tokyo. Customer makes the decisions about the use of the fibers by connecting each end of the fibers to its electronic equipment (i.e., Customer 'lights' the fibers and decides what data, and how much data, those fibers will transport). If the fibers are damaged, Supplier is responsible for the repairs and maintenance. Supplier owns extra fibers, but can substitute those for Customer's fibers only for reasons of repairs, maintenance or malfunction (and is obliged to substitute the fibers in these cases).

The contract contains a lease of dark fibers. Customer has the right to use the three dark fibers for 15 years.

There are three identified fibers. The fibers are explicitly specified in the contract and are physically distinct from other fibers within the cable. Supplier cannot substitute the fibers other than for reasons of repairs, maintenance or malfunction (see paragraph AG19).

Customer has the right to control the use of the fibers throughout the 15-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the fibers over the 15-year period of use. Customer has exclusive use of the fibers throughout the period of use.

(b) Customer has the right to direct the use of the fibers because the conditions in paragraph AG25(a) exist. Customer makes the relevant decisions about how and for what purpose the fibers are used by deciding (i) when and whether to light the fibers and (ii) when and how much output the fibers will produce (i.e., what data, and how much data, those fibers will transport). Customer has the right to change these decisions during the 15-year period of use.

Although Supplier's decisions about repairing and maintaining the fibers are essential to their efficient use, those decisions do not give Supplier the right to direct how and for what purpose the fibers are used. Consequently, Supplier does not control the use of the fibers during the period of use.

Example 3B: Customer enters into a 15-year contract with Supplier for the right to use a specified amount of capacity within a cable connecting Hong Kong to Tokyo. The specified amount is equivalent to Customer having the use of the full capacity of three fiber strands within the cable (the cable contains 15 fibers with similar capacities). Supplier makes decisions about the transmission of data (i.e. Supplier lights the fibers, makes decisions about which fibers are used to transmit Customer's traffic and makes decisions about the electronic equipment that Supplier owns and connects to the fibers).

The contract does not contain a lease.

Supplier makes all decisions about the transmission of its customers' data, which requires the use of only a portion of the capacity of the cable for each customer. The capacity portion that will be provided to Customer is not physically distinct from the remaining capacity of the cable and does not represent substantially all of the capacity of the cable (see paragraph AG21). Consequently, Customer does not have the right to use an identified asset.

Example 4–Office Unit

Customer enters into a contract with a property owner (Supplier) to use Office Unit A for a five-year period. Office Unit A is part of a larger office space with many office units.

Customer is granted the right to use Office Unit A. Supplier can require Customer to relocate to another office unit. In that case, Supplier is required to provide Customer with an office unit of similar quality and specifications to Office Unit A and to pay for Customer's relocation costs. Supplier would benefit economically from relocating Customer only if a major new tenant were to decide to occupy a large amount of office space at a rate sufficiently favorable to cover the costs of relocating Customer and other tenants in the office space. However, although it is possible that those circumstances will arise, at inception of the contract, it is not likely that those circumstances will arise.

The contract requires Customer to use Office Unit A to operate its well-known tourist office to sell or provide its services during the hours that the larger office space is open. Customer makes all of the decisions about the use of the office unit during the period of use. For example, Customer decides on the mix of services sold or provided from the unit, the pricing of the services sold or provided and the number of employees working. Customer also controls physical access to the unit throughout the five-year period of use.

The contract requires Customer to make fixed payments to Supplier, as well as variable payments that are a percentage of services sold or provided from Office Unit A.

Supplier provides cleaning and security services as part of the contract.

The contract contains a lease of *office* space. Customer has the right to use Office Unit A for five years.

Office Unit A is an identified asset. It is explicitly specified in the contract. Supplier has the practical ability to substitute the office unit, but could benefit economically from substitution only in specific circumstances. Supplier's substitution right is not substantive because, at inception of the contract, those circumstances are not considered likely to arise (see paragraph AG17).

Customer has the right to control the use of Office Unit A throughout the five-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of Office Unit A over the five-year period of use. Customer has exclusive use of Office Unit A throughout the period of use. Although a portion of the cash flows derived from services sold or provided from Office Unit A will flow from Customer to Supplier, this represents consideration that Customer pays Supplier for the right to use the office unit. It does not prevent Customer from having the right to obtain substantially all of the economic benefits or service potential from use of Office Unit A.

(b) Customer has the right to direct the use of Office Unit A because the conditions in paragraph AG25(a) exist. The contractual restrictions on the services that can be provided or sold from Office Unit A, and when Office Unit A is open, define the scope of Customer's right to use Office Unit A. Within the scope of its right of use defined in the contract, Customer makes the relevant decisions about how and for what purpose Office Unit A is used by being able to decide, for example, the mix of services that will be provided from or sold in the office unit and the sale price for those services. Customer has the right to change these decisions during the five-year period of use.

Although cleaning, security, and advertising services are essential to the efficient use of Office Unit A, Supplier's decisions in this regard do not give it the right to direct how and for what purpose Office Unit A is used. Consequently, Supplier does not control the use of Office Unit A during the period of use and Supplier's decisions do not affect Customer's control of the use of Office Unit A.

Example 5–Truck Rental

Customer enters into a contract with Supplier for the use of a truck for one week to transport cargo from New York to San Francisco. Supplier does not have substitution rights. Only cargo specified in the contract is permitted to be transported on this truck for the period of the contract. The contract specifies a maximum distance that the truck can be driven. Customer is able to *choose the details of the journey (speed, route, rest stops, etc.) within the parameters of the contract. Customer does not have the right to continue using the truck after the specified trip is complete.*

The cargo to be transported, and the timing and location of pick-up in New York and delivery in San Francisco, are specified in the contract.

Customer is responsible for driving the truck from New York to San Francisco.

The contract contains a lease of a truck. Customer has the right to use the truck for the duration of the specified trip.

There is an identified asset. The truck is explicitly specified in the contract, and Supplier does not have the right to substitute the truck.

Customer has the right to control the use of the truck throughout the period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the truck over the period of use. Customer has exclusive use of the truck throughout the period of use.

(b) Customer has the right to direct the use of the truck because the conditions in AG25(b)(i) exist. How and for what purpose the truck will be used (i.e. the transportation of specified cargo from New York to San Francisco within a specified timeframe) is predetermined in the contract. Customer directs the use of the truck because it has the right to operate the truck (for example, speed, route, rest stops) throughout the period of use. Customer makes all of the decisions about the use of the truck that can be made during the period of use through its control of the operations of the truck.

Because the duration of the contract is one week, this lease meets the definition of a short-term lease.

Example 6–Ship

Example 6A: Customer enters into a contract with a ship owner (Supplier) for the transportation of cargo from Rotterdam to Sydney on a specified ship. The ship is explicitly specified in the contract and Supplier does not have substitution rights. The cargo will occupy substantially all of the capacity of the ship. The contract specifies the cargo to be transported on the ship and the dates of pickup and delivery.

Supplier operates and maintains the ship and is responsible for the safe passage of the cargo on board the ship. Customer is prohibited from hiring another operator for the ship or operating the ship itself during the term of the contract.

The contract does not contain a lease.

There is an identified asset. The ship is explicitly specified in the contract and Supplier does not have the right to substitute that specified ship.

Customer has the right to obtain substantially all of the economic benefits or service potential from use of the ship over the period of use. Its cargo will occupy substantially all of the capacity of the ship, thereby preventing other parties from obtaining economic benefits or service potential from use of the ship.

However, Customer does not have the right to control the use of the ship because it does not have the right to direct its use. Customer does not have the right to direct how and for what purpose the ship is used. How and for what purpose the ship will be used (i.e. the transportation of specified cargo from Rotterdam to Sydney within a specified timeframe) is predetermined in the contract. Customer has no right to change how and for what purpose the ship is used during the period of use. Customer has no other decision-making rights about the use of the ship during the period of use (for example, it does not have the right to operate the ship) and did not design the ship. Customer has the same rights regarding the use of the ship as if it were one of many customers transporting cargo on the ship.

Example 6B: Customer enters into a contract with Supplier for the use of a specified ship for a five-year period. The ship is explicitly specified in the contract and Supplier does not have substitution rights.

Customer decides what cargo will be transported, and whether, when and to which ports the ship will sail, throughout the five-year period of use, subject to restrictions specified in the contract. Those restrictions prevent Customer from sailing the ship into waters at a high risk of piracy or carrying hazardous materials as cargo.

Supplier operates and maintains the ship and is responsible for the safe passage of the cargo on board the ship. Customer is prohibited from hiring another operator for the ship of the contract or operating the ship itself during the term of the contract.

The contract contains a lease. Customer has the right to use the ship for five years.

There is an identified asset. The ship is explicitly specified in the contract, and Supplier does not have the right to substitute that specified ship.

Customer has the right to control the use of the ship throughout the five-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the ship over the five-year period of use. Customer has exclusive use of the ship throughout the period of use.

(b) Customer has the right to direct the use of the ship because the conditions in paragraph AG25(a) exist. The contractual restrictions about where the ship can sail and the cargo to be transported by the ship define the scope of Customer's right to use the ship. They are protective rights that protect Supplier's investment in the ship and Supplier's personnel. Within the scope of its right of use, Customer makes the relevant decisions about how and for what purpose the ship is used throughout the five-year period of use because it decides whether, where and when the ship sails, as well as the cargo it will transport. Customer has the right to change these decisions throughout the five-year period of use.

Although the operation and maintenance of the ship are essential to its efficient use, Supplier's decisions in this regard do not give it the right to direct how and for what purpose the ship is used. Instead, Supplier's decisions are dependent upon Customer's decisions about how and for what purpose the ship is used.

Example 7–Aircraft

Customer enters into a contract with an aircraft owner (Supplier) for the use of an explicitly specified aircraft for a two-year period. The contract details the interior and exterior specifications for the aircraft.

There are contractual and legal restrictions in the contract on where the aircraft can fly. Subject to those restrictions, Customer determines where and when the aircraft will fly, and which passengers and cargo will be transported on the aircraft. Supplier is responsible for operating the aircraft, using its own crew. Customer is prohibited from hiring another operator for the aircraft or operating the aircraft itself during the term of the contract.

Supplier is permitted to substitute the aircraft at any time during the two-year period and must substitute the aircraft if it is not working. Any substitute aircraft must meet the interior and exterior specifications in the contract. There are significant costs involved in outfitting an aircraft in Supplier's fleet to meet Customer's specifications.

The contract contains a lease. Customer has the right to use the aircraft for two years.

There is an identified asset. The aircraft is explicitly specified in the contract and, although Supplier can substitute the aircraft, its substitution right is not substantive because the conditions in paragraph AG15(b) do not exist. Supplier's substitution right is not substantive because of the significant costs involved in outfitting another aircraft to meet the specifications required by the contract such that Supplier is not expected to benefit economically from substituting the aircraft.

Customer has the right to control the use of the aircraft throughout the two-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the aircraft over the two-year period of use. Customer has exclusive use of the aircraft throughout the period of use.

(b) Customer has the right to direct the use of the aircraft because the conditions in paragraph AG25(a) exist. The restrictions on where the aircraft can fly define the scope of Customer's right to use the aircraft. Within the scope of its right of use, Customer makes the relevant decisions about how and for what purpose the aircraft is used throughout the two-year period of use because it decides whether, where and when the aircraft travels as well as the passengers and cargo it will transport. Customer has the right to change these decisions throughout the two-year period of use.

Although the operation of the aircraft is essential to its efficient use, Supplier's decisions in this regard do not give it the right to direct how and for what purpose the aircraft is used. Consequently, Supplier does not control the use of the aircraft during the period of use and Supplier's decisions do not affect Customer's control of the use of the aircraft.

Example 8–Contract for Shirts

Customer enters into a contract with a producer (Supplier) to purchase a particular type, quality and quantity of shirts for a three-year period. The type, quality and quantity of shirts are specified in the contract.

Supplier has only one factory that can meet the needs of Customer. Supplier is unable to supply the shirts from another factory or source the shirts from a third party supplier. The capacity of the *factory exceeds the output for which Customer has contracted (i.e. Customer has not contracted for substantially all of the capacity of the factory).*

Supplier makes all decisions about the operations of the factory, including the production level at which to run the factory and which customer contracts to fulfil with the output of the factory that is not used to fulfil Customer's contract.

The contract does not contain a lease.

The factory is an identified asset. The factory is implicitly specified because Supplier can fulfil the contract only through the use of this asset.

Customer does not control the use of the factory because it does not have the right to obtain substantially all of the economic benefits or service potential from use of the factory. This is because Supplier could decide to use the factory to fulfil other customer contracts during the period of use.

Customer also does not control the use of the factory because it does not have the right to direct the use of the factory. Customer does not have the right to direct how and for what purpose the factory is used during the three-year period of use. Customer's rights are limited to specifying output from the factory in the contract with Supplier. Customer has the same rights regarding the use of the factory as other customers purchasing shirts from the factory. Supplier has the right to direct the use of the factory because Supplier can decide how and for what purpose the factory is used (i.e. Supplier has the right to decide the production level at which to run the factory and which customer contracts to fulfil with the output produced).

Either the fact that Customer does not have the right to obtain substantially all of the economic benefits or service potential from use of the factory, or that Customer does not have the right to direct the use of the factory, would be sufficient in isolation to conclude that Customer does not control the use of the factory.

Example 9–Contract for Energy/Power

Example 9A: a public sector entity (Customer) enters into a contract with a power company (Supplier) to purchase all of the electricity produced by a new solar farm for 20 years. The solar farm is explicitly specified in the contract and Supplier has no substitution rights. The solar farm is owned by Supplier and the energy cannot be provided to Customer from another asset. Customer designed the solar farm before it was constructed—Customer hired experts in solar energy to assist in determining the location of the farm and the engineering of the equipment to be used. Supplier is responsible for building the solar farm to Customer's specifications, and then operating and maintaining it. There are no decisions to be made about whether, when or how much electricity will be produced because the design of the asset has predetermined those decisions. Supplier will receive tax credits relating to the construction and ownership of the solar farm, while Customer receives renewable energy credits that accrue from use of the solar farm.

The contract contains a lease. Customer has the right to use the solar farm for 20 years.

There is an identified asset because the solar farm is explicitly specified in the contract, and Supplier does not have the right to substitute the specified solar farm.

Customer has the right to control the use of the solar farm throughout the 20-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the solar farm over the 20-year period of use. Customer has exclusive use of the solar farm; it takes all of the electricity produced by the farm over the 20-year period of use as well as the renewable energy credits that are a by-product from use of the solar farm. Although Supplier will receive economic benefits from the solar farm in the form of tax credits, those economic benefits relate to the ownership of the solar farm rather than the use of the solar farm and, thus, are not considered in this assessment.

(b) Customer has the right to direct the use of the solar farm because the conditions in paragraph AG25(b)(ii) exist. Neither Customer, nor Supplier, decides how and for what purpose the solar farm is used during the period of use because those decisions are predetermined by the design of the asset (i.e. the design of the solar farm has, in effect, programmed into the asset any relevant decision-making rights about how and for what purpose the solar farm is used throughout the period of use). Customer does not operate the solar farm; Supplier makes the decisions about the operation of the solar farm. However, Customer's design of the solar farm has given it the right to direct the use of the farm. Because the design of the solar farm has predetermined how and for what purpose the asset will be used throughout the period of use, Customer's control over that design is substantively no different from Customer controlling those decisions.

Example 9B: Customer enters into a contract with Supplier to purchase all of the power produced by an explicitly specified power plant for three years. The power plant is owned and operated by Supplier.

Supplier is unable to provide power to Customer from another plant. The contract sets out the quantity and timing of power that the power plant will produce throughout the period of use, which cannot be changed in the absence of extraordinary circumstances (for example, emergency situations). Supplier operates and maintains the plant on a daily basis in accordance with industry-approved operating practices. Supplier designed the power plant when it was constructed some years before entering into the contract with Customer—Customer had no involvement in that design.

The contract does not contain a lease.

There is an identified asset because the power plant is explicitly specified in the contract, and Supplier does not have the right to substitute the specified plant.

Customer has the right to obtain substantially all of the economic benefits or service potential from use of the identified power plant over the three-year period of use. Customer will take all of the power produced by the power plant over the three-year period of use.

However, Customer does not have the right to control the use of the power plant because it does not have the right to direct its use. Customer does not have the right to direct how and for what purpose the plant is used. How and for what purpose the plant is used (i.e. whether, when and how much power the plant will produce) is predetermined in the contract. Customer has no right to change how and for what purpose the plant is used during the period of use. Customer has no other decision-making rights about the use of the power plant during the period of use (for example, it does not operate the power plant) and did not design the plant. Supplier is the only party that can make decisions about the plant during the period of use by making the decisions about how the plant is operated and maintained. Customer has the same rights regarding the use of the plant as if it were one of many customers obtaining power from the plant.

Example 9C: Customer enters into a contract with Supplier to purchase all of the power produced by an explicitly specified power plant for 10 years. The contract states that Customer has rights to all of the power produced by the plant (i.e. Supplier cannot use the plant to fulfil other contracts).

Customer issues instructions to Supplier about the quantity and timing of the delivery of power. If the plant is not producing power for Customer, it does not operate.

Supplier operates and maintains the plant on a daily basis in accordance with industry-approved operating practices.

The contract contains a lease. Customer has the right to use the power plant for 10 years.

There is an identified asset. The power plant is explicitly specified in the contract and Supplier does not have the right to substitute the specified plant.

Customer has the right to control the use of the power plant throughout the 10-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the power plant over the 10-year period of use. Customer has exclusive use of the power plant; it has rights to all of the power produced by the power plant throughout the 10-year period of use.

(b) Customer has the right to direct the use of the power plant because the conditions in paragraph AG25(a) exist. Customer makes the relevant decisions about how and for what purpose the power plant is used because it has the right to determine whether, when and how much power the plant will produce (i.e. the timing and quantity, if any, of power produced) throughout the period of use. Because Supplier is prevented from using the power plant for another purpose, Customer's decision-making about the timing and quantity of power produced, in effect, determines when, and whether, the plant produces output.

Although the operation and maintenance of the power plant are essential to its efficient use, Supplier's decisions in this regard do not give it the right to direct how and for what purpose the power plant is used. Consequently, Supplier does not control the use of the power plant during the period of use. Instead, Supplier's decisions are dependent upon Customer's decisions about how and for what purpose the power plant is used.

Example 10—Contract for Network Services

Example 10A: Customer enters into a contract with a telecommunications company (Supplier) for network services for two years. The contract requires Supplier to supply network services that meet a specified quality level. In order to provide the services, Supplier installs and configures servers at Customer's premises—Supplier determines the speed and quality of data transportation in the network using the servers. Supplier can reconfigure or replace the servers when needed to continuously provide the quality of network services defined in the contract. Customer does not operate the servers or make any significant decisions about their use.

The contract does not contain a lease. Instead, the contract is a service contract in which Supplier uses the equipment to meet the level of network services determined by Customer.

There is no need to assess whether the servers installed at Customer's premises are identified assets. This assessment would not change the analysis of whether the contract contains a lease because Customer does not have the right to control the use of the servers.

Customer does not control the use of the servers because Customer's only decision-making rights relate to deciding upon the level of network services (the output of the servers) before the period of use—the level of network services cannot be changed during the period of use without modifying the contract. For example, even though Customer produces the data to be transported, that activity does not directly affect the configuration of the network services and, thus, it does not affect how and for what purpose the servers are used.

Supplier is the only party that can make relevant decisions about the use of the servers during the period of use. Supplier has the right to decide how data is transported using the servers, whether to reconfigure the servers and whether to use the servers for another purpose. Accordingly, Supplier controls the use of the servers in providing network services to Customer.

Example 10B: Customer enters into a contract with an information technology company (Supplier) for the use of an identified server for three years. Supplier delivers and installs the server at Customer's premises in accordance with Customer's instructions, and provides repair and maintenance services for the server, as needed, throughout the period of use. Supplier substitutes the server only in the case of malfunction. Customer decides which data to store on the server and how to integrate the server within its operations. Customer can change its decisions in this regard throughout the period of use.

The contract contains a lease. Customer has the right to use the server for three years.

There is an identified asset. The server is explicitly specified in the contract. Supplier can substitute the server only if it is malfunctioning (see paragraph AG19).

Customer has the right to control the use of the server throughout the three-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the server over the three-year period of use. Customer has exclusive use of the server throughout the period of use.

(b) Customer has the right to direct the use of the server (because the conditions in paragraph AG25(a) exist). Customer makes the relevant decisions about how and for what purpose the server is used because it has the right to decide which aspect of its operations the server is used to support and which data it stores on the server. Customer is the only party that can make decisions about the use of the server during the period of use.

Leases of Low-Value Assets and Portfolio Application (see paragraphs 6–7, AG1 and AG4–AG9)

IE3. The following example illustrates how a lessee might (a) apply paragraphs AG4–AG9 of IPSAS 43 to leases of low-value assets; and (b) determine portfolios of leases to which it would apply the requirements in IPSAS 43.

Example 11— Leases of Low-Value Assets and Portfolio Application

A public sector entity (Lessee) with offices in each province/state of the country has the following leases:

(a) Leases of real estate (both office buildings and warehouses).

(b) Leases of hospital equipment.

(c) Leases of cars, both for services personnel and senior management and of varying quality, specification and value.

(d) Leases of trucks and vans used for service delivery purposes, of varying size and value.

(e) Leases of IT equipment for use by individual employees (such as laptop computers, desktop computers, hand held computer devices, desktop printers and mobile phones).

(f) Leases of servers, including many individual modules that increase the storage capacity of those servers. The modules have been added to the mainframe servers over time as Lessee has needed to increase the storage capacity of the servers.

(g) Leases of office equipment:

(i) Office furniture (such as chairs, desks and office partitions);

(ii) Water dispensers; and

(iii) High-capacity multifunction photocopier devices.

<u>Leases of low-value assets</u>

Lessee determines that the following leases qualify as leases of low-value assets on the basis that the underlying assets, when new, are individually of low value:

(a) Leases of IT equipment for use by individual employees; and

(b) Leases of office furniture and water dispensers.

Lessee elects to apply the requirements in paragraph 7 of IPSAS 43 in accounting for all of those leases.

Although each module within the servers, if considered individually, might be an asset of low value, the leases of modules within the servers do not qualify as leases of low-value assets. This is because each module is highly interrelated with other parts of the servers. Lessee would not lease the modules without also leasing the servers.

<u>Portfolio application</u>

As a result, Lessee applies the recognition and measurement requirements in IPSAS 43 to its leases of real estate, hospital equipment, cars, trucks and vans, servers and high-capacity multifunction photocopier devices. In doing so, Lessee groups its cars, trucks and vans into portfolios.

Lessee's cars are leased under a series of master lease agreements. Lessee uses eight different types of car, which vary by price and are assigned to staff on the basis of seniority and territory. Lessee has a master lease agreement for each different type of car. The individual leases within each master lease agreement are all similar (including similar start and end dates), but the terms and conditions generally vary from one master lease agreement to another. Because the individual leases within each master lease agreement are similar to each other, Lessee reasonably expects that applying the requirements of IPSAS 43 to each master lease agreement would not result in a materially different effect than applying the requirements of IPSAS 43 to each individual lease within the master lease agreement. Consequently, Lessee concludes that it can apply the requirements of IPSAS 43 to each master lease agreement as a portfolio. In addition, Lessee concludes that two of the eight master lease agreements are similar and cover substantially similar types of cars in similar territories. Lessee reasonably expects that the effect of applying IPSAS 43 to the combined portfolio of leases within the two master lease agreements would not differ materially from applying IPSAS 43 to each lease within that combined portfolio. Lessee, therefore, concludes that it can further combine those two master lease agreements into a single lease portfolio.

Lessee's trucks and vans are leased under individual lease agreements. There are 6,500 leases in total. All of the truck leases have similar terms, as do all of the van leases. The truck leases are generally for four years and involve similar models of truck. The van leases are generally for five years and involve similar models of van. Lessee reasonably expects that applying the requirements of IPSAS 43 to portfolios of truck leases and van leases, grouped by type of underlying asset, territory and the quarter of the year within which the lease was entered into, would not result in a materially different effect from applying those requirements to each individual truck or van lease. Consequently, Lessee applies the requirements of IPSAS 43 to different portfolios of truck and van leases, rather than to 6,500 individual leases.

Allocating Consideration to Components of a Contract (see paragraphs 13–17 and AG33–AG34)

IE4. The following example illustrates the allocation of consideration in a contract to lease and non-lease components by a lessee.

Example 12—Lessee allocation of consideration to lease and non-lease components of a contract

Lessor leases a server, a medical ventilator and a computed tomography machine to Lessee to be used in Lessee's hospital operations for four years. Lessor also agrees to maintain each item of equipment throughout the lease term. The total consideration in the contract is CU600,000[(a)]*, payable in annual instalments of CU150,000, and a variable amount that depends on the hours of work performed in maintaining the computed tomography machine. The variable payment is capped at 2 per cent of the replacement cost of the computed tomography machine. The consideration includes the cost of maintenance services for each item of equipment.*

Lessee accounts for the non-lease components (maintenance services) separately from each lease of equipment applying paragraph 13 of IPSAS 43. Lessee does not elect the practical expedient in paragraph 16 of IPSAS 43. Lessee considers the requirements in paragraph AG33 of IPSAS 43 and concludes that the lease of the server, the lease of the *medical ventilator* and the lease of the *computed tomography machine* are each separate lease components. This is because:

(a) Lessee can benefit from use of each of the three items of equipment on its own or together with other readily available resources (for example, Lessee could readily lease or purchase an alternative medical ventilator or computed tomography machine to use in its operations); and

(b) Although Lessee is leasing all three items of equipment for one purpose (i.e. to engage in hospital operations), the machines are neither highly dependent on, nor highly interrelated with, each other. Lessee's ability to derive benefit from the lease of each item of equipment is not significantly affected by its decision to lease, or not lease, the other equipment from Lessor.

Consequently, Lessee concludes that there are three lease components and three non-lease components (maintenance services) in the contract. Lessee applies the guidance in paragraphs 14–15 of IPSAS 43 to allocate the consideration in the contract to the three lease components and the non-lease components.

Several suppliers provide maintenance services for a similar server and a similar medical ventilator. Accordingly, there are observable standalone prices for the maintenance services for those two items of leased equipment. Lessee is able to establish observable stand-alone prices for the maintenance of the server and the medical ventilator of CU32,000 and CU16,000, respectively, assuming similar payment terms to those in the contract with Lessor. The computed tomography machine is highly specialized and, accordingly, other suppliers do not lease or provide maintenance services for similar computed tomography machines. Nonetheless, Lessor provides four-year maintenance service contracts to customers that purchase similar computed tomography machine from Lessor. The observable consideration for those four-year maintenance service contracts is a fixed amount of CU56,000, payable over four years, and a variable amount that depends on the hours of work performed in maintaining the computed tomography machine. That variable payment is capped at 2 per cent of the replacement cost of the computed tomography machine. Consequently, Lessee estimates the stand-alone price of the maintenance services for the computed tomography machine to be CU56,000 plus any variable amounts. Lessee is able to establish observable stand-alone prices for the leases of the server, the desktop computer and the computed tomography machine of CU170,000, CU102,000 and CU224,000, respectively.

Lessee allocates the fixed consideration in the contract (CU600,000) to the lease and non-lease components as follows:

CU	Server	Medical ventilator	Computed tomography machine	Total
Lease	170.000	102.000	224.000	**496.000**
Non-lease				**104.000**
Total fixed consideration				**600.000**

Lessee allocates all of the variable consideration to the maintenance of the *computed tomography machine*, and, thus, to the non-lease components of the contract. Lessee then accounts for each lease component applying the guidance in IPSAS 43, treating the allocated consideration as the lease payments for each lease component.

(a) In these Illustrative Examples, currency amounts are denominated in ‘currency units’ (CU).

Lessee Measurement (see paragraphs 19–42 and AG35–AG42)

IE5. The following example illustrates how a lessee measures right-of-use assets and lease liabilities. It also illustrates how a lessee accounts for a change in the lease term.

Example 13–Measurement by a Lessee and Accounting for a Change in the Lease Term

Part 1—Initial Measurement of the Right-of-Use Asset and the Lease Liability

Lessee enters into a 10-year lease of a floor of a building, with an option to extend for five years. Lease payments are CU50,000 per year during the initial term and CU55,000 per year during the *optional period, all payable at the beginning of each year. To obtain the lease, Lessee incurs initial direct costs of CU20,000, of which CU15,000 relates to a payment to a former tenant occupying that floor of the building and CU5,000 relates to a commission paid to the real estate agent that arranged the lease. As an incentive to Lessee for entering into the lease, Lessor agrees to reimburse to Lessee the real estate commission of CU5,000.*

At the commencement date, Lessee concludes that it is not reasonably certain to exercise the option to extend the lease and, therefore, determines that the lease term is 10 years.

The interest rate implicit in the lease is not readily determinable. Lessee's incremental borrowing rate is 5 per cent per annum, which reflects the fixed rate at which Lessee could borrow an amount similar to the value of the right-of-use asset, in the same currency, for a 10-year term, and with similar collateral.

At the commencement date, Lessee makes the lease payment for the first year, incurs initial direct costs, receives the lease incentive from Lessor and measures the lease liability at the present value of the remaining nine payments of CU50,000, discounted at the interest rate of 5 per cent per annum, which is CU355,391.

Lessee initially recognizes assets and liabilities in relation to the lease as follows.

Right-of-use asset	CU405,391	
Lease liability		CU355,391
Cash (lease payment for the first year)		CU50,000
Right-of-use asset	CU20,000	
Cash (initial direct costs)		CU20,000
Cash (lease incentive)	CU5,000	
Right-of-use asset		CU5,000

Part 2—Subsequent Measurement and Accounting for a Change in the Lease Term

In the sixth year of the lease, Lessee acquires Entity A. Entity A has been leasing a floor in another building. The lease entered into by Entity A contains a termination option that is exercisable by Entity A. Following the acquisition of Entity A, Lessee needs two floors in a building suitable for the increased workforce. To minimize costs, Lessee (a) enters into a separate eight-year lease of another floor in the building leased that will be available for use at the end of Year 7 and (b) terminates early the lease entered into by Entity A with effect from the beginning of Year 8.

Moving Entity A’s staff to the same building occupied by Lessee creates an economic incentive for Lessee to extend its original lease at the end of the non-cancellable period of 10 years. The acquisition of Entity A and the relocation of Entity A’s staff is a significant event that is within the control of Lessee and affects whether Lessee is reasonably certain to exercise the extension option not previously included in its determination of the lease term. This is because the original floor has greater utility (and thus provides greater benefits) to Lessee than alternative assets that could be leased for a similar amount to the lease payments for the optional period—Lessee would incur additional costs if it were to lease a similar floor in a different building because the workforce would be located in different buildings. Consequently, at the end of Year 6, Lessee concludes that it is now reasonably certain to exercise the option to extend its original lease as a result of its acquisition and planned relocation of Entity A.

Lessee's incremental borrowing rate at the end of Year 6 is 6 per cent per annum, which reflects the fixed rate at which Lessee could borrow an amount similar to the value of the right-of-use asset, in the same currency, for a nine-year term, and with similar collateral. Lessee expects to consume the right-of-use asset's future economic benefits or service potential evenly over the lease term and, thus, depreciates the right-of-use asset on a straight-line basis.

The right-of-use asset and the lease liability from Year 1 to Year 6 are as follows.

	Lease liability				**Right-of-use asset**		
Year	**Beginning balance CU**	**Lease payment CU**	**5% interest expense CU**	**Ending balance CU**	**Beginning balance CU**	**Depreciation charge CU**	**Ending balance CU**
1	**355,391**	-	17,770	**373,161**	**420,391**	(42,039)	**378,352**
2	**373,161**	(50,000)	16,158	**339,319**	**378,352**	(42,039)	**336,313**
3	**339,319**	(50,000)	14,466	**303,785**	**336,313**	(42,039)	**294,274**
4	**303,785**	(50,000)	12,689	**266,474**	**294,274**	(42,039)	**252,235**
5	**266,474**	(50,000)	10,823	**227,297**	**252,235**	(42,039)	**210,196**
6	**227,297**	(50,000)	8,865	**186,162**	**210,196**	(42,039)	**168,157**

At the end of the sixth year, before accounting for the change in the lease term, the lease liability is CU186,162 (the present value of four remaining payments of CU50,000, discounted at the original interest rate of 5 per cent per annum). Interest expense of CU8,865 is recognized in Year 6. Lessee's right-of-use asset is CU168,157.

Lessee remeasures the lease liability at the present value of four payments of CU50,000 followed by five payments of CU55,000, all discounted at the revised discount rate of 6 per cent per annum, which is CU378,174. Lessee increases the lease liability by CU192,012, which represents the difference between the remeasured liability of CU378,174 and its previous carrying amount of CU186,162. The corresponding adjustment is made to the right-of-use asset to reflect the cost of the additional right of use, recognized as follows.

Right-of-use asset	CU192,012	
Lease liability		CU192,012

Following the remeasurement, the carrying amount of Lessee's right-of-use asset is CU360,169 (i.e. CU168,157 + CU192,012). From the beginning of Year 7 Lessee calculates the interest expense on the lease liability at the revised discount rate of 6 per cent per annum.

The right-of-use asset and the lease liability from Year 7 to Year 15 are as follows.

	Lease liability				Right-of-use asset		
Year	Beginning balance CU	Lease payment CU	6% interest expense CU	Ending balance CU	Beginning balance CU	Depreciation charge CU	Ending balance CU
7	**378,174**	(50,000)	19,690	**347,864**	**360,169**	(40,019)	**320,150**
8	**347,864**	(50,000)	17,872	**315,736**	**320,150**	(40,019)	**280,131**
9	**315,736**	(50,000)	15,944	**281,680**	**280,131**	(40,019)	**240,112**
10	**281,680**	(50,000)	13,901	**245,581**	**240,112**	(40,019)	**200,093**
11	**245,581**	(55,000)	11,435	**202,016**	**200,093**	(40,019)	**160,074**
12	**202,016**	(55,000)	8,821	**155,837**	**160,074**	(40,019)	**120,055**
13	**155,837**	(55,000)	6,050	**106,887**	**120,055**	(40,019)	**80,036**
14	**106,887**	(55,000)	3,113	**55,000**	**80,036**	(40,018)	**40,018**
15	**55,000**	(55,000)	-	**-**	**40,018**	(40,018)	**-**

Variable Lease Payments (see paragraphs 28, 40, 43(b) and 44)

IE6. The following example illustrates how a lessee accounts for variable lease payments that depend on an index and variable lease payments not included in the measurement of the lease liability.

Example 14–Variable Lease Payments Dependent on an Index and Variable Lease Payments Linked to Sales

Example 14A—Lessee enters into a 10-year lease of property with annual lease payments of CU50,000, payable at the beginning of each year. The contract specifies that lease payments will increase every two years on the basis of the increase in the Consumer Price Index for the preceding 24 months. The Consumer Price Index at the commencement date is 125. This example ignores any initial direct costs. The rate implicit in the lease is not readily determinable. Lessee's incremental borrowing rate is 5 per cent per annum, which reflects the fixed rate at which Lessee could borrow an amount similar to the value of the right-of-use asset, in the same currency, for a 10-year term, and with similar collateral.

At the commencement date, Lessee makes the lease payment for the first year and measures the lease liability at the present value of the remaining nine payments of CU50,000, discounted at the interest rate of 5 per cent per annum, which is CU355,391.

Lessee initially recognizes assets and liabilities in relation to the lease as follows.

Right-of-use asset	CU405,391	
Lease liability		CU355,391
Cash (lease payment for the first year)		CU50,000

Lessee expects to consume the right-of-use asset's future economic benefits evenly over the lease term and, thus, depreciates the right-of-use asset on a straight-line basis.

During the first two years of the lease, Lessee recognizes in aggregate the following related to the lease.

Interest expense	CU33,928	
Lease liability		CU33,928
Depreciation charge	CU81,078 (CU405,391 ÷ 10 × 2 years)	
Right-of-use asset		CU81,078

At the beginning of the second year, Lessee makes the lease payment for the second year and recognizes the following.

Lease liability	CU50,000	
Cash		CU50,000

At the beginning of the third year, before accounting for the change in future lease payments resulting from a change in the Consumer Price Index and making the lease payment for the third year, the lease liability is CU339,319 (the present value of eight payments of CU50,000 discounted at the interest rate of 5 per cent per annum = CU355,391 + CU33,928 – CU50,000).

At the beginning of the third year of the lease the Consumer Price Index is 135.

The payment for the third year, adjusted for the Consumer Price Index, is CU54,000 (CU50,000 × 135 ÷ 125). Because there is a change in the future lease payments resulting from a change in the Consumer Price Index used to determine those payments, Lessee remeasures the lease liability to reflect those revised lease payments, i.e. the lease liability now reflects eight annual lease payments of CU54,000.

At the beginning of the third year, Lessee remeasures the lease liability at the present value of eight payments of CU54,000 discounted at an unchanged discount rate of 5 per cent per annum, which is CU366,464. Lessee increases the lease liability by CU27,145, which represents the difference between the remeasured liability of CU366,464 and its previous carrying amount of CU339,319. The corresponding adjustment is made to the right-of-use asset, recognized as follows.

Right-of-use asset	CU27,145	
Lease liability		CU27,145

At the beginning of the third year, Lessee makes the lease payment for the third year and recognizes the following.

Lease liability	CU54,000	
Cash		CU54,000

Example 14B—Assume the same facts as Example 14A except that Lessee is also required to make variable lease payments for each year of the lease, which are determined as 1 per cent of Lessee's sales generated from the leased property.

At the commencement date, Lessee measures the right-of-use asset and the lease liability recognized at the same amounts as in Example 14A. This is because the additional variable lease payments are linked to future sales and, thus, do not meet the definition of lease payments. Consequently, those payments are not included in the measurement of the asset and liability.

Right-of-use asset	CU405,391	
Lease liability		CU355,391
Cash (lease payment for the first year)		CU50,000

Lessee prepares financial statements on an annual basis. During the first year of the lease, Lessee generates sales of CU800,000 from the leased property.

Lessee incurs an additional expense related to the lease of CU8,000 (CU800,000 × 1 per cent), which Lessee recognizes in surplus or deficit in the first year of the lease.

Lease Modifications (see paragraphs 45–47)

IE7. Examples 15–19 illustrate the requirements of IPSAS 43 regarding lease modifications for a lessee.

Example 15—Modification that is a Separate Lease

Lessee enters into a 10-year lease for 2,000 square meters of office space. At the beginning of Year 6, Lessee and Lessor agree to amend the original lease for the remaining five years to include an additional 3,000 square meters of office space in the same building. The additional space is made available for use by Lessee at the end of the second quarter of Year 6. The increase in total consideration for the lease is commensurate with the current market rate for the new 3,000 square meters of office space, adjusted for the discount that Lessee receives reflecting that Lessor does not incur costs that it would otherwise have incurred if leasing the same space to a new tenant (for example, marketing costs).

Lessee accounts for the modification as a separate lease, separate from the original 10-year lease. This is because the modification grants Lessee an additional right to use an underlying asset, and the increase in consideration for the lease is commensurate with the stand-alone price of the additional right-of-use adjusted to reflect the circumstances of the contract. In this example, the additional underlying asset is the new 3,000 square meters of office space. Accordingly, at the commencement date of the new lease (at the end of the second quarter of Year 6), Lessee recognizes a right-of-use asset and a lease liability relating to the lease of the additional 3,000 square meters of office space. Lessee does not make any adjustments to the accounting for the original lease of 2,000 square meters of office space as a result of this modification.

Example 16—Modification that Increases the Scope of the Lease by Extending the Contractual Lease Term

Lessee enters into a 10-year lease for 5,000 square meters of office space. The annual lease payments are CU100,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6 per cent per annum. At the beginning of Year 7, Lessee and Lessor agree to amend the original lease by extending the contractual lease term by four years. The annual lease payments are unchanged (i.e. CU100,000 payable at the end of each year from Year 7 to Year 14). Lessee's incremental borrowing rate at the beginning of Year 7 is 7 per cent per annum.

At the effective date of the modification (at the beginning of Year 7), Lessee remeasures the lease liability based on: (a) an eight-year remaining lease term, (b) annual payments of CU100,000 and (c) Lessee's incremental borrowing rate of 7 per cent per annum. The modified lease liability equals CU597,130. The lease liability immediately before the modification (including the recognition of the interest expense until the end of Year 6) is CU346,511. Lessee recognizes the difference between the carrying amount of the modified lease liability and the carrying amount of the lease liability immediately before the modification (CU250,619) as an adjustment to the right-of-use asset.

Example 17—Modification that Decreases the Scope of the Lease

Lessee enters into a 10-year lease for 5,000 square meters of office space. The annual lease payments are CU50,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6 per cent per annum. At the beginning of Year 6, Lessee and Lessor agree to amend the original lease to reduce the space to only 2,500 square meters of the original space starting from the end of the first quarter of Year 6. The annual fixed lease payments (from Year 6 to Year 10) are CU30,000. Lessee's incremental borrowing rate at the beginning of Year 6 is 5 per cent per annum.

At the effective date of the modification (at the beginning of Year 6), Lessee remeasures the lease liability based on: (a) a five-year remaining lease term, (b) annual payments of CU30,000 and (c) Lessee's incremental borrowing rate of 5 per cent per annum. This equals CU129,884.

Lessee determines the proportionate decrease in the carrying amount of the right-of-use asset on the basis of the remaining right-of-use asset (i.e., 2,500 square meters corresponding to 50 per cent of the original right-of-use asset).

50 per cent of the pre-modification right-of-use asset (CU184,002) is CU92,001. Fifty per cent of the pre-modification lease liability (CU210,618) is CU105,309. Consequently, Lessee reduces the carrying amount of the right-of-use asset by CU92,001 and the carrying amount of the lease liability by CU105,309. Lessee recognizes the difference between the decrease in the lease liability and the decrease in the right-of-use asset (CU105,309 – CU92,001 = CU13,308) as a gain in surplus or deficit at the effective date of the modification (at the beginning of Year 6).

Lessee recognizes the difference between the remaining lease liability of CU105,309 and the modified lease liability of CU129,884 (which equals CU24,575) as an adjustment to the right-of-use asset reflecting the change in the consideration paid for the lease and the revised discount rate.

Example 18—Modification that Both Increases and Decreases the Scope of the Lease

Lessee enters into a 10-year lease for 2,000 square meters of office space. The annual lease payments are CU100,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6 per cent per annum. At the beginning of Year 6, Lessee and Lessor agree to amend the original lease to (a) include an additional 1,500 square meters of space in the same building starting from the beginning of Year 6 and (b) reduce the lease term from 10 years to eight years. The annual fixed payment for the 3,500 square meters is CU150,000 payable at the end of each year (from Year 6 to Year 8). Lessee's incremental borrowing rate at the beginning of Year 6 is 7 per cent per annum.

The consideration for the increase in scope of 1,500 square meters of space is not commensurate with the stand-alone price for that increase adjusted to reflect the circumstances *of the contract. Consequently, Lessee does not account for the increase in scope that adds the right to use an additional 1,500 square meters of space as a separate lease.*

The pre-modification right-of-use asset and the pre-modification lease liability in relation to the lease are as follows.

	Lease liability				Right-of-use asset		
	Beginning balance	6% interest expense	Lease payment	Ending balance	Beginning balance	Depreciation charge	Ending balance
Year	CU	CU	CU	CU	CU	CU	CU
1	**736,009**	44,160	(100,000)	**680,169**	**736,009**	(73,601)	**662,408**
2	**680,169**	40,810	(100,000)	**620,979**	**662,408**	(73,601)	**588,807**
3	**620,979**	37,259	(100,000)	**558,238**	**588,807**	(73,601)	**515,206**
4	**558,238**	33,494	(100,000)	**491,732**	**515,206**	(73,601)	**441,605**
5	**491,732**	29,504	(100,000)	**421,236**	**441,605**	(73,601)	**368,004**
6	**421,236**				**368,004**		

At the effective date of the modification (at the beginning of Year 6), Lessee remeasures the lease liability on the basis of: (a) a three-year remaining lease term, (b) annual payments of CU150,000 and (c) Lessee's incremental borrowing rate of 7 per cent per annum. The modified liability equals CU393,647, of which (a) CU131,216 relates to the increase of CU50,000 in the annual lease payments from Year 6 to Year 8 and (b) CU262,431 relates to the remaining three annual lease payments of CU100,000 from Year 6 to Year 8.

<u>Decrease in the lease term</u>

At the effective date of the modification (at the beginning of Year 6), the pre-modification right-of-use asset is CU368,004. Lessee determines the proportionate decrease in the carrying amount of the right-of-use asset based on the remaining right-of-use asset for the original 2,000 square meters of office space (i.e. a remaining three-year lease term rather than the original five-year lease term). The remaining right-of-use asset for the original 2,000 square meters of office space is CU220,802 (i.e. CU368,004 ÷ 5 × 3 years).

At the effective date of the modification (at the beginning of Year 6), the pre-modification lease liability is CU421,236. The remaining lease liability for the original 2,000 square meters of office space is CU267,301 (i.e. present value of three annual lease payments of CU100,000, discounted at the original discount rate of 6 per cent per annum).

Consequently, Lessee reduces the carrying amount of the right-of-use asset by CU147,202 (CU368,004 – CU220,802), and the carrying amount of the lease liability by CU153,935 (CU421,236 – CU267,301). Lessee recognizes the difference between the decrease in the lease liability and the decrease in the right-of-use asset (CU153,935 – CU147,202 = CU6,733) as a gain in surplus or deficit at the effective date of the modification (at the beginning of Year 6).

Lease liability	CU153,935	
Right-of-use asset		CU147,202
Gain		CU6,733

At the effective date of the modification (at the beginning of Year 6), Lessee recognizes the effect of the remeasurement of the remaining lease liability reflecting the revised discount rate of 7 per cent per annum, which is CU4,870 (CU267,301 – CU262,431), as an adjustment to the right-of-use asset.

Lease liability	CU4,870	
Right-of-use asset		CU4,870

Increase in the leased space

At the commencement date of the lease for the additional 1,500 square meters of space (at the beginning of Year 6), Lessee recognizes the increase in the lease liability related to the increase in scope of CU131,216 (i.e. present value of three annual lease payments of CU50,000, discounted at the revised interest rate of 7 per cent per annum) as an adjustment to the right-of-use asset.

Right-of-use asset	CU131,216	
Lease liability		CU131,216

The modified right-of-use asset and the modified lease liability in relation to the modified lease are as follows.

	Lease liability				**Right-of-use asset**		
	Beginning balance	**7% interest expense**	**Lease payment**	**Ending balance**	**Beginning balance**	**Depreciation charge**	**Ending balance**
Year	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**
6	**393,647**	27,556	(150,000)	**271,203**	**347,148**	(115,716)	**231,432**
7	**271,203**	18,984	(150,000)	**140,187**	**231,432**	(115,716)	**115,716**
8	**140,187**	9,813	(150,000)	**-**	**115,716**	(115,716)	**-**

Example 19—Modification that is a Change in Consideration Only

Lessee enters into a 10-year lease for 5,000 square meters of office space. At the beginning of Year 6, Lessee and Lessor agree to amend the original lease for the remaining five years to reduce the lease payments from CU100,000 per year to CU95,000 per year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6 per cent per annum. Lessee's incremental borrowing rate at the beginning of Year 6 is 7 per cent per annum. The annual lease payments are payable at the end of each year.

At the effective date of the modification (at the beginning of Year 6), Lessee remeasures the lease liability based on: (a) a five-year remaining lease term, (b) annual payments of CU95,000 and (c) Lessee's incremental borrowing rate of 7 per cent per annum. Lessee recognizes the difference between the carrying amount of the modified liability (CU389,519) and the lease liability immediately before the modification (CU421,236) of CU31,717 as an adjustment to the right-of-use asset.

Subleases (see paragraph AG59)

IE8. Examples 20–21 illustrate the application of the requirements in IPSAS 43 for an intermediate lessor that enters into a head lease and a sublease of the same underlying asset.

Example 20—Sublease Classified as a Finance Lease

Head lease—An intermediate lessor enters into a five-year lease for 5,000 square meters of office space (the head lease) with Entity A (the head lessor).

Sublease—At the beginning of Year 3, the intermediate lessor subleases the 5,000 square meters of office space for the remaining three years of the head lease to a sublessee.

The intermediate lessor classifies the sublease by reference to the right-of-use asset arising from the head lease. The intermediate lessor classifies the sublease as a finance lease, having considered the requirements in paragraphs 65–70 of IPSAS 43.

When the intermediate lessor enters into the sublease, the intermediate lessor:

(a) Derecognizes the right-of-use asset relating to the head lease that it transfers to the sublessee and recognizes the net investment in the sublease;

(b) Recognizes any difference between the right-of-use asset and the net investment in the sublease in surplus or deficit; and

(c) Retains the lease liability relating to the head lease in its statement of financial position, which represents the lease payments owed to the head lessor.

During the term of the sublease, the intermediate lessor recognizes both finance revenue on the sublease and interest expense on the head lease (Entity A).

Example 21—Sublease Classified as Operating Lease

Head lease—An intermediate lessor enters into a five-year lease for 5,000 square meters of office space (the head lease) with Entity A (the head lessor).

Sublease—At commencement of the head lease, the intermediate lessor subleases the 5,000 square meters of office space for two years to a sublessee.

The intermediate lessor classifies the sublease by reference to the right-of-use asset arising from the head lease. The intermediate lessor classifies the sublease as an operating lease, having considered the requirements in paragraphs 65–70 of IPSAS 43.

When the intermediate lessor enters into the sublease, the intermediate lessor retains the lease liability and the right-of-use asset relating to the head lease in its statement of financial position.

During the term of the sublease, the intermediate lessor:

(a) Recognizes a depreciation charge for the right-of-use asset and interest on the lease liability; and

(b) Recognizes lease revenue from the sublease.

Lessee Disclosure (see paragraphs 62 and AG50–AG51)

IE9. Example 22 illustrates how a lessee with different types of lease portfolios might comply with the disclosure requirements described in paragraphs 62 and AG50 of IPSAS 43 about variable lease payments. This example shows only current period information. IPSAS 1, *Presentation of Financial Statements* requires an entity to present comparative information.

Example 22—Variable Payment Terms

Lessee with a High Volume of Leases with Some Consistent Payment Terms

Example 22A: City XYZ (Lessee) operates four tourism outlets selling touristic merchandise about the city—A, B, C and D. Lessee has a high volume of property leases. Lessee's policy is to negotiate variable payment terms for newly established tourism outlets. Lessee concludes that information about variable lease payments is relevant to users of its financial statements and is not available elsewhere in its financial statements. In particular, Lessee concludes that information about the proportion of total lease payments that arise from variable payments, and the sensitivity of those variable lease payments to changes in sales, is the information that is relevant to users of its financial statements. This information is similar to that reported to Lessee's senior management about variable lease payments.

Some of the property leases within the city contain variable payment terms that are linked to sales generated from the tourism outlet. Variable payment terms are used, when possible, in newly established tourism outlets in order to link rental payments to tourism outlet cash flows and minimize fixed costs. Fixed and variable rental payments by tourism outlet for the period ended 31 December 20X0 are summarized below.

	Tourism outlet	**Fixed payments**	**Variable payments**	**Total payments**	**Estimated annual impact on total tourism outlet rent of a 1% increase in sales**
	No.	**CU**	**CU**	**CU**	**%**
A	4,522	3,854	120	3,974	0.03%
B	965	865	105	970	0.11%
C	124	26	163	189	0.86%
D	652	152	444	596	0.74%
	6,263	**4,897**	**832**	**5,729**	**0.15%**

Refer to the management commentary for tourism outlet information presented on a like-for-like basis and to Note X for segmental information applying IPSAS 18, *Segment Reporting* relating to Tourism Outlets A–D.

Example 22B: City XYZ (Lessee) has a high volume of property leases of tourism outlets selling touristic merchandise about the city. Many of these leases contain variable payment terms linked to sales from the store. Lessee's group policy sets out the circumstances in which variable payment terms are used and all lease negotiations must be approved centrally. Lease payments are monitored centrally. Lessee concludes that information about variable lease payments is relevant to users of its financial statements and is not available elsewhere in its financial statements. In particular, Lessee concludes that information about the different types of contractual terms it uses with respect to variable lease payments, the effect of those terms on its *financial performance and the sensitivity of variable lease payments to changes in sales is the information that is relevant to users of its financial statements. This is similar to the information that is reported to Lessee's senior management about variable lease payments.*

Many of the property leases within *City XYZ* contain variable payment terms that are linked to the volume of sales made from leased tourism outlets. These terms are used, when possible, in order to match lease payments with tourism outlets generating higher cash flows. For individual tourism outlets, up to 100 per cent of lease payments are on the basis of variable payment terms and there is a wide range of sales percentages applied. In some cases, variable payment terms also contain minimum annual payments and caps.

Lease payments and terms for the period ended 31 December 20X0 are summarized below.

	Tourism outlets	**Fixed payments**	**Variable payments**	**Total payments**
	No.	**CU**	**CU**	**CU**
Fixed rent only	1,490	1,153	-	1,153
Variable rent with no minimum	986	-	562	562
Variable rent with minimum	3,089	1,091	1,435	2,526
	5,565	**2,244**	**1,997**	**4,241**

A 1 per cent increase in sales across all tourism outlets in the public sector entity would be expected to increase total lease payments by approximately 0.6–0.7 per cent. A 5 per cent increase in sales across all tourism outlets in the public sector entity would be expected to increase total lease payments by approximately 2.6–2.8 per cent.

Lessee with a High Volume of Leases with a Wide Range of Different Payment Terms

Example 22C: City XYZ (Lessee) has a high volume of property leases of tourism outlets selling touristic merchandise about the city. These leases contain a wide range of different variable payment terms. Lease terms are negotiated and monitored by local management. Lessee concludes that information about variable lease payments is relevant to users of its financial statements and is not available elsewhere in its financial statements. Lessee concludes that information about how its property lease portfolio is managed is the information that is relevant to users of its financial statements. Lessee also concludes that information about the expected level of variable lease payments in the coming year (similar to that reported internally to senior management) is also relevant to users of its financial statements.

Many of the property leases within the city contain variable payment terms. Local management are responsible for store margins. Accordingly, lease terms are negotiated by local management and contain a wide range of payment terms. Variable payment terms are used for a variety of reasons, including minimising the fixed cost base for newly established tourism outlets or for reasons of margin control and operational flexibility. Variable lease payment terms vary widely across the city:

(a) The majority of variable payment terms are based on a range of percentages of tourism outlet sales;

(b) Lease payments based on variable terms range from 0–20 per cent of total lease payments on an individual property; and

(c) Some variable payment terms include minimum or cap clauses.

The overall financial effect of using variable payment terms is that higher rental costs are incurred by tourism outlet with higher sales. This facilitates the management of margins across the city's tourism outlets.

Variable rent expenses are expected to continue to represent a similar proportion of store sales in future years.

IE10. Example 23 illustrates how a lessee with different types of lease portfolios might comply with the disclosure requirements described in paragraphs 62 and AG51 of IPSAS 43 about extension options and termination options. This example shows only current period information. IPSAS 1 requires an entity to present comparative information.

Example 23—Extension Options and Termination Options

Lessee with a High Volume of Leases, that Have a Wide Range of Different Terms and Conditions, which are not Managed Centrally

Example 23A: Lessee has a high volume of equipment leases with a wide range of different terms and conditions. Lease terms are negotiated and monitored by local management. Lessee concludes that information about how it manages the use of termination and extension options is the information that is relevant to users of its financial statements and is not available elsewhere in its financial statements. Lessee also concludes that information about (a) the financial effect of reassessing options and (b) the proportion of its short-term lease portfolio resulting from leases with annual break clauses is also relevant to users of its financial statements.

Extension and termination options are included in a number of equipment leases across the economic entity. Local teams are responsible for managing their leases and, accordingly, lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Extension and termination options are included, when possible, to provide local management with greater flexibility to align its need for access to equipment with the fulfilment of customer contracts. The individual terms and conditions used vary across the economic entity.

The majority of extension and termination options held are exercisable only by Lessee and not by the respective lessors. In cases in which Lessee is not reasonably certain to use an optional extended lease term, payments associated with the optional period are not included within lease liabilities.

During 20X0, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognized lease liabilities of CU489.

In addition, Lessee has a number of lease arrangements containing annual break clauses at no penalty. These leases are classified as short-term leases and are not included within lease liabilities. The short-term lease expense of CU30 recognized during 20X0 included CU27 relating to leases with an annual break clause.

Lessee with a High Volume of Leases with Some Consistent Terms and Options

Example 23B: City XYZ (Lessee) has a high volume of property leases containing penalty free termination options that are exercisable at the option of Lessee. Lessee's policy is to have termination options in leases of more than five years, whenever possible. Lessee has a central property team that negotiates leases. Lessee concludes that information about termination options is relevant to users of its financial statements and is not available elsewhere in its financial statements. In particular, Lessee concludes that information about (a) the potential exposure to future lease payments that are not included in the measurement of lease liabilities and (b) the proportion of termination options that have been exercised historically is the information that is relevant to users of its financial statements. Lessee also notes that presenting this information on the basis of the same operation for which segment information is disclosed applying IPSAS 18 is relevant to users of its financial statements. This is similar to the information that is reported to Lessee's senior management about termination options.

Many of the property leases across the city contain termination options. These options are used to limit the period to which the city is committed to individual lease contracts and to maximize operational flexibility in terms of opening and closing individual offices. For most leases of offices, recognized lease liabilities do not include potential future rental payments after the exercise date of termination options because Lessee is not reasonably certain to extend the lease beyond that date. This is the case for most leases for which a longer lease period can be enforced only by Lessee and not by the landlord, and for which there is no penalty associated with the option.

Potential future rental payments relating to periods following the exercise date of termination options are summarized below.

Segment	**Lease liabilities recognized (discounted)**	**Potential future lease payments not included in lease liabilities (undiscounted)**		
		Payable during 20X1–20X5	**Payable during 20X6–20Y0**	**Total**
	CU	**CU**	**CU**	**CU**
Operation A	569	71	94	165
Operation B	2,455	968	594	1,562
Operation C	269	99	55	154
Operation D	1,002	230	180	410
Operation E	914	181	321	502
	5,209	**1,549**	**1,244**	**2,793**

The table below summarizes the rate of exercise of termination options during 20X0.

Segment	**Termination option exercisable during 20X0**	**Termination option not exercised**	**Termination option exercised**
	No. of leases	**No. of leases**	**No. of leases**
Operation A	33	30	3
Operation B	86	69	17
Operation C	19	18	1
Operation D	30	5	25
Operation E	66	40	26
	234	**162**	**72**

Example 23C: Lessee has a high volume of large equipment leases containing extension options that are exercisable by Lessee during the lease. Lessee's policy is to use extension options to align, when possible, committed lease terms for large equipment with the initial contractual term of associated customer contracts, whilst retaining flexibility to manage its large equipment and reallocate assets across contracts. Lessee concludes that information about extension options is relevant to users of its financial statements and is not available elsewhere in its financial statements. In particular, Lessee concludes that (a) information about the potential exposure to future lease payments that are not included in the measurement of lease liabilities and (b) information about the historical rate of exercise of extension options is the information that is relevant to users of its financial statements. This is similar to the information that is reported to Lessee's senior management about extension options.

Many of the large equipment leases across the city contain extension options. These terms are used to maximize operational flexibility in terms of managing contracts. These terms are not reflected in measuring lease liabilities in many cases because the options are not reasonably certain to be exercised. This is generally the case when the underlying large equipment has not been allocated for use on a particular customer contract after the exercise date of an extension option. The table below summarizes potential future rental payments relating to periods following the exercise dates of extension options.

Segment	Lease liabilities recognized (discounted)	Potential future lease payments not included in lease liabilities (discounted)	Historical rate of exercise of extension options
	CU	CU	%
Operation A	569	799	52%
Operation B	2,455	269	69%
Operation C	269	99	75%
Operation D	1,002	111	41%
Operation E	914	312	76%
	5,209	**1,590**	**67%**

Sale and Leaseback Transactions (see paragraphs 97–102)

IE11. Example 24 illustrates the application of the requirements in paragraphs 97–102 of IPSAS 43 for a seller-lessee and a buyer-lessor.

Example 24–Sale and Leaseback Transaction

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU2,000,000. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 18 years, with annual payments of CU120,000 payable at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements for determining when a performance obligation is satisfied in IFRS 15 Revenue from Contracts with Customers. Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale and leaseback. This example ignores any initial direct costs.

The fair value of the building at the date of sale is CU1,800,000. Because the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer-lessor make adjustments to measure the sale proceeds at fair value. The amount of the excess sale price of CU200,000 (CU2,000,000 – CU1,800,000) is recognized as additional financing provided by Buyer-lessor to Seller-lessee.

The interest rate implicit in the lease is 4.5 per cent per annum, which is readily determinable by Seller-lessee. The present value of the annual payments (18 payments of CU120,000, discounted at 4.5 per cent per annum) amounts to CU1,459,200, of which CU200,000 relates to the additional financing and CU1,259,200 relates to the lease—corresponding to 18 annual payments of CU16,447 and CU103,553, respectively.

<u>Seller-lessee</u>

At the commencement date, Seller-lessee measures the right-of-use asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right of use retained by Seller-lessee, which is CU699,555. This is calculated as:

CU1,000,000 (the carrying amount of the building) ÷ CU1,800,000 (the fair value of the building) × CU1,259,200 (the discounted lease payments for the 18-year right-of-use asset).

Seller-lessee recognizes only the amount of the gain that relates to the rights transferred to Buyer-lessor of CU240,355 calculated as follows. The gain on sale of building amounts to CU800,000 (CU1,800,000 – CU1,000,000), of which:

(a) CU559,645 (CU800,000 ÷ CU1,800,000 × CU1,259,200) relates to the right to use the building retained by Seller-lessee; and

(b) CU240,355 (CU800,000 ÷ CU1,800,000 × (CU1,800,000 – CU1,259,200)) relates to the rights transferred to Buyer-lessor.

At the commencement date, Seller-lessee accounts for the transaction as follows.

Cash	CU2,000,000	
Right-of-use asset	CU699,555	
Building		CU1,000,000
Financial liability		CU1,459,200
Gain on rights transferred		CU240,355

<u>Buyer-lessor</u>

At the commencement date, Buyer-lessor accounts for the transaction as follows.

Building	CU1,800,000	
Financial asset	CU200,000 (18 payments of CU16,447, discounted at 4.5 per cent per annum)	
Cash		CU2,000,000

After the commencement date, Buyer-lessor accounts for the lease by treating CU103,553 of the annual payments of CU120,000 as lease payments. The remaining CU16,447 of annual payments received from Seller-lessee are accounted for as (a) payments received to settle the financial asset of CU200,000 and (b) interest revenue.

Comparison with IFRS 16

IPSAS 43, *Leases* is drawn primarily from IFRS 16 (2016) *Leases,* including amendments up to March 2021.

The main differences between IPSAS 43 and IFRS 16 are as follows:

- IPSAS 43 uses different terminology from IFRS 16. For example, IPSAS 43 uses the terms "revenue", "operation", "accumulated surpluses/(deficits)" and "segment", while IFRS 16 uses the terms "income", "business unit", "retained earnings" and "business segment', respectively.
- IPSAS 43 refers to both "economic benefits" and "service potential", where appropriate, in the section on identifying a lease, while IFRS 16 refers only to "economic benefits".
- IPSAS 43 does not include specific requirements for manufacturer or dealer lessors, whereas IFRS 16 does.

Comparison with GFS

In developing IPSAS 43, *Leases*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- IPSAS 43 applies a right-of-use model for lessees and a risks and rewards model for lessors, while GFS applies a risks and rewards model for both lessees and lessors.
- Under IPSAS 43, lessors classify leases as finance lease or operating lease and lessees do not classify leases as finance lease or operating lease. Under GFS, leases are classified as financial lease, operating lease, or resource lease.
- Under IPSAS 43, lessees recognize a right-of use asset and a lease liability. Under GFS, an underlying asset and a loan are recognized in a financial lease and lease payments from operating leases are recognized as use of goods and services.
- IPSAS 43 provides an optional recognition exemption for lessees on short-term leases and leases for which the underlying asset is of low value. GFS does not provide such recognition exemption.

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Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

APPROVAL NZASB 135

Approval to Issue *Initial Application of NZ IFRS 17 and NZ IFRS 9—Comparative Information*

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 *Initial Application of NZ IFRS 17 and NZ IFRS 9—Comparative Information;* and
- provided a signing memorandum outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memorandum and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue *Initial Application of NZ IFRS 17 and NZ IFRS 9—Comparative Information* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 17th day of December 2021

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Michele J Embling
Chair
External Reporting Board