New Zealand Accounting Standards Board

MEETING PACK

for

NZASB Meeting - 123 - Public

Wednesday, 11 June 2025

9:15 am (NZST)

Held at:

Generator Britomart

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INDEX

AGENDA

NZASB MEETING - 123 - PUBLIC

Name:	New Zealand Accounting Standards Board
Date:	Wednesday, 11 June 2025
Time:	9:15 am to 3:50 pm (NZST)
Location:	Generator Britomart, Level 10/11 Britomart Place, Auckland Central, Auckland 1010
Committee Members:	Carolyn Cordery (Committee Chair), Sheree Ryan (Committee Chair), Keith Kendall, Francis Caetano, Jason Stinchcombe, Lara Truman, Richard Perry, Richard Smyth, Warwick White
Attendees:	Michael Bradbury, Alex Stainer, Carly Berry, Gali Slyuzberg, Jamie Cattell, Kim Jama, Leana van Heerden, Michelle Lombaard, Nimash Bhikha, Tereza Bublikova, Wendy Venter

1. Board-only session

1.1 Board-only session 9:15 am (30 min)

2. Non-Public Session

2.1 Non-Public Session 9:45 am (15 min)

3. Non-Public Session

3.1 Non-Public Session 10:00 am (30 min)

4. Break

4.1 Break 10:30 am (15 min)

5. Non-Public Session

5.1 Non-Public Session 10:45 am (90 min)

6. RDR Concessions - NZ IFRS 18

6.1 RDR Concessions - NZ IFRS 18 12:15 pm (30 min)

Carly Berry

For Decision

draft amending standard RDR Concessions - NZ IFRS 18

Supporting Documents:

6.1.a	Board memo - RDR concessions - NZ IFRS 18.pdf	6
6.1.b	Draft amending standard RDR concessions - NZ IFRS 18.pdf	10
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7. Lunch

7.1 Lunch

12:45 pm (30 min)

8. IASB PIR of IFRS 16 Leases

8.1 IASB PIR of IFRS 16 Leases

1:15 pm (30 min)

Jamie Cattell

For Discussion

Supporting Documents:

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8.1.b	Analysis of NZ IFRS 16 data from Tier 1 Financial Statements.pdf	35

9. PBE Policy Approach - Amendments to IPSAS Standards – Specific IFRIC Interpretations

9.1 Amendments to IPSAS Standards – Specific IFRIC Interpretations

1:45 pm (45 min)

Gali Slyuzberg, Tereza Bublikova

For Decision

9.1c - Late paper

Supporting Documents:

9.1.a	Board Memo - Amendments to IPSAS Specific IFRIC Interpretations.pdf	44
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10. XRB A2 Meaning of Specified Statutory Size Thresholds

10.1 XRB A2 Meaning of Specified Statutory Size Thresholds

2:30 pm (15 min)

Gali Slyuzberg

For Decision

Supporting Documents:

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11. IPSAS ED 93 Definition of Material

11.1 IPSAS ED 93 Definition of Material 2:45 pm (15 min)

Alex Stainer

For Decision

Supporting Documents:

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11.1.c	IPSAS-ED-93 Definition of Material.pdf	101

12. Service Performance Reporting

12.1 Board Update 3:00 pm (5 min)

Nimash Bhikha

For Noting

Verbal update

13. Non-Public Session

13.1 Non-Public Session 3:05 pm (15 min)

14. Non-Public Session

14.1 Non-Public Session 3:20 pm (30 min)

15. Close Meeting

15.1 Close the meeting

Next meeting: NZASB Meeting - 124 - 12 Aug 2025, 9:00 am

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

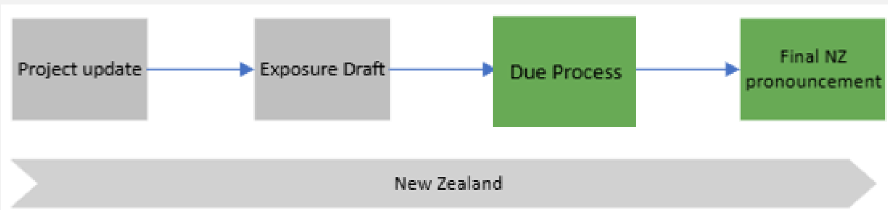
Date:	29 May 2025
To:	NZASB Members
From:	Carly Berry
Subject:	**Board memo – RDR concessions – NZ IFRS 18**

COVER SHEET

Project priority and complexity

Project purpose	Consider RDR concessions to the disclosure requirements in NZ IFRS 18 and to any consequential amendments to disclosure requirements in other NZ IFRSs, due to NZ IFRS 18 (where applicable).
Cost/benefit considerations	In developing RDR concessions, we have considered whether: • the information provided by the disclosures in the financial statements meets the needs of users of Tier 2 financial statements; and • the benefits of the disclosures for these users exceed the costs for Tier 2 entities to provide them.
Project priority	**Medium** NZ IFRS 18 is mandatory from 1 January 2027. Due to the significant impact of this new standard, entities need time to prepare for its implementation. Therefore, the sooner the RDR concessions can be finalised, the sooner Tier 2 entities will have clarity on the extent to which the new standard impacts on their reporting.

Overview of agenda item

Project status	
Board action required	**Medium complexity** • **APPROVE** the amending standard *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements* • **APPROVE** the signing memorandum from the NZASB Chair to the XRB Chair.

Recommendations[1]

1. The Board is asked to:

   (a) **APPROVE** for issue the amending standard *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements*, which amends NZ IFRS 18 and NZ IAS 34 *Interim Financial Reporting*; and

   (b) **APPROVE** the signing memorandum, from the Chair of the NZASB to the Chair of the XRB Board, requesting approval to issue the amending standard *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements*.

Background

2. At its May 2024 meeting, the Board approved NZ IFRS 18. This standard replaces NZ IAS 1 *Presentation of Financial Statements* when applied and aims to improve how information is communicated in the financial statements by:

   (a) requiring additional defined subtotals in the statement of profit or loss – to make entities' financial performance easier to compare and provide a consistent starting point for investors' analysis;

   (b) requiring disclosures about management-defined performance measures – to increase discipline over their use and transparency about their calculation; and

   (c) adding new principles for grouping (aggregation and disaggregation) of information in the financial statements.

3. At its February 2025 meeting, the Board agreed to consult on proposed RDR concessions for:

   (a) some of the new disclosure requirements in NZ IFRS 18 around management-defined performance measures, and expenses by nature when using functional classification in the statement of profit or loss; and

   (b) one of the new disclosure requirements in NZ IAS 34 introduced through an NZ IFRS 18 consequential amendment, in relation to management-defined performance measures.

4. The proposed RDR concessions were developed using the developing RDR guidance[2], which considered the cost/benefit of disclosures for preparers and users, as well as being sense checked to the established RDR processes which considered the relevance of disclosures for Tier 2 preparers and users.

5. The consultation on the proposed RDR concessions closes on Thursday 29 May 2025 and only one submission has been received so far (included in Agenda item 6.1d). The submission is supportive of the proposed RDR concessions.

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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® Accounting Standards, IFRIC® Interpretations and IASB® papers).

[2] The Board discussed the draft RDR guidance at its December 2024 meeting and will consider it again in the future.

6. No other comments have been received as of the date of this memo. We will verbally update the Board if any submissions are received between the date of this memo and the closing date of the consultation, and if these impact the conclusions on these proposals.

Consistency with Australian Accounting Standards

7. In 2020, the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. The AASB decides to add new disclosure requirements to AASB 1060 on a case-by-case basis.

8. When AASB 1060 was first developed the AASB noted that:

   (a) as a general principle, the presentation requirements of full Australian Accounting Standards (AAS) have been retained in AASB 1060; and

   (b) it did not intend to make any changes to the presentation requirements or accounting treatments available under AAS[3].

9. Therefore, except for the option not to include a separate statement of changes in equity in certain circumstances, the presentation requirements in AASB 101 *Presentation of Financial Statements* are included in AASB 1060 and are the same for both Australian Tier 1 and Tier 2 entities.

10. There are currently no requirements in AASB 1060 relating to AASB 18[4]. In Q3 2025, as part of a review of AASB 1060, the AASB expects to issue an invitation to comment which will include a topic on the potential effects of AASB 18 on AASB 1060.

11. From our current discussions, the AASB staff view is that the presentation requirements in AASB 18 should replace the AASB 101 requirements in AASB 1060, to align with the general principle of ensuring the full AAS presentation requirements are retained in AASB 1060.

12. However, the AASB will consider stakeholder views on this, as well as stakeholder views on the potential inclusion of the new disclosure requirements in AASB 18 in AASB 1060, before making a final decision.

13. Our recommendation to the Board (as noted in paragraph 1) is based on applying our RDR processes to the new disclosure requirements introduced by NZ IFRS 18 – that is, we consider that the proposals provide an appropriate balance of benefit to users of Tier 2 financial statements and cost to Tier 2 preparers in New Zealand. The new presentation requirements of NZ IFRS 18 are designed to improve how information is communicated in the financial statements, which we consider is important to both Tier 1 and Tier 2 for-profit entities.

[3] As documented in AASB 1060.BC47.

[4] AASB 18 is the Australian equivalent of IFRS 18.

Due process

14. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22(1) of the Financial Reporting Act 2013.

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

Commencement and application

16. *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements* will be applicable for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. This is consistent with the mandatory date in NZ IFRS 18, to the extent permitted under section 28 of the Financial Reporting Act 2013.

Questions for the Board

Q1. Does the Board **APPROVE** for issue the amending standard *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements*?

Q2. Does the Board **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue the amending standard *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements*?

Attachments

Agenda item 6.1b	Draft amending standard *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements*
Agenda item 6.1c	Draft signing memorandum
Agenda item 6.1d	CAANZ-CPA Australia Joint Submission NZ IFRS 18 RDR concessions

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

RDR Concessions – NZ IFRS 18 *Presentation and Disclosure in Financial Statements*

Amendments to NZ IFRS 18 and NZ IAS 34

Mandatory from 1 January 2027

Issued June 2025

RDR Concessions – NZ IFRS 18 *Presentation and Disclosure in Financial Statements*

Issued June 2025

This Tier 2 for-profit amending Standard introduces disclosure concessions in response to new disclosures established by NZ IFRS 18 *Presentation and Disclosure in Financial Statements,* issued 23 May 2024. This amending Standard modifies the disclosure requirements in NZ IFRS 18 and NZ IAS 34 *Interim Financial Reporting*.

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

Legal status of amending Standard

This amending 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 amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The amending Standard was published under the Legislation Act 2019 on [xx] June 2025 and takes effect on [xx] July 2025.

Commencement and application

The amending Standard has a mandatory date of 1 January 2027, meaning it must be applied by Tier 2 for-profit entities for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this amending Standard takes effect – refer to paragraphs NZ C1.4–NZ C1.7 of this amending Standard.

RDR CONCESSIONS – NZ IFRS 18

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RDR CONCESSIONS – NZ IFRS 18

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IFRS Foundation Publications Department
Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD, United Kingdom.
Tel: +44 (0) 20 7332 2730 Fax: +44 (0) 20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org

RDR CONCESSIONS – NZ IFRS 18

CONTENTS

Part A – Introduction

This amending Standard modifies the disclosure requirements in NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and NZ IAS 34 *Interim Financial Reporting* for Tier 2 for-profit entities.

Part B – Scope

This Standard applies to Tier 2 for-profit entities. A Tier 2 entity is not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*).

Part C – Amendments to NZ IFRS 18 *Presentation and Disclosure in Financial Statements*

Paragraphs NZ 1.3, RDR 84.1 and RDR 85.1 are added. New text is underlined. Asterisks are added to paragraphs 82(b), 83, 84, 85 and 121–125 to indicate disclosure concessions for Tier 2 entities with respect to these paragraphs. The asterisks are underlined.

Scope

...

<u>NZ 1.3</u> **<u>With respect to management-defined performance measures:</u>**

(a) **<u>A Tier 2 entity is not required to comply with the disclosure requirements in paragraphs 121–125 and paragraphs B132–B142. However, if a Tier 2 entity chooses to disclose information in the notes about one or more management-defined performance measures, the Tier 2 entity must comply with all the disclosure requirements in paragraphs 121–125 and paragraphs B132–B142.</u>**

(b) **<u>Paragraphs 117–120 and B113–B131 are definitional in nature and contain principles to enable an entity to identify whether it has one or more management-defined performance measures for the purposes of applying the disclosure requirements in paragraphs 121–125 and paragraphs B132–B142.</u>**

...

Statement of profit or loss

...

Items to be presented in the statement of profit or loss or disclosed in the notes

...

Presentation and disclosure of expenses classified in the operating category

...

82 If an entity presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss, it shall:

(a) present a separate line item for its cost of sales, if the entity classifies operating expenses in functions that include a cost of sales function. That line item shall include the total of inventory expense described in paragraph 38 of NZ IAS 2 *Inventories*.

*(b) disclose a qualitative description of the nature of expenses included in each function line item.

***83 An entity that presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss shall also disclose in a single note:**

(a) the total for each of:

(i) depreciation, comprising the amounts required to be disclosed by paragraph 73(e)(vii) of NZ IAS 16 *Property, Plant and Equipment*, paragraph 79(d)(iv) of NZ IAS 40 *Investment Property* and paragraph 53(a) of NZ IFRS 16 *Leases*;

(ii) amortisation, comprising the amount required to be disclosed by paragraph 118(e)(vi) of NZ IAS 38 *Intangible Assets*;

(iii) employee benefits, comprising the amount for employee benefits recognised by an entity applying NZ IAS 19 *Employee Benefits* and the amount for services received from employees recognised by an entity applying NZ IFRS 2 *Share-based Payment*;

(iv) impairment losses and reversals of impairment losses, comprising the amounts required to be disclosed by paragraphs 126(a) and 126(b) of NZ IAS 36 *Impairment of Assets*; and

(v) write-downs and reversals of write-downs of inventories, comprising the amounts required to be disclosed by paragraphs 36(e) and 36(f) of NZ IAS 2; and

(b) for each total listed in (a)(i)–(v):

(i) the amount related to each line item in the operating category (see paragraph B84); and

(ii) a list of any line items outside the operating category that also include amounts relating to the total.

*84 Paragraph 41 requires an entity to disaggregate items to provide material information. However, an entity that applies paragraph 83 is exempt from disclosing:

(a) in relation to function line items presented in the operating category of the statement of profit or loss—disaggregated information about the amounts of nature expenses included in each line item, beyond the amounts specified in paragraph 83; and

(b) in relation to nature expenses specifically required by an NZ IFRS to be disclosed in the notes—disaggregated information about the amounts of the expenses included in each function line item presented in the operating category of the statement of profit or loss, beyond the amounts specified in paragraph 83.

RDR 84.1 Paragraph 41 requires an entity to disaggregate items to provide material information. However, a Tier 2 entity is exempt from disclosing:

(a) in relation to function line items presented in the operating category of the statement of profit or loss—disaggregated information about the amounts of nature expenses included in each line item; and

(b) in relation to nature expenses specifically required by an NZ IFRS to be disclosed in the notes—disaggregated information about the amounts of the expenses included in each function line item presented in the operating category of the statement of profit or loss.

*85 The exemption in paragraph 84 relates to disaggregation of operating expenses. However, it does not exempt an entity from applying specific disclosure requirements relating to those expenses in NZ IFRS.

RDR 85.1 The exemption in paragraph RDR 84.1 relates to disaggregation of operating expenses. However, it does not exempt a Tier 2 entity from applying specific disclosure requirements relating to those expenses in NZ IFRS.

...

Notes

...

Management-defined performance measures

...

Disclosure of management-defined performance measures

*121 **The objective of the disclosures for management-defined performance measures is for an entity to provide information to help a user of financial statements understand:**

(a) **the aspect of financial performance that, in management's view, is communicated by a management-defined performance measure; and**

(b) **how the management-defined performance measure compares with the measures defined by NZ IFRS.**

*122 **An entity shall disclose information about all measures that meet the definition of management-defined performance measures in paragraph 117 in a single note (see paragraphs B132–B133). This note shall include a statement that the management-defined performance measures provide management's view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities.**

*123 **An entity shall label and describe each management-defined performance measure in a clear and understandable manner that does not mislead users of financial statements (see paragraphs B134–B135). For each management-defined performance measure, the entity shall disclose:**

(a) **a description of the aspect of financial performance that, in management's view, is communicated by the management-defined performance measure. This description shall include explanations of why, in management's view, the management-defined performance measure provides useful information about the entity's financial performance.**

(b) **how the management-defined performance measure is calculated.**

(c) **a reconciliation between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by NZ IFRS (see paragraphs B136–B140).**

(d) **the income tax effect (determined by applying paragraph B141) and the effect on non-controlling interests for each item disclosed in the reconciliation required by (c).**

(e) **a description of how the entity applies paragraph B141 to determine the income tax effect required by (d).**

*124 If an entity changes how it calculates a management-defined performance measure, adds a new management-defined performance measure, ceases using a previously disclosed management-defined performance measure or changes how it determines the income tax effects of the reconciling items required by paragraph 123(d), it shall disclose:

(a) an explanation that enables users of financial statements to understand the change, addition or cessation and its effects.

(b) the reasons for the change, addition or cessation.

(c) restated comparative information to reflect the change, addition or cessation unless it is impracticable to do so. An entity's selection of a management-defined performance measure is not an accounting policy choice. Nonetheless, in assessing whether restating the comparative information is impracticable, an entity shall apply the requirements in paragraphs 50–53 of NZ IAS 8.

*125 If an entity does not disclose the restated comparative information required by paragraph 124(c) because it is impracticable to do so, it shall disclose that fact.

Appendix B
Application guidance

Asterisks are added to paragraphs B84(b) and B132–B142, to indicate disclosure concessions for Tier 2 entities with respect to these paragraphs. The asterisks are underlined.

Statement of profit or loss

...

Items to be presented in the statement of profit or loss or disclosed in the notes

...

Presentation and disclosure of expenses classified in the operating category

Use of characteristics of nature and function

...

B84 An entity will either present expenses by nature, or applying paragraph 83, disclose some expenses by nature. The amounts presented or disclosed need not be the amounts recognised as an expense in the period. They could include amounts that have been recognised as part of the carrying amount of an asset. If an entity:

(a) presents amounts that are not the amounts recognised as an expense in the period, it will also present an additional line item for the change in the carrying amount of the affected assets. For example, applying paragraph 39 of NZ IAS 2, an entity might present a line item for changes in inventories of finished goods and work in progress.

*(b) discloses, applying paragraph 83(b), amounts that are not the amounts recognised as an expense in the period, the entity shall give a qualitative explanation of that fact, identifying the assets involved.

Notes

...

Management-defined performance measures

...

Disclosure of management-defined performance measures

Single note for information about management-defined performance measures

*B132 Paragraph 122 requires an entity to include in a single note all information about management-defined performance measures required by paragraphs 121–125. If an entity also discloses other information in that note, the information in the note shall be labelled in a way that clearly distinguishes the information required by paragraphs 121–125 from the other information.

*B133 For example, if an entity applies NZ IFRS 8 and the reportable segment information includes a management-defined performance measure, the entity may disclose the required information about the management-defined performance measure in the same note as other reportable segment information, provided the entity either:

(a) includes in that note the information required by paragraphs 121–125 for all its management-defined performance measures and, to fulfil the requirements in paragraph B132, labels the information in the note in a way that clearly distinguishes the information required by paragraphs 121–125 from the information required by NZ IFRS 8; or

(b) provides a separate note that includes the information required for all its management-defined performance measures, including those for which the entity includes information in the reportable segment information.

A clear and understandable manner

*B134 Paragraph 123 requires an entity to label and describe its management-defined performance measures in a clear and understandable manner that does not mislead users of financial statements. To provide such a description, an entity shall disclose information that enables a user of financial statements to understand the items of income or expense included and excluded from the subtotal. Therefore, an entity shall:

(a) label and describe the measure in a way that faithfully represents its characteristics in accordance with paragraph 43 (see paragraph B135); and

(b) provide information specific to management-defined performance measures—that is:

(i) if the entity has calculated the measure other than by using the accounting policies it used for items in the statement(s) of financial performance, the entity shall state that fact and the calculations it has used for the measure; and

(ii) if, in addition, the calculation of the measure differs from accounting policies required or permitted by NZ IFRS, the entity shall state that additional fact and, if necessary, an explanation of the meaning of terms it uses (see paragraph B135(b)).

*B135 To label and describe the measure in a way that faithfully represents its characteristics, an entity shall:

(a) label the measure in a way that represents the characteristics of the subtotal (for example, using the label ‘operating profit before non-recurring expenses’ only for a subtotal that excludes from operating profit all expenses identified by the entity as non-recurring); and

(b) explain the meaning of terms it uses in its descriptions that are necessary to understand the aspect of financial performance being communicated (for example, explaining how the entity defines ‘non-recurring expenses’).

Reconciliation to the most directly comparable total or subtotal

*B136 Paragraph 123(c) requires an entity to reconcile each management-defined performance measure to the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by NZ IFRS. For example, an entity that discloses in the notes a management-defined performance measure of adjusted operating profit or loss shall reconcile that measure to operating profit or loss. In aggregating or disaggregating the reconciling items disclosed, an entity shall apply the requirements in paragraphs 41–43.

*B137 For each reconciling item, an entity shall disclose:

(a) the amount(s) related to each line item in the statement(s) of financial performance; and

(b) a description of how the item is calculated and contributes to the management-defined performance measure providing useful information (see paragraphs B138–B140), if necessary to provide the information required by paragraphs 123(a) and 123(b).

*B138 The description required in paragraph B137(b) is required if there is more than one reconciling item and each item is calculated using a different method or contributes to providing useful information in a different way. For example, an entity might exclude from a management-defined performance measure several items of expense, some because they were identified as outside management’s control and others because they were identified as non-recurring. In such cases, disclosure of which items contributed to which type of adjustment would be required to explain how the management-defined performance measure provides useful information.

*B139 A single explanation might apply to more than one item or might apply to all reconciling items collectively. For example, an entity might exclude several items of income or expense in calculating a management-defined performance measure based on an entity-specific application of ‘non-recurring’. In such a case, a single explanation that includes the entity’s definition of ‘non-recurring’ that applies to all reconciling items might satisfy the requirement in paragraph B137(b).

*B140 Applying paragraph 123(c), an entity is permitted to reconcile a management-defined performance measure to a total or subtotal that is not presented in the statement(s) of financial performance. In such cases, an entity:

(a) shall reconcile that total or subtotal to the most directly comparable total or subtotal presented in the statement(s) of financial performance; and

(b) is not required to disclose the information required by paragraphs 123(d) and 123(e) for the reconciliation in (a).

Income tax effect for each item disclosed in the reconciliation

*B141 An entity is required by paragraph 123(d) to disclose the income tax effect for each item disclosed in the reconciliation between a management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by

NZ IFRS. An entity shall determine the income tax effect required by paragraph 123(d) by calculating the income tax effects of the underlying transaction(s):

(a) at the statutory tax rate(s) applicable to the transaction(s) in the tax jurisdiction(s) concerned;

(b) based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned; or

(c) by using another method that achieves a more appropriate allocation in the circumstances.

*B142 If, applying paragraph B141, an entity uses more than one method to calculate the income tax effects of reconciling items, it shall disclose how it determined the tax effects for each reconciling item.

Appendix C
Commencement, application and transition

Paragraphs NZ C1.4–NZ C1.7 (and the related headings) are added. New text is underlined.

Commencement and application

...

RDR Concessions – NZ IFRS 18 *Presentation and Disclosure in Financial Statements*

NZ C1.4 *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements*, issued in [date], added paragraphs NZ 1.3, RDR 84.1 and RDR 85.1 and amended paragraphs 82(b), 83, 84, 85, 121–125, B84(b) and B132–B142. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs NZ C1.5–NZ C1.7. An entity that applies the amendments to an 'early adoption accounting period' shall disclose that fact.

When amending Standard takes effect (section 27 Financial Reporting Act 2013)

NZ C1.5 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on [xx] June 2025 and takes effect on [xx] July 2025.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act)

NZ C1.6 The accounting periods in relation to which this amending Standard commences to apply are:

(a) for an **early adopter**, those accounting periods following and including, the **early adoption accounting period**.

(b) for any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date.**

NZ C1.7 In paragraph NZ C1.6:

early adopter means a reporting entity that applies this amending Standard for an early adoption accounting period

early adoption accounting period means an accounting period of the early adopter:

(a) that begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and

(b) for which the early adopter:

(i) first applies this amending Standard in preparing its financial statements; and

(ii) discloses in its financial statements for that accounting period that this amending Standard has been applied for that period.

mandatory date means 1 January 2027.

Appendix F, the related headings and paragraphs NZ BC1–NZ BC2 are added. New text is underlined.

Appendix F
NZASB Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, NZ IFRS 18.

RDR Concessions – NZ IFRS 18 (paragraph NZ 1.3)

NZ BC1 Tier 2 entities do not have public accountability and therefore are not expected to issue public communications which would include management-defined performance measures as defined in NZ IFRS 18. In the rare instance that a Tier 2 entity has one or more management-defined performance measures, it is likely that users of Tier 2 financial statements would be able to request specific information from the entity on these measures. Therefore, the NZASB decided that Tier 2 entities do not have to comply with the disclosure requirements in NZ IFRS 18 relating to management-defined performance measures, as the benefits to users of these disclosures would not outweigh the costs on the entity to provide the information.

NZ BC2 The NZASB noted that if a Tier 2 entity has one or more management-defined performance measures, the entity may wish to disclose information about these measures in the notes to the financial statements. Under these circumstances, the NZASB considers it appropriate for the entity to comply with all the disclosure requirements in NZ IFRS 18 relating to management-defined performance measures. Doing so will ensure that there is consistent and comparable information about these measures within the financial statements, which will benefit users' understanding.

Part D – Amendments to NZ IAS 34 *Interim Financial Reporting*

Paragraphs RDR 16A.1 and NZ 61.1 are added. New text is underlined and deleted text is struck through. An asterisk is added to paragraph 16A(m), to indicate a disclosure concession for Tier 2 entities with respect to this sub-paragraph. The asterisk is underlined.

Content of an interim financial report

...

Other disclosures

16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.

…

***(m) the disclosures about management-defined performance measures required by paragraphs 121–125 of NZ IFRS 18.**

RDR 16A.1 A Tier 2 entity must comply with paragraph 16A(m) if it chooses to disclose information about one or more management-defined performance measures in the notes to its interim financial statements or elsewhere in the interim financial report.

...

Commencement and application~~Effective date~~

...

NZ 61.1 *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements*, issued in June 2025, added paragraph RDR 16A.1 and amended paragraph 16A(m). An entity shall apply those amendments when it applies NZ IFRS 18.

The Appendix, related headings and paragraphs NZ BC1–NZ BC2 are added. New text is underlined.

Appendix
NZASB Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, NZ IAS 34.

RDR Concessions – NZ IFRS 18 (paragraph RDR 16A.1)

NZ BC1 Tier 2 entities do not have public accountability and therefore are not expected to issue public communications which would include management-defined performance measures as defined in NZ IFRS 18. In the rare instance that a Tier 2 entity has one or more management-defined performance measures, it is likely that users of Tier 2 financial statements would be able to request specific information from the entity on these measures. Therefore, the NZASB decided that Tier 2 entities do not have to comply with the disclosure requirements in NZ IFRS 18 relating to management-defined performance measures, as the benefits to users of these disclosures would not outweigh the costs on the entity to provide the information. Similarly, the NZASB has proposed that Tier 2 entities do not have to disclose information on management-defined performance measures in the notes to the interim financial statements, or elsewhere in the interim financial report.

NZ BC2 The NZASB noted that if a Tier 2 entity has one or more management-defined performance measures, the entity may wish to disclose information about these measures in the notes to the financial statements. Under these circumstances, the NZASB considers it appropriate for the entity to comply with all the disclosure requirements in NZ IFRS 18 relating to management-defined performance measures. Doing so will ensure that there is consistent and comparable information about these measures within the financial statements, which will benefit users' understanding. Similarly, the NZASB considers it appropriate for Tier 2 entities to comply with paragraph 16A(m) if the entity chooses to disclose information about management-defined performance measures in the notes to the interim financial statements or elsewhere in the interim financial report.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date:	[DATE]
To:	Michele Embling, Chair External Reporting Board
From:	Carolyn Cordery, Chair NZASB
Subject:	***Amending Standard – RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements***

Introduction[1]

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue the amending standard *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements,* which amends NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and NZ IAS 34 *Interim Financial Reporting.*

2. The XRB issued NZ IFRS 18 in May 2024, which replaces NZ IAS 1 *Presentation of Financial Statements* from its mandatory date of 1 January 2027 and applies to all Tier 1 and Tier 2 for-profit entities. NZ IFRS 18 aims to improve how information is communicated in the financial statements by introducing the following key requirements:
    (a) New categories and subtotals in the statement of profit or loss;
    (b) New disclosures about management-defined performance measures; and
    (c) Enhanced requirements for the grouping of information in the financial statements.

3. Existing disclosure concessions within NZ IAS 1 were carried over into NZ IFRS 18 where the related disclosure requirement was substantively unchanged. These concessions were incorporated into NZ IFRS 18 when it was issued in May 2024.

4. *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements* introduces disclosure concessions for new disclosure requirements introduced by NZ IFRS 18 in the following key areas.
    (a) Management-defined performance measures (in both the annual and interim financial statements) unless the entity chooses to disclose information about one or more of these measures in the notes to the financial statements; and
    (b) Specified expenses by nature when using the functional classification of expenses.

5. These disclosure concessions were developed using the following key principles.
    (a) The information provided by the disclosures in the financial statements meets the needs of users of Tier 2 financial statements; and
    (b) The benefits of the disclosures for these users exceed the costs for Tier 2 for-profit entities to provide them.

[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).

6. We consider that the proposals provide an appropriate balance of benefit to users of Tier 2 financial statements and cost to Tier 2 preparers in New Zealand. The new presentation requirements of NZ IFRS 18 are designed to improve how information is communicated in the financial statements, which we consider is important to both Tier 1 and Tier 2 for-profit entities.

Due process

7. The NZASB issued the Exposure Draft *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements* for consultation in February 2025, which included basis for conclusion paragraphs explaining the NZASB's considerations around the proposals. Comments were due to the NZASB on 29 May 2025. One submission was received, which was supportive of the proposed RDR concessions. As such, the final amendments are the same as those proposed in the Exposure Draft.

8. The NZASB approved the amending standard *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements* in June 2025. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.

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

Consistency with XRB Financial Reporting Strategy

10. The issuance of this amending standard is consistent with all three elements of the XRB Financial Reporting Strategy – it adopts international standards, retains a harmonised position with Australia for Tier 1 for-profit entities, and is consistent with the Accounting Standards Framework.

Adoption of international standards

11. The XRB adopted IFRS 18 *Presentation and Disclosure in Financial Statements* in New Zealand as NZ IFRS 18 in May 2024. This amending standard amends certain disclosure requirements for Tier 2 entities but does not change the new presentation requirements created by NZ IFRS 18. As such, the issuance of this amending standard maintains alignment with international presentation requirements for both Tier 1 and Tier 2 entities.

Harmonisation with Australia

12. In 2020, the Australian Accounting Standards Board (AASB) issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. The AASB decides to add new disclosure requirements to AASB 1060 on a case-by-case basis.

13. There are currently no requirements in AASB 1060 relating to AASB 18[2]. In Q3 2025, as part of a review of AASB 1060, the AASB expects to issue an invitation to comment which will include a topic on the potential effects of AASB 18 on AASB 1060. The AASB will consider stakeholder views on this, as well as stakeholder views on the potential inclusion of the new disclosure requirements in AASB 18 in AASB 1060, before making a final decision.

Consistent with the Accounting Standards Framework

14. The proposals are consistent with the Accounting Standards Framework and seek to meet the key objectives of meeting user needs by providing concessions for disclosure requirements which would not be relevant for Tier 2 for-profit entities and their users, given these entities do not have public accountability and these disclosures would not be needed for their decision-making.

Commencement and application date

15. *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements* will be applicable to New Zealand for-profit entities for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. This is consistent with the mandatory date for NZ IFRS 18.

16. These commencement and application provisions comply with section 28 of the Financial Reporting Act 2013, which requires that accounting periods to which a standard applies must not be periods that have ended before the standard takes effect.

Other matters

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

Recommendation

18. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board to approve the issue of *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements*.

Attachments

RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements

Certificate of determination

Approval Certificate

Carolyn Cordery
Chair NZASB

[2] AASB 18 is the Australian equivalent of IFRS 18.

29 May 2025

Carolyn Cordery
Chair, New Zealand Accounting Standards Board
External Reporting Board
Level 6, Featherston Street
Wellington 6011

Via online submission: https://www.xrb.govt.nz/consultations/accounting-standards-open-for-consultation/rdr-concessions-nz-ifrs-18/

Dear Carolyn

Consultation and Exposure Draft: RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements

CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) represent over 310,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia throughout Australia, New Zealand and internationally. We welcome the opportunity to provide feedback on the above Consultation and Exposure Draft. We make this submission on behalf of our members and in the public interest.

CPA Australia and CA ANZ support the concessions for Reduced Disclosure Requirements (RDR) for Tier 2 for-profit entities under proposed amendments to NZ IFRS 18 Presentation and Disclosure in Financial Statements (NZ IFRS 18) and NZ IAS 34 Interim Financial Reporting (NZ IAS 34). Feedback we received from our members is consistent with paragraph NZ BC1 of the Basis for Conclusions accompanying NZ IFRS 18 and NZ IAS 34 that it is not expected that Tier 2 entities would issue public communications that include management-defined performance measures (MPMs) as defined in NZ IFRS 18, because they do not have public accountability. No other RDR concessions that should be made to NZ IFRS 18 were highlighted by our members.

Should you have any questions or wish to discuss further, please contact either Ram Subramanian at ram.subramanian@cpaaustralia.com.au (CPA Australia) or Amir Ghandar at amir.ghandar@charteredaccountantsanz.com (CA ANZ).

Yours sincerely

Elinor Kasapidis
Chief of Policy, Standards and External Affairs
CPA Australia

Simon Grant FCA
Group Executive – Advocacy and International Development
Chartered Accountants Australia and New Zealand

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

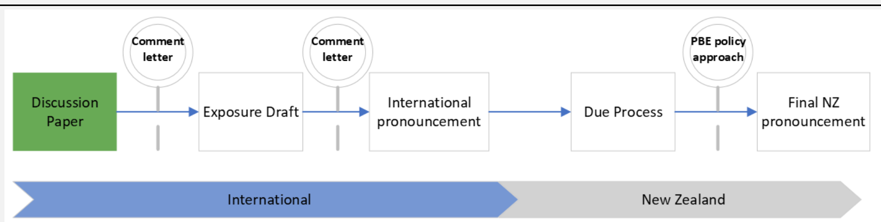
Date:	29 May 2025
To:	NZASB Members
From:	Jamie Cattell
Subject:	**Cover memo – IASB Post-implementation review IFRS 16**

COVER SHEET

Project priority and complexity

Project purpose	**IASB Perspective:** The objective of the post-implementation review (PIR) is to assess whether IFRS 16 is working as intended and achieving its objectives. **NZ Perspective:** From a New Zealand perspective, our objectives are to: • Assess whether NZ IFRS 16 (the Standard) is operating as intended in New Zealand, including assessing whether the benefits of applying the Standard for users outweigh the costs to preparers; and • Contribute evidence-based feedback to the IASB's PIR to ensure that any resulting amendments suitably address NZ-specific issues.
Cost/benefit considerations	N/A – this is one of the objectives of the PIR
Project priority	**Low** As a PIR is primarily an information gathering exercise and is not currently proposing a change to the accounting standards, we consider this to be of low priority. The priority of the project will be reassessed at the conclusion of the PIR stage of the project based the extent of the amendments (if any) the IASB intends to propose.

Overview of agenda item

Project Status	
Board action required	• **CONSIDER** the broad consultation plan • **AGREE** on the key New Zealand specific issues to be highlighted in the NZASB's comment letter. • **PROVIDE FEEDBACK** on additional areas or sector-specific concerns that the Board would like to include in

Purpose and introduction[1]

1. The purpose of this memorandum is to update the Board on the IASB's post-implementation review (PIR) of IFRS 16 Leases and to seek feedback on the proposed New Zealand consultation approach.

2. The memo outlines the status of the IASB's PIR, identifies key issues for New Zealand stakeholders, and sets out planned engagement activities. Staff seek the Board's views on the consultation plan and the main NZ-specific issues to be emphasised in the NZASB's response to the IASB.

Recommendations

3. The Board is asked to:

   (a) **CONSIDER** the broad consultation plan for responding to the IASB's forthcoming Request for Information (RFI) on IFRS 16;

   (b) **AGREE** on the key New Zealand-specific issues to be highlighted in the NZASB's comment letter, particularly the challenges associated with determining incremental borrowing rates, the prevalence and measurement of long-term ground/property leases, and cost-benefit concerns for Tier 2 and smaller for-profit entities; and

   (c) **PROVIDE FEEDBACK** on any additional areas or sector-specific concerns that the Board considers important for inclusion in the NZASB's submission or for targeted outreach during the consultation period.

Background

4. IFRS 16 *Leases* became effective on 1 January 2019, fundamentally changing lessee accounting by requiring most leases to be recognised on the balance sheet. The standard introduced a single lessee accounting model that eliminated the distinction between operating and finance leases for lessees. Under IFRS 16, lessees recognise a right-of-use asset and a lease liability for most leases, with limited exceptions for short-term leases and leases of low-value assets.

5. The primary objective of IFRS 16 is to ensure that both lessees and lessors provide relevant and comparable information in their financial statements that faithfully represents lease transactions, irrespective of whether the asset was leased, or financed through borrowings. This information allows users to assess the impact of leases on an entity's financial position, performance, and cash flows.

6. In New Zealand, NZ IFRS 16 is fully aligned with the international standard and applies to all for-profit entities required to comply with NZ IFRS.

7. The IASB's PIR process consists of two phases:

   (a) Phase 1 (2024-2025): Identification of matters for review, outreach, and academic research.

[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® Accounting Standards, IFRIC® Interpretations and IASB® papers).

(b) Phase 2 (2025-2026): Public consultation through an RFI, analysis of feedback, and determination of next steps.

8. The IASB began Phase 1 in mid-2024 and has conducted extensive outreach, including 28 meetings with various stakeholders, a review of academic literature, analysis of enforcement decisions, and discussions with the IFRIC. The IASB discussed the PIR at its March 2025 meeting and has agreed on the focus areas for the RFI, which is expected to be published by the end of June 2025 with a 120-day comment period.

Structure of this memo

9. The remaining sections in this memo are:

(a) Key international PIR findings and IASB focus areas;

(b) New Zealand implementation experience and issues;

(c) Proposed NZASB consultation approach;

(d) Questions for the Board; and

(e) Appendix A – XRB and IASB Staff meeting notes

Key international PIR findings and IASB focus areas

10. XRB staff met with IASB staff in April 2025 to confirm the IASB's focus areas for the post-implementation review of IFRS 16. The discussion covered the scope of the review, key technical and operational challenges, and the types of questions expected in the forthcoming Request for Information. A summary of this meeting is provided in Appendix A for the Board's reference.

11. The IASB's staff papers and discussions have consistently highlighted several main themes for the upcoming RFI[2]:

(a) **Overall Assessment of Cost–Benefit Balance** - While almost all stakeholders agree that IFRS 16 has improved transparency by eliminating most off-balance-sheet lease arrangements, there is a question of whether ongoing compliance costs—particularly for discount rate calculations and frequent remeasurements—may exceed initial expectations.

(b) **Lease Term and Variable Lease Payments** - Multiple preparers and users cite difficulties forming consistent judgments on lease term (especially around extension or termination options) and highlight variable lease payments as a major driver of complexity. There is concern that some entities may structure payments to remain off-balance-sheet or that the current threshold for recognising variable obligations is too restrictive.

[2] Further information is available on the IASB Post-Implementation Review of IFRS 16 Leases project page.

(c) **Discount Rates** - A diversity of approaches to discount rates has emerged, with some stakeholders questioning whether entity-specific incremental borrowing rates yield comparable results. The IFRS Interpretations Committee (September 2024) noted that this diversity might undermine comparability, and academic literature (reviewed at the IASB in March 2025) shows this area as appropriate for potential simplifications or clearer guidance.

(d) **Sale and Leaseback Transactions** - Sale and leaseback treatment, especially around partial or deferred gains and the relationship to IFRS 15, remains a recurring technical challenge. Questions concern the conceptual basis for partial gain recognition and the complexities of applying IFRS 15's transfer of control criteria in sale-leaseback scenarios.

(e) **Interactions with Other Standards** - While some narrower areas of interaction—e.g., IFRS 3 business combinations, IFRS 9 rent concessions, IFRS 10 single-asset subsidiaries—have arisen, the IASB has indicated that a broad overhaul of cross-cutting issues is unlikely within this PIR. The Board plans to ask targeted questions in the RFI about whether any minor amendments or clarifications are necessary. A specific technical issue that has arisen internationally is the so-called "corporate wrapper issue". This refers to situations where a company disposes of a subsidiary (the "wrapper") that holds a single asset, such as a property, and the accounting outcome may differ depending on whether the transaction is treated as a sale of the asset under IFRS 16 (potentially resulting in partial gain recognition) or as a disposal of a subsidiary under IFRS 10 (potentially resulting in full gain recognition).

(f) **Disclosure** Practices and APMs - There is evidence that some companies strip out IFRS 16's impacts from their alternative performance measures (APMs), creating ongoing disparities in how investors view lease liabilities. Academic research indicates that, despite improved financial-statement comparability, many entities still report non-GAAP metrics that adjust for lease-related assets and liabilities.

(g) **Transition** Experience – The transition reliefs were widely used and helpful but have introduced some comparability issues across entities that adopted IFRS 16 using different retrospective methods. The IASB does not foresee revisiting transition provisions now that most preparers have established steady-state processes.

Topics the IASB has decided not to focus on

12. The IASB has decided not to include specific questions on several topics:

(a) **Identifying a lease:** While there are challenges in complex contracts, these are not seen as widespread issues.

(b) **Lessee recognition model:** The fundamental single lessee model was extensively debated during the development of IFRS 16 and the IASB does not intend to reopen this discussion.

(c) **Non-cash consideration:** This is considered a limited issue that can be addressed through a general catch-all question.

(d) **Lessor accounting model:** There is limited evidence of widespread concerns with lessor accounting.

(e) **Corporate wrapper issues:** The IASB has indicated that this is a broader issue that extends beyond lease accounting and is better addressed through a holistic project rather than within the scope of the IFRS 16 PIR.

13. The IASB has emphasised the importance of managing stakeholder expectations about the scope of the PIR and potential changes to IFRS 16. The focus is on identifying whether the standard is working as intended and whether there are specific areas where targeted improvements could be made, rather than fundamentally changing the standard. This will be a key message that will also be communicated to NZ respondents.

New Zealand implementation experience and issues

14. Based on feedback received to date and the known characteristics of the New Zealand market, we intend to focus our consultation on the following areas to feed into the IASB feedback session:

(a) Challenges with discount rates (both determining the interest rate implicit in the lease and incremental borrowing rate);

(b) The effects of long-term leases in making assumptions, categories and aggregation of leases and comparability of leases;

(c) Whether, when, and why users are reversing or removing the effects of NZ IFRS 16 from the financial statements for analysis purposes;

(d) The impact these have on the ongoing costs of applying NZ IFRS 16, compared to the initial transition costs already incurred; and

(e) Whether entities use any lease-specific software packages and whether they consider that doing so has simplified and reduced the costs of ongoing compliance.

15. Each of these focus areas is discussed below and further analysis of application of NZ IFRS 16 by listed New Zealand entities based on data extracted from financial statements is provided in agenda item 8.1c.

Challenges with discount rates (interest rate implicit in the lease and incremental borrowing rate)

16. The determination of appropriate discount rates remains a significant challenge for New Zealand entities. This includes both the interest rate implicit in the lease (which is often not readily determinable) and the incremental borrowing rate (IBR). Specific issues include:

(a) Thin corporate bond market: The limited size and liquidity of the New Zealand corporate bond market makes it difficult to identify observable market rates for similar-term borrowings.

(b) Limited credit ratings: Many entities, including large private companies and public sector entities, lack formal credit ratings, complicating the estimation of risk premiums.

(c) Banking relationships: Smaller entities may have limited access to competitive borrowing quotes, relying on a small number of banking relationships.

(d) Diversity in practice: Entities have adopted a range of approaches, including using parent company rates, government bond rates plus estimated spreads, or rates quoted by their primary bank, leading to potential inconsistencies and reduced comparability.

(e) Complexity for long-term leases: For very long-term leases, determining an appropriate discount rate is challenging due to the lack of market data for such durations.

17. We will seek feedback on whether practical expedients or simplified approaches (such as risk-free rates plus standard spreads (like a Weighted Average Cost of Capital (WACC), industry benchmarks, or safe-harbour rates) would be beneficial, especially for smaller and unrated entities.

The effects of long-term leases

18. New Zealand has a high prevalence of very long-term ground/property leases, including Māori land leases, commercial property ground leases, and Crown/local government land leases, often with terms of 50 years or more. These present unique challenges:

(a) Discount rate sensitivity: Small changes in discount rates can have significant impacts on lease liability measurements for very long-term leases.

(b) Reassessment complexity: Reassessing lease terms and discount rates for such leases is complex and may require specialist valuation expertise.

(c) Measurement uncertainty: The lack of comparable market data for such long durations increases uncertainty in measurement.

19. We will explore how these factors affect both the initial and ongoing application of NZ IFRS 16 and whether additional guidance or reliefs are needed.

Whether, when, and why users are reversing or removing the effects of NZ IFRS 16 from the financial statements for analysis purposes

20. Feedback indicates that some users and analysts continue to adjust reported figures to exclude the effects of IFRS 16, particularly in alternative performance measures (APMs). We will seek input on:

(a) Prevalence and rationale: How common is it for users to reverse NZ IFRS 16 effects, and what are the main reasons (e.g., comparability, reliability, analytical preferences)?

(b) Impact on decision-making: Does this practice affect the usefulness of financial statements or the perceived benefits of NZ IFRS 16?

(c) Disclosure and communication: Are current disclosures sufficient to enable users to make these adjustments accurately and consistently?

The impact these have on the ongoing costs of applying NZ IFRS 16

21. We will focus on understanding how the above challenges (discount rates, long-term leases, and user adjustments) contribute to the ongoing costs of compliance with NZ IFRS 16, particularly for:

    (a) Tier 2 and smaller entities: These entities may face disproportionate costs relative to the benefits, including system changes, staff training, and external advisory fees.

    (b) Operational burden: The complexity of maintaining lease records, performing remeasurements, and preparing disclosures for all entities.

    (c) Cost-benefit balance: Whether the benefits to users justify the ongoing costs for preparers, and whether further reliefs or simplifications are warranted.

Use of lease-specific software packages and their impact on compliance costs

22. We will also seek feedback on:

    (a) Adoption of software solutions: Whether entities are using lease-specific software packages to manage NZ IFRS 16 compliance.

    (b) Effectiveness: Whether such software has simplified and reduced the costs of ongoing compliance, or whether significant manual processes remain.

    (c) Barriers to adoption: Any challenges or limitations in implementing software solutions, particularly for smaller entities.

Other local feedback

23. Additional issues identified by New Zealand stakeholders include:

    (a) Disclosure and comparability: Inconsistent application of disclosure requirements has affected comparability between entities, particularly with some entities provide detailed breakdown of NZ IFRS 16 and others providing minimal additional disclosures.

    (b) Cash flow presentation: Questions about whether lease payments should be classified as operating or financing in the statement of cash flows.

    (c) Implementation guidance: Need for more practical examples and guidance on applying IFRS 16 in specific situations.

    (d) Sub-leases and property managers: Challenges for property managers and entities with significant sub-leasing arrangements.

24. We will consider whether these feedback in these areas should also be communicated to the IASB for consideration on the effectiveness of IFRS 16.

Proposed NZ consultation approach

25. To ensure that New Zealand's perspectives are effectively represented, staff propose a consultation approach comprising the following engagement activities:

Date	Activity
June 2025	IASB publishes RFI (and XRB will publish on our website); TRG meeting to discuss RFI and NZ-specific issues
July 2025	NZ roundtables or other targeted outreach with targeted stakeholders
August 2025	NZASB Board meeting to review preliminary feedback
September 2025	Collation and analysis of stakeholder feedback and draft of NZASB comment letter
October 2025	NZASB Board meeting to approve draft comment letter. Submit comment letter to the IASB

Questions for the Board

Q1. Does the Board have any comments on the proposed NZ consultation approach and timeline?

Q2. Are there additional New Zealand-specific issues that the Board wishes to prioritise in the outreach process?

Q3. Does the Board support focusing on discount rates, long-term leases, and user adjustments as the most significant concerns in the NZASB's comment letter to the IASB? If not, which issues are more significant and why?

Attachments

Agenda item 8.1b: Appendix A – Minutes of discussion with IASB Staff regarding the PIR of IFRS 16 **[Non-public paper]**

Agenda item 8.1c: Analysis of NZ IFRS 16 data from Tier 1 Financial Statements

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date:	29 May 2025
To:	NZASB Members
From:	Jamie Cattell
Subject:	**PIR of IFRS 16 – Data analysis of NZ Tier 1 Financial Statements**

Purpose and introduction[1]

1. This memo provides the Board with an overview of staff's analysis of data extracted from the financial statements of Tier 1 for-profit entities related to lease accounting under NZ IFRS 16 *Leases*. This was based on the most recent published financial statements of entities (predominately 2024).

2. The analysis is intended to inform NZASB's approach to consulting on the IASB's forthcoming Request for Information (RFI) on the post-implementation review (PIR) of IFRS 16 *Leases*., rather than evaluating the entity's compliance with NZ IFRS 16.

3. By presenting empirical evidence on current New Zealand practice, this memo aims to highlight local issues and support evidence-based feedback to the IASB with detailed findings relevant to the New Zealand context. We note that this data has been obtained from publicly available published Tier 1 financial statements, and there may be differences in the leasing information for Tier 2 entities.

4. This analysis recognises that materiality is a fundamental principle in reporting under NZ IFRS. Entities may appropriately provide fewer or no lease-related disclosures where leases are immaterial to their financial statements. This context should be considered when interpreting the findings in this paper

Recommendations

5. The Board is asked to:
   (a) **CONSIDER** the analysis in this memo; and
   (b) **PROVIDE FEEDBACK** on the staff's views on how to incorporate this information into the consultation approach.

Structure of this memo

6. The remaining sections in this memo are:
   (a) Key findings from the NZ Tier 1 dataset against IASB focus areas;
   (b) Assessment of implications for PIR consultation;
   (c) Questions for the Board;

[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).

(d) Appendix 1 – Detailed tables; and

(e) Appendix 2 – Methodology for data analysis

Key findings from the NZ Tier 1 dataset against IASB focus areas

7. The analysis of the NZ Tier 1 dataset yields several results that are directly relevant to the PIR of IFRS 16. These findings have been mapped against the IASB's focus areas and summarised in table 1 below. The total population of entities examined is 137 as per appendix 1.

Table 1 – Data from Tier 1 For-profit entity financial statements against IASB focus areas

Focus Area Title	Description of Focus Area	Findings from NZ Tier 1 Data
Overall benefits	Whether IFRS 16 is achieving its transparency and comparability objectives, especially through on-balance-sheet recognition.	High compliance: 81% of entities recognise both ROU assets and lease liabilities; 75% both recognise those balances and present ROU-asset depreciation and lease interest on separate P&L lines, supporting transparency. This suggests the standard is achieving its objectives.
Costs vs benefits	Assessment of whether the benefits to users outweigh the ongoing costs for preparers, including compliance and system costs.	No direct cost data in the dataset; cost-benefit balance cannot be quantified from filings. Targeted outreach is needed to assess preparer burden and whether user needs are being met within this information, especially for complex or high-volume lessees.
Lease-term judgement	The clarity and consistency of judgements regarding lease term, including extension and termination options.	Dataset lacks quantitative metrics on lease-term judgements or remeasurement frequency. Qualitative outreach is required to understand operational impact and consistency.
Variable payments	The prevalence, materiality, and accounting for variable lease payments, including those excluded from lease liabilities.	Few entities quantify the impact of variable lease payments; most disclosures are qualitative. Further consultation is needed to assess prevalence and materiality.
Discount rates	Approaches to determining and disclosing discount rates (IBR/IRIL), comparability, and sufficiency of related disclosures.	**Discount rate approach:** 34% disclose use of IBR only (47 entities) 36% disclose wording that reference both IBR and IRIL (50), 0% IRIL-only, and 29% remain silent (40). **Numeric disclosure of discount rates** 42% (57 entities)disclosed a specific rate for discounting. Of those entities: - 95% (54 entities) disclosed a specific rate in addition to which discount rate approach they used (40% overall) - 5% (3 entities) disclosed a specific rate but not the discount rate approach (2% overall).
Remeasurement	The operational impact and frequency of lease liability remeasurement, and associated costs or system challenges.	No direct data on remeasurement frequency or cost; dataset does not capture this. Outreach is needed to identify pain points and assess materiality.
Disclosure sufficiency	Whether current disclosures (including basis and numeric rates)	Core items (ROU/LL balances, depreciation, interest expense) are widely disclosed, but 29% omit discount-rate basis and only 42% provide

Focus Area Title	Description of Focus Area	Findings from NZ Tier 1 Data
	are sufficient for users to understand and compare entities.	numeric rates. Disclosure of basis and rates is a significant gap in comparability.[2]
Asset diversity and scale	The breadth of leased asset portfolios and the materiality of lease balances across entities and sectors.	63% of entities have ≥3 ROU asset classes, indicating diversity. 22% have ROU assets above the 75th percentile (NZ$58.3m), showing materiality for a subset of entities.
Sale-and-leaseback (SLB) and lessor/transition issues	Consistency of application of the IFRS 16 partial-gain model for SLB, and any local lessor or transition issues.	Eight entities mention SLB, all applying the NZ IFRS 16 partial-gain model; no conflicting treatments or local lessor issues flagged. Transition reliefs not a current focus.
IFRS 3/9/10/15 interactions	Consistency and clarity in accounting for rent concessions and other cross-standard issues (e.g., IFRS 9 vs IFRS 16).	No references to rent-concession accounting were identified. Accordingly, there is no evidence of diversity between NZ IFRS 16 modification versus NZ IFRS 9 extinguishment in NZ filings; this area may still merit outreach but cannot be illustrated with local data.
Other matters (sectoral patterns, benchmarks)	Sectoral clustering of discount rates and implications for prescriptive benchmarks or safe-harbour rates.	Discount rates (when disclosed) show moderate dispersion on average. See appendix 1 for breakdown. There may be benefit in prescriptive rates if developed with caution and while being mindful of sector context.

Limitations of the dataset and areas for further outreach

8. While the dataset provides insight into NZ Tier 1 lessee practices, it does not capture several important aspects:

   (a) Quantitative cost or system burden data, such as IT implementation costs, remeasurement frequency, or staff time required for compliance, are not included. These are critical for assessing the cost-benefit balance of IFRS 16 and should be a focus of structured interviews and written outreach.

   (b) Lease-term judgement metrics and the frequency of lease liability remeasurement are not available in the dataset. Understanding how entities make and document these judgments, and the operational impact of frequent remeasurement, will require qualitative feedback from preparers.

   (c) The quantitative prevalence and materiality of variable lease payments are not captured. Outreach will help us understand the extent to which variable payments affect lease accounting and whether current guidance is sufficient.

   (d) The dataset does not capture information about the materiality assessments entities applied when determining disclosure requirements. Entities with immaterial lease arrangements may have appropriately limited disclosures based on the overarching materiality principle in NZ IFRS.

Entities silent on discount rate approach while recognising ROU assets

[2] Note however, that some of these omissions may reflect appropriate materiality judgments, as entities with immaterial lease arrangements may reasonably determine that detailed discount rate disclosures are not necessary for users.

9. A notable finding from the updated dataset is that 29% of entities are silent on their discount rate basis despite recognising ROU assets. However, this silence may be appropriate where lease arrangements and related judgments are immaterial to the financial statements.

10. Analysis of these entities reveals that approximately 60% of the "silent with leases" entities (17% overall) provide some contextual information—such as disclosing numeric rates or referencing short-term/low-value exemptions—that could be converted into a one-line basis statement with minimal effort.

11. For example, some entities disclose a weighted-average discount rate but omit whether it is an incremental borrowing rate (IBR) or the rate implicit within the lease (IRIL). Others note exemptions, suggesting that detailed basis disclosure may be considered irrelevant due to the immateriality of recognised leases.

12. About 12% overall of the "silent with leases" entities provide no other information about discount rates at all. This pattern suggests that a targeted requirement for the disclosure of the basis of the discount rate could address both inadvertent omissions and genuine gaps, improving transparency and comparability. However, any targeted requirement should preserve the concept of materiality inherent in NZ IFRS to avoid burdening preparers with disclosures that may not influence user decisions where leases are immaterial.

Assessment of implications on PIR consultation

13. The data from Tier 1 entity financial statements suggests the following in relation to the possibilities under consideration by the IASB (while subject to materiality considerations):

    (a) The inconsistent application of disclosure requirements has affected comparability between entities, particularly with some entities provide detailed breakdown of NZ IFRS 16 and others providing minimal additional disclosures. There may be a greater need to reevaluate the disclosures requirements of NZ IFRS 16 and whether it provides appropriate information to users for decision-making, where material to the financial statements.

    (b) Requiring disclosure of a weighted-average IBR/IRIL discount rate (by major asset class) could enhance comparability and user understanding, given that only 42% of entities currently provide numeric rates. However, this may cause potential additional burden for some entities, particularly those with large or complex portfolios.

    (c) Requiring an explicit "basis of discount-rate" disclosure (IBR/IRIL/mixed) is supported by the high omission rate (29%) observed in NZ practice. Explicitly mandating disclosure of the method by which an entity has determined its discount rate, where material, could improve transparency and facilitate comparability across entities.

    (d) Retaining the principles-based IBR determination remains appropriate, as the near absence of IRIL-only use in NZ indicates that a strict IRIL hierarchy is not practical. Nevertheless, clearer guidance or illustrative examples may help reduce diversity in application and improve comparability.

(e) Codifying separate presentation of ROU depreciation and lease interest would formalise best practice, as 96% of entities already provide this information. Such a requirement would have minimal disruptive impact and would reinforce the transparency objective of NZ IFRS 16.

(f) Addressing remeasurement and variable payment issues should be informed by further outreach, as the lack of quantitative data in NZ highlights the need to assess the materiality and operational impact of these issues before considering standard-setting.

(g) The clustering of discount rates within sectors in NZ suggests that sector context matters, and a one-size-fits-all benchmark may not be appropriate. Any move towards potentially prescriptive rates should be carefully evaluated to avoid unintended consequences.

Questions for the Board

Q1. Does the Board have any feedback or questions on the analysis or conclusions presented in this paper?

Appendix 1 – Detailed tables of findings from data

Note – the data presented in this appendix is based solely on the data present within the financial statements with no adjustments made for materiality. Therefore situations in this paper which information is not disclosed may represent appropriate materiality judgements rather than non-compliance.

Table 1.1: Discount Rate Determination Basis

Discount Rate Basis Disclosed	Number of Entities	Percentage (%)
IBR only	47	34.3
"IBR if IRIL not determinable" (both)	50	36.5
IRIL only	0	0.0
Silent – leases and other information present (e.g. numeric rate, short-term/low-value exemption, or "immaterial" note)	11	8.0
Silent – leases but no other information	8	5.8
Silent – no leases recognised	21	15.3
Total	**137**	**100.0**

Table 1.2: Numeric Discount Rate Disclosure

Numeric Discount Rate Disclosure	Number of Entities	Percentage (%)
At least one numeric rate	57	41.6
No numeric rate disclosed	80	58.4
Total	**137**	**100.0**

Table 1.3: Entities Disclosing Both Basis and Numeric Rate

Both Basis & Numeric Rate Disclosed	Number of Entities	Percentage (%)
Yes	54	39.4
No	83	60.6
Total	**137**	**100.0**

Table 1.4: Industry spread of reported discount rates

Industry	#	Low rate	High rate	Spread	CV%[3]	Comment
Secondary Sector (Manufacturing + Construction + Electricity)	11	3.3	12.8	9.46	16.09	Moderate dispersion Most rates ±1.3% of mean
Professional Services	8	3	10	6.9	29.8	Moderate dispersion Most rates ±2.0% of mean
Primary Sector (Agriculture + Mining)	6	1.2	16.5	15.3	39.8	Wide dispersion Most rates ±3.5% of mean
Health Care & Social Assistance	5	4	9.7	5.72	20	Moderate dispersion Most rates ±1.4% of mean
Information Media & Telecommunications	5	4	13	9	23.6	Moderate dispersion Most rates ±2.0% of mean

[3] ***Coefficient of Variation (CV %):*** *The CV % is a standard measure of relative variability in a dataset, calculated as the standard deviation of a set of values divided by their mean and expressed as a percentage. In this analysis, CV % measures the dispersion of average discount rates disclosed by entities within each industry, enabling direct comparison of variability across industries regardless of absolute rate levels. For the purposes of this paper, industries are classified as follows based on their CV %:*

- *Tight clustering: CV ≤ 20 %*
- *Moderate dispersion: 20 % < CV ≤ 40 %*
- *Wide dispersion: CV > 40 %*

Note; *A very low sample size should be treated with caution: industries with fewer than three observations have been excluded from the main analysis for this reason, and scepticism should be exercised in interpreting results for sample sizes less than five, as these may not reliably represent overall industry practices.*

Industry	#	Low rate	High rate	Spread	CV%3	Comment
Transport	5	0.3	7.8	7.52	26.9	Moderate dispersion Most rates ±1.1% of mean
Financial & Insurance Services	4	3	8.2	5.18	22.7	Moderate dispersion Most rates ±1.3% of mean
Accommodation & Food Services	3	5	9.1	4.19	12.5	Tight clustering Most rates ±0.9% of mean
Rental	3	0.5	9.2	8.67	55.4	Wide dispersion Most rates ±2.7% of mean
Retail Trade	3	3.3	15.2	11.9	42.6	Wide dispersion Most rates ±3.9% of mean
Administrative & Support Services	2	4.3	14.7	10.39		Insufficient data (n<3)
Arts & Recreation Services	1	3.3	6	2.7		Insufficient data (n<3)
Wholesale Trade	1	10	18	8		Insufficient data (n<3)
Total	**57**					

Table 1.4: Asset Diversity (Number of Distinct ROU Asset Classes)

Number of ROU Asset Classes	Number of Entities	Percentage (%)
1–2	51	37.2
3 or more	86	62.8
Total	**137**	**100.0**

Note: Asset classes include property, vehicles, equipment, land, plant, etc.

Table 1.5: Entities with Large Lease Balances (ROU Assets ≥ NZ$58.3m)

ROU Asset Balance	Number of Entities	Percentage (%)
≥ NZ$58.3m (75th percentile)	30	21.9
< NZ$58.3m	107	78.1
Total	**137**	**100.0**

Table 1.6: Separate Presentation of ROU Depreciation and Lease Interest

Separate P&L Lines Provided	Number of Entities	Percentage (%)
Yes (both locations)	111	81
No	26	19
Total	**137**	**100.0**

Table 1.7: Sale-and-Leaseback (SLB) and Rent Concession Accounting

Topic	Number of Entities	Notes
SLB (partial-gain model)	8	All apply NZ IFRS 16 partial-gain model; no conflicting treatments noted
Rent concessions (IFRS 16 modification)	0	Entities apply NZ IFRS 16 modification approach
Rent concessions (IFRS 9 extinguishment)	0	Entities apply NZ IFRS 9 extinguishment approach

Appendix 2 - Methodology for Data Analysis

This appendix summarises the end-to-end data collection, processing, and analysis workflow used to generate the NZ Tier 1 lessee dataset and the key statistics presented in this memo.

A. Data Collection and Extraction Workflow

1. Entity Identification and Filing Retrieval	• The Companies Register was queried via API using the New Zealand Business Number (NZBN) to retrieve the most recent financial statement filing data for listed NZ entities. • For each entity, the most recent set of filed financial statements (FY2024/25) was identified by filtering the filing data for the latest reporting period.
2. Financial Statement Acquisition	• A second API call was executed to download the relevant financial statement PDFs for each identified filing. • Where financial statements were provided as scanned documents, optical character recognition (OCR) was applied to extract text data.
3. Document Conversion and Preprocessing	• PDFs were exported to Microsoft Word format to facilitate further processing and to preserve the tabular structure of financial statements. • Word documents were then converted to markdown format, ensuring that tables, headings, and narrative sections were retained for accurate parsing.
4. Automated Data Extraction Using AI Model	• A custom Python script was developed to process each markdown file. The script: • Loaded system instructions and a defined schema (JSON) specifying the required data fields (e.g., discount rate basis, numeric rates, ROU asset balances, lease liability balances, asset class breakdowns, P&L line locations, narrative disclosures). • Sent the markdown file and instructions to an AI model (OpenAI GPT-4) for extraction of lease data according to the schema. • The AI model's response was parsed and mapped to the required CSV columns.
5. Batch Processing and Error Handling	• The script was run in parallel batches (typically 20 files at a time) to process all markdown files efficiently. • Error handling and logging were implemented to flag problematic files or extraction failures for manual review.
6. Data Aggregation and Quality Assurance	• The AI model's responses for each set of financial statements were aggregated into a single CSV file. • Outliers, missing data, and anomalous results were manually reviewed and, where necessary, corrected by reference to the original financial statements. • Entities with incomplete or non-compliant filings were excluded from the final dataset.

B. Schema, Key Data Fields, and Classification Rules

Key data fields extracted	• Discount rate basis: Accounting policy and other text fields in the response scanned for references indicating the basis used for discount rates and classified into “IBR only”, “IRIL only”, “both”, or “silent”. • Numeric discount rates: Scanned minimum and maximum interest rate fields; presence of at least one value triggers “numeric rate disclosed” flag. • ROU asset balances: Used to identify the overall value of ROU assets. • Lease liability balances: Used for materiality and ratio analysis. • Asset class breakdowns: Values in specific ROU asset balance fields and narrative description of leased assets scanned to identify and count distinct asset classes. • Separate presentation locations: Data fields containing separate ROU asset depreciation and lease liability interest scanned to assess whether disaggregation is provided somewhere in the report. • Narrative fields: Searched for mentions of sale-and-leaseback, rent concessions, IFRS 9/16 interactions, and other qualitative disclosures.
Classification Rules	• Discount-rate basis: Classified as “IBR only”, “IRIL only”, “both”, or “silent” based on keyword scan of accounting policy and other narrative fields. • Numeric rate disclosed: Flagged if either minimum or maximum interest rate is populated. • Asset diversity: Entities with three or more non-zero ROU asset class fields or narrative evidence of ≥3 classes are classified as “diverse”. • Large balances: Entities with ROU asset balances at or above the 75th percentile (NZ$58.3m) are flagged as “large”. • Separate presentation: Entities with both a specified ROU asset depreciation and lease interest expense location populated are classified as providing separate presentation. • Sale-and-leaseback and rent concessions: Identified via narrative search in narrative fields.
Quality Assurance and Manual Review	• A random sample of 15 entities’ financial statements were reviewed to ensure the datapoints had been correctly captured.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

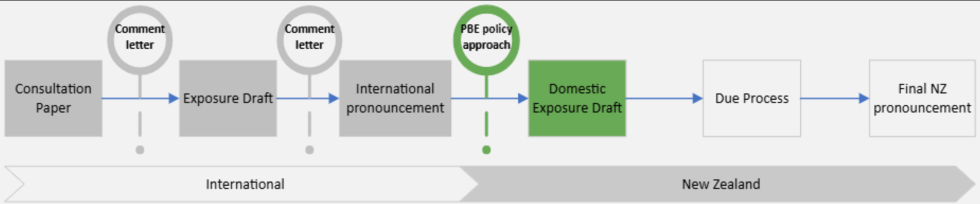
Date:	29 May 2025
To:	NZASB Members
From:	Tereza Bublikova; Gali Slyuzberg
Subject:	***Amendments to IPSAS: Specific IFRIC Interpretations***

COVER SHEET

Project overview

Project purpose	To clarify the application of existing requirements in PBE Standards by incorporating the IPSASB's recent narrow-scope amendments, *Amendments to IPSAS: Specific IFRIC Interpretations,* which introduce certain IFRIC Interpretation standards into IPSAS.
Cost/benefit considerations	These amendments – being minor clarifications or amendments to address minor inconsistencies – are expected to assist preparers in the application of the amended standards and are not expected to be costly to implement. We propose adopting only amendments relevant to New Zealand.
Project priority	**Low** Some of the IFRIC Interpretations that got included into IPSAS are already included in PBE Standards, others have limited applicability or and not relevant to New Zealand.

Overview of agenda item

Project status	
Board action required at this meeting	**Low complexity** Board is asked to • **AGREE** with our recommendations regarding the application of the PBE Policy Approach • **APPROVE** the Exposure Draft *Amendments to PBE Standards: Specific IFRIC Interpretations* for issue

Purpose and introduction[1]

1. In January 2025, the International Public Sector Accounting Standards Board (IPSASB) issued the amending standard *Amendments to IPSAS: Specific IFRIC Interpretations*, which clarifies the application of certain existing IPSAS principles by adding guidance aligned with certain IFRIC Interpretations (which form part of the IFRS Accounting Standards suite) into IPSAS.

2. In accordance with the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach), the Board is required to consider if and when to incorporate the IPSASB's amendments into the suite of PBE Standards as issued by the XRB.

3. Some of the IFRIC Interpretations that the IPSASB is introducing are already included in PBE Standards. We have considered whether to amend PBE Standards with respect to differences between the IPSASB's amendments and existing guidance in PBE Standards (including whether to include in PBE Standards the IFRIC Interpretations that are currently not included). The purpose of this item is to seek the Board's feedback on and agreement with our recommendations in this regard, and approval of an exposure draft.

Recommendations

4. Table 1 below summarises the main differences between existing PBE Standards and the IPSASB's amending standard, together with our recommendations.

Table 1 Summary of recommendations

IFRS Interpretations included in IPSAS [*Amendments to IPSAS: Specific IFRIC Interpretations*]	PBE Standards vs amended IPSAS	Recommendation
IFRIC 1, *Changes in existing Decommissioning, Restoration and Similar Liabilities*	Interpretation is already a part of PBE IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets.* However, there are: • Several differences in wording and terminology; and • Three illustrative examples are not included in PBE IPSAS 19.	• **Improve wording in PBE IPSAS 19** • **Include 2 out of 3 illustrative examples** • **Wait** for IASB/IPSASB before updating terminology in PBE IPSAS 19
IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Interpretation is already a part of PBE IPSAS 19. However: • Introduction and scope paragraphs are not included	**Include missing paragraphs** – i.e. full alignment with IPSASB amendments

[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).

IFRS Interpretations included in IPSAS [*Amendments to IPSAS: Specific IFRIC Interpretations*]	PBE Standards vs amended IPSAS	Recommendation
IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*	Not included in PBE Standards	**Adopt** – i.e. full alignment with IPSASB amendments
IFRIC 14, IAS 19 – *The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Not included in PBE Standards	**Not to include** - relevance for New Zealand PBEs is limited

5. For completeness: In developing *Amendments to IPSAS: Specific IFRIC Interpretations*, the IPSASB decided not to introduce the following IFRIC and SIC Interpretations into IPSAS: IFRIC 6 *Liabilities arising from Participation in a Specific Market—Waste Electrical and Electronic Equipment*, IFRIC 21 *Levies* and SIC-7 *Introduction of the Euro* into IPSAS. We do not recommend any changes to PBE Standards with respect to this IPSASB decision, noting that:

   (a) The guidance from IFRIC 6 is already included in PBE Standards;

   (b) We agree with the IPSASB that it is necessary to wait for the finalisation of the IASB's project on *Provisions – Targeted Improvements* before deciding whether to add IFRIC 21 into IPSAS (and into PBE Standards); and

   (c) The NZASB already decided that SIC-7 has limited relevance to NZ PBEs when PBE Standards were first developed, and there is no indication that this situation changed.

Structure of this memo

6. The remaining sections in this memo are:

Background

7. The IPSASB issued Exposure Draft ED 89 *Amendments to Consider IFRIC Interpretations*, in April 2024. The NZASB issued the ED for comment in New Zealand around the same time. Comments were due to the NZASB on 27 May 2024 and to the IPSASB on 17 June 2024. No formal submissions were received by the NZASB. The IPSASB received 17 comment letters from its world-wide constituents, including the NZASB.

8. The NZASB comment letter was broadly supportive of the ED proposals, except that we recommended that the IPSASB:

   - defer the decision on whether to include the guidance from IFRIC 21 *Levies* in IPSAS until the IASB has finalised its project on *Provisions – Targeted Improvements* (which includes a proposal to withdraw IFRIC 21); and
   - revise paragraph B6 in the proposed IFRIC 1-based Appendix B of IPSAS 19, so that it aligns with the requirement in IPSAS 45 *Property Plant and Equipment* to revalue assets on a class-by-class basis, rather than asset-by-asset basis.

9. The IPSASB reflected both of our recommendations in its *Amendments to IPSAS: Specific IFRIC Interpretations* published in January 2025. The IPSASB's amendments are mandatory for annual periods beginning on or after 1 January 2026.

Summary of the IPSASB's amendments

10. The amending standard adds guidance from the following IFRIC interpretations into IPSAS:

Table 2 Summary of amendments

IFRS Interpretations	IPSAS amended	Summary of amendments
IFRIC 1	IPSAS 19 IPSAS 43, *Leases* IPSAS 45	To clarify how an entity should account for specific changes in estimates of existing liabilities to dismantle, remove and restore a property, plant and equipment asset in the scope of IPSAS 45, or right of use asset in the scope of IPSAS 43.
IFRIC 5	IPSAS 19	To clarify how an entity that is a contributor to a decommissioning fund should account for its obligation to pay costs and its related interest in that decommissioning fund.
IFRIC 7	IPSAS 10, *Financial Reporting in Hyperinflationary Economies*	To clarify how an entity identifies the existence of hyperinflation in the economy of its functional currency when the economy was not hyperinflationary in the prior period.
IFRIC 14	IPSAS 39, *Employee Benefits*	To clarify how an entity should consider limits on the defined benefit asset and minimum funding requirements when accounting for its post-employment defined benefits.

Staff analysis

IFRIC 1 Changes in existing Decommissioning, Restoration and Similar Liabilities

11. In applying the PBE Policy Approach to the IPSASB's new guidance based on IFRIC 1, we note that IFRIC 1-based guidance is already included in PBE IPSAS 19, as an integral application guidance appendix (Appendix A). However, there are some differences between the text included in PBE IPSAS 19 and the IPSASB's amendments.

12. The table below summarises differences between PBE IPSAS 19 and IPSAS 19 with respect to IFRIC 1 and our recommendations regarding those differences. The Appendix of this paper provides a detailed comparison of the IFRIC 1-based guidance in PBE IPSAS 19 and in IPSAS 19.

Table 3 Summary of difference between PBE IPSAS 19 and IPSAS 19 regarding IFRIC 1 and our recommendations

PBE IPSAS 19 vs amended IPSAS 19	Recommendation	For details see
Potentially misleading wording in the PBE IPSAS 19 guidance for assets measured using the revaluation model – the equivalent wording in the amended IPSAS 19 is more accurate.	**Amend** PBE IPSAS 19	Para 13 – 17
Guidance reordered in IPSAS 19	**Not to include**	Para 18
Illustrative examples (IEs) not included in PBE IPSAS 19, but included in IPSAS 19	**Include** 2 out of 3 IEs	Para 19 – 22
Updated terminology in the amended IPSAS 19 regarding definition of liability	**Wait** for IASB/IPSASB	Para 23 – 25
Differences between IPSAS and PBE Standards suit of standards	**No action** at this stage	Para 26 -27
Minor inconsistencies and editorials	**Amend** PBE IPSAS 19	Para 28 - 29

Guidance for assets measured using the revaluation model

13. Paragraphs A6 of PBE IPSAS 19 provides guidance for situation when the asset related to the decommissioning, restoration or similar liability (the liability) is measured using the revaluation model. This paragraph specifies that a change in the liability is recognised in other comprehensive revenue and expense, thereby increasing/decreasing the revaluation surplus related to that class of asset within net assets/equity – except for certain circumstances when the change in the liability is recognised in surplus or deficit. The wording of this paragraph is aligned with IFRIC 1, except that paragraph A6 of PBE IPSAS 19 refers to *class of assets* (to reflect the PBE accounting requirement for revaluations in PBE IPSAS 17) where IFRIC 1 refers to an individual asset.

14. The paragraphs A6(a)(i) and A6(a)(ii) of PBE IPSAS 19 start with the following wording: *"If the carrying amount of a class of assets is increased/decreased as a result of changes in the liability, the increase/decrease shall be recognised in …"*

15. This wording can be misleading because under the revaluation model, the related asset is measured at the revalued amount, and an increase or decrease in the liability is recorded directly in surplus or deficit or in other comprehensive revenue and expense. In other words, changes in the liability do not affect the carrying amount of the related asset. We recommend amending the paragraphs A6(a)(i) and A6(a)(ii) and using wording similar to the IPSAS wording.

16. Further, we consider it useful, similar to IPSAS, to add into paragraph A6(a)(i) reference to paragraph A6(b) to highlight that the amount of the decrease in the liability recognised in other comprehensive revenue and expense is capped to the carrying amount that would have been recognised had the asset been carried under the cost model.

17. We recommend following amendments to paragraphs A6(a)(i) and A6(a)(ii). New text is underlined and deleted text is struck through.

A6. 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 class of assets.

(i) ~~If the carrying amount of a class of assets is increased as a result of changes in the liability, the increase~~ A decrease in the liability shall (subject to (b)) be recognised in other comprehensive revenue and expense and accumulated in net assets/equity under the heading of revaluation surplus. However, the ~~increase~~ decrease in the liability 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~~ An increase in the liability shall be recognised in surplus or deficit. However, the ~~decrease~~ increase in the liability 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.

18. Paragraph A6(c) of PBE IPSAS 19 states that change in the liability is an indication that the related asset may have to be revalued. We noted that the IPSASB moved the guidance of the paragraph A6(c) ahead of the guidance in the above-mentioned paragraph A6(a). We believe this change is unnecessary considering that there is no difference in the guidance itself and that the existing PBE IPSAS 19 aligns with order of NZ IFRIC 1 as well as with the flow of the Illustrative Example 3.

Illustrative examples

19. Illustrative examples (IEs) accompanying IFRIC 1 have not been incorporated into PBE IPSAS 19 when it was first issued because, in accordance with copyright agreements, only the integral parts of IFRS Accounting Standards can be included in PBE Standards. With the IPSASB amending standard incorporating those IEs, we have an opportunity to add those into the PBE Standard.

20. The *Amendments to IPSAS: Specific IFRIC Interpretations* added following three IEs illustrating application of the IFRIC 1 guidance:

- Example 2: Historical Cost Model
- Example 3: Current Value Model; and
- Example 4: Transition

21. We recommend adding the Examples 2 and 3 into the PBE IPSAS 19 (subject to adjustment reflecting differences between IPSAS and PBE Standards terminology – e.g. “current value model” is called “revaluation model” in PBE Standards) as those examples are relevant to NZ entities.

22. The Example 4 illustrates situation where entity first adopts the IFRIC 1 guidance. Since this guidance is incorporated into PBE IPSAS 19 since 2013, this IE is not relevant to New Zealand, and we recommend not to adopt it.

Other differences

23. The IPSASB's IFRIC 1-based requirements uses term "*transfer of resources*" in the context of accounting for a liability, whereas the IFRIC 1-based requirements in PBE IPSAS 19 refer to "*outflow of resources".* The term "*transfer of resources*" is consistent with the 2023 updates to the IPSASB Conceptual Framework (CF) (adopted in New Zealand in August 2024), however this term is inconsistent with the IPSAS 19 core text, which has not been amended for the CF changes.

24. We understand that the IPSASB staff are closely monitoring the IASB's project *Provisions – Targeted Improvements* and have begun considering the IASB's proposals, including the proposal to update "*outflow of resources*" to "*transfer of resources*" throughout IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

25. We recommend waiting for the IASB to finish their project on *Provisions – Targeted Improvements.* At that point. The IPSASB's position should be revisited and reconfirmed before determining the appropriate timing and scope of any changes to PBE Standards. Changing "outflow of resources" to "transfer of resources" throughout the PBE Standard ahead of IPSASB (and IASB) could cause unnecessary differences between PBE Standards and IPSAS standards. Conversely, changing this terminology only in the IFRIC 1-based appendix of PBE IPSAS 19 (like the IPSASB did) would introduce an unnecessary inconsistency into the Standard.

26. The IPSASB's IFRIC 1-based guidance also includes terminology and references to new IPSAS which are not yet adopted in New Zealand (e.g. PBE IPSAS 43, *Leases*, PBE IPSAS 45, *Property, Plant and Equipment* and IPSAS 46, *Measurement*). Those differences will be considered as a part of the XRB's *Leases* and *Measurement* projects.

27. Another difference between PBE IPSAS 19 and the amended IPSAS 19 arises from the concept of "other comprehensive revenue and expense" PBE Standards which haven't been adopted by IPSAS. This is a permanent difference between PBE Standards and IPSAS.

Minor inconsistencies and editorials

28. PBE IPSAS 19 uses the heading "*Consensus*" in the IFRIC 1-based Appendix A, to introduce the section on the application of the standard requirements. This heading is clear when read in a context of an IFRIC interpretation standard. However, when read as a part of a PBE Standard, we believe IPSAB's heading "*Application of IPSAS 19 to Changes in Existing Decommissioning, Restoration and Similar Liabilities*" is more understandable and we recommend using this heading.

29. Further we recommend resolving following inconsistencies:

   - In paragraph A4, change reference from "*paragraphs A3–A5*" to "*paragraphs A5–A7"*. This update was omitted when the amending standard *2022 Omnibus Amendments to PBE Standards* added paragraphs A1 and A2;
   - In paragraph A5(c), state that an entity "shall account for any impairment loss in accordance with PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* or PBE IPSAS 26 *Cash-Generating Asset",* rather than *"*[…] PBE IPSAS 21 […] and PBE IPSAS 26 […]" – since both standards cannot be applied to the same asset, and to be consistent with the IPSAS 19 wording; and
   - In paragraph A6(c), change "*at the end of the reporting period*" to "*at the reporting date*", to be consistent with the PBE IPSAS 19 terminology and the IPSAS 19 wording.

Questions for the Board:

Q1. Does the Board **AGREE** to apply the PBE Policy approach to the IFRIC 1-based guidance in PBE IPSAS 19 as recommended, specifically to:

a) Amend wording of paragraph A6 as recommended in the paragraph 17 of this memo;

b) Not to change order of the guidance within the paragraph A6 of PBE IPSAS 19;

c) Add Illustrative Examples 2 and 3 into PBE IPSAS 19;

d) Not to add Illustrative Example 4;

e) Wait for the IASB to finish their project on *Provisions – Targeted Improvements* and reconfirm with IPSASB their position at that time, before deciding when to align PBE IPSAS 19 terminology with the updated PBE Conceptual Framework;

f) Change the heading "Consensus" to "Application of PBE IPSAS 19 to Changes in Existing Decommissioning, Restoration and Similar Liabilities";

g) Correct the references in paragraph A4;

h) Change "PBE IPSAS 21 *…* and PBE IPSAS 26 *…"* to "PBE IPSAS 21 … or PBE IPSAS 26 *…"* in paragraph A5; and

i) Change "at the end of the reporting period" to "at the reporting date" in paragraph A6.

IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

30. In applying the PBE Policy Approach to the IPSASB's IFRIC 5-based guidance, we note that the IFRIC 5 guidance is already included in PBE IPSAS 19, as an integral application guidance appendix (Appendix B). The wording is identical to the IPSAS wording except of the Introduction and Scope paragraphs which are not included in PBE IPSAS 19.[2]

[2] When the PBE Standards suite was first developed, the NZ IFRIC 1, NZ IFRIC 5 and NZ IFRIC 6 interpretation guidance was incorporated into PBE IPSAS 19. However, the Background and Scope paragraphs were left out. The amending standard *2022 Omnibus Amendments to PBE Standards* added the Introduction and the Scope paragraphs into the Appendix A, i.e. the IFRIC 1-based guidance. The other interpretation guidance appendices had not been considered at that point.

31. The Introduction of IFRIC 5 discusses purpose and general features of decommissioning funds and the Scope clarifies that the interpretation applies to funds that are administered separately and where contributor's right to access the assets is restricted.

32. We have not heard any concerns about the IFRIC 5 guidance in PBE IPSAS 19 within the PBE sector and from high-level research we have not identified any PBE entity that would be contributing into decommissioning funds. However, it is possible that such entities exist or will exist in future.

33. We recommend adding the Introduction and Scope paragraphs of the IFRIC 5 guidance into the PBE IPSAS 19, like the IPSASB did, as further context for this application guidance will be useful for existing or future users, making it clearer what types of transactions this guidance applies to. At the same time, those amendments align the PBE IPSAS 19 guidance with the one in IPSAS 19 and the NZ IFRIC 5.

Questions for the Board:

Q2. Does the Board **AGREE** to add Introduction and Scope section into the IFRIC 5 guidance which is incorporated in PBE IPSAS 19 as Appendix B?

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

34. When the PBE Standards suite was first developed in 2012, the NZASB considered IFRIC 7 and decided not to incorporate it into PBE Standards, due to limited relevance for New Zealand PBEs. In the light of the new IPSAS pronouncements we revisited this decision and reconsidered relevance of this IFRIC Interpretation for New Zealand PBEs.

35. The IFRIC 7 guidance that the IPSASB added into IPSAS 10 *Financial Reporting in Hyperinflationary Economies* sets how to apply the requirements of IPSAS 10 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency. Specifically, this amendment:

- Clarifies that entity shall apply the requirements of IPSAS 10 as if the economy had always been hyperinflationary; and
- Refer to international or national accounting standards dealing with income taxes for guidance regarding accounting for opening deferred tax items in its restated financial statements.

36. New Zealand has a stable economic environment with low inflation rates. However, world-wide several countries either have hyperinflationary economies or are expected to become hyperinflationary. The International Monetary Fund's World Economic Outlook in October 2024 identified 15 hyperinflationary economies, including four countries that became

hyperinflationary during last twelve months. Additionally, seven economies were expected to become hyperinflationary or required ongoing monitoring.[3]

37. For the majority of PBEs, the primary economic environment is New Zealand, and therefore, their functional currency is NZD. Our search of the Charities Register did not identify any entity with significant overseas subsidiaries or branches that have a functional currency of hyperinflationary economies.[4] However, such entity may exist now or in the future.

38. In line with their primary objective, some PBEs provide goods or services in countries experiencing economic distress. Hyperinflationary economies are often among the countries needing humanitarian assistance. To operate efficiently, PBEs may need to establish subsidiary or branch in those countries.

39. While our findings show that IFRIC 7 guidance is currently of limited relevance to PBEs in New Zealand, we note the growing number of hyperinflationary economies and possibility that PBEs have or will have subsidiaries or branches in such economies. Therefore, we recommend introducing the IFRIC 7 based guidance into PBE Standards using the IPSAS pronouncements as a starting point.

40. By introducing these changes to the PBE Standards, PBEs with existing or future subsidiaries or branches in hyperinflationary economies will benefit from enhanced guidance. We expect the cost of adoption be low due to the interpretative nature and limited applicability of these pronouncements.

Questions for the Board:

Q3. Does the Board **AGREE** to incorporate IFRIC 7 guidance into PBE Standards using the IPSAS pronouncements as a starting point?

IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction

41. The IFRIC 14 guidance that the IPSASB added into IPSAS 39 *Employee Benefits* clarifies how employer entities should account for their involvement in defined benefit plans, specifically:

    (a) How aspects of the "asset ceiling" definition should be interpreted;[5]

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[3] The 15 hyperinflationary economies are (new economies highlighted): Argentina, Ethiopia, Ghana, Haiti, Iran, Lao P.D.R., Lebanon, Malawi, Sierra Leone, South Sudan, Sudan, Suriname, Turkey, Venezuela and Zimbabwe. The countries being expected to become hyperinflationary or needing to be kept under review are: Angola, Burundi, Myanmar, Nigeria, Pakistan, Sri Lanka and Syria (source EY).

[4] We identified 36 Tier 1 and Tier 2 organisations that have activities in hyperinflationary or potentially hyperinflationary economies. We reviewed financial statements of all Tier 1 entities identified and a sample of Tier 2 entities (all together 10 out of 36 entities). We identified one entity that has subsidiaries with AUD, USD, SGD, HKD and NZD functional currencies and one entity with USD functional currency. The remaining 8 entities had NZD as their sole functional currency. Therefore, while the 10 reviewed entities have activities in hyperinflationary economies, their functional currencies are not hyperinflationary.

[5] Paragraph 66 of IPSAS 39 limits the measurement of a net defined benefit asset to the lower of the surplus in the defined benefit plan and the asset ceiling. Paragraph 8 defines the asset ceiling as 'the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan'.

(b) How a minimum funding requirement might affect the availability of reductions in future contributions in respect of the "asset ceiling" definition; and

(c) When a minimum funding requirement might give rise to a liability.

42. Similar to IFRIC 7, the NZASB considered IFRIC 14 in 2012 and decided not to incorporate it into PBE Standards, due to limited relevance for New Zealand PBEs. In light of the new IPSAS pronouncement, we have reconsidered the relevance of this IFRIC Interpretation for New Zealand PBEs.

43. According to Financial Service Council NZ research FSC Consolidation of Small Defined Benefit Schemes report, as of August 2023 there remain around 50 registered defined benefit (DB) schemes in New Zealand. Many of these schemes are exceedingly small and most now having been closed to new member for a generation. We searched the Disclose Register and National Provident Fund website in order to identify any new DB schemes registered since 2023 but found none. Therefore, we conclude that DB schemes in New Zealand are gradually being phased out.

44. We reviewed all the DB schemes that the FSC report identified (and those we identified from other sources), and noted that only seven of these schemes are contributed into by PBEs. The list of the DB schemes reviewed is provided in the Table 1 and the Table 2 of the Agenda Item 9.1d (non-public paper).

45. We reviewed the latest available financial statements of the seven relevant DBs identified and noted that:

(a) Three DB schemes are contributed into by government or other public sector organisations. All those schemes are closed to new members. Two of these DB schemes are reporting a net liability position, and one is reporting a net asset position.

(b) Four DB schemes are contributed into by charities. Two of these may still be open to new members. Two are reporting a net liability position and two are reporting a net asset position.

(c) Based on our review of the disclosures included in the financial statements of the DB schemes as well as the contributing PBEs, we have not identified any "minimum funding" commitment disclosure made by the PBEs. However, as we have no visibility into their operations, we cannot conclude that such commitments do not exist.

Further details on the five identified DBs are provided in Table 2 of the Agenda Item 9.1d.

46. Consequently, the IFRIC 14 clarifications regarding asset ceiling may be relevant to the three DB schemes which are in a net asset position. We cannot rule out the relevance of IFRIC 14 clarifications on minimum funding for the PBEs that contribute to these DB schemes.

47. However, we identified only seven DB schemes into which PBEs contribute (only two of which are potentially open to new members), and the use of DB schemes in New Zealand appears to be declining. Overall, we believe relevance of the IFRIC 14 guidance for NZ PBEs remains limited and continues to decrease over time.

48. Further, we are not aware of concerns about the lack of a PBE clarifications on the IFRIC 14 topics. We also note that PBE IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* allows PBE entities to use NZ IFRS pronouncements when PBE Standards do not address a particular transaction or event. Therefore, if there are PBEs that have defined benefit plans and are in a situation where the IFRIC 14 guidance is relevant (i.e. where the requirements relating to 'asset ceiling' are relevant and/or where the PBE is subject to a minimum contribution requirement), PBE IPSAS 3 would allow such PBEs to look to the guidance in NZ IFRIC 14. For the same reason, the decision not to adopt the recent IPSAS pronouncements will have minimum impact on mixed groups.

Application of the PBE Policy Approach

49. The PBE Policy Approach establishes a rebuttable presumption that the Board 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.

50. Section 4.1 (paragraphs 25–26) of the PBE Policy Approach discusses the rebuttal of the above-mentioned presumption. The PBE Policy Approach states that a decision to rebut this presumption is expected to occur only in exceptional circumstances – examples of such circumstances include where the Board has significant concerns that, in the New Zealand context:

   (a) adoption of a new or amended IPSAS would not be either appropriate or relevant (based on the development principle); and

   (b) the costs of adoption of a new or amended IPSAS would outweigh the benefits to users of PBE financial reports.

51. **Table 4** considers further factors in the development principle, as provided for in the PBE Policy Approach, as they apply to IFRIC 14 guidance. Based on the application of these factors, we do not recommend adding the IFRIC 14 guidance into PBE Standards.

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.	Based on our findings in paragraphs 43 - 48 of this memo our view is that IFRIC 14's relevance in the New Zealand context is low. Therefore, developing a PBE Standard using this interpretation (as incorporated into the IPSAS amending standard as the starting point) would not lead to higher quality financial reporting by PBEs.
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**	Relevance to the PBE sector has been considered above. Due to the standalone nature of IFRIC 14 guidance as an Appendixes to IPSAS 39and considering that the IFRIC 14 guidance provides clarifications, rather than new requirements, the overall coherence of the suite of PBE Standards would be unaffected by the decision on

Factors in the Development Principle	Comment
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; **(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;** **(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);** **(iv) *the impact on mixed groups*.**	whether or not to incorporate this guidance into the PBE suite. There is no impact on mixed groups (see para 48 above). Based on these considerations, there would be a net cost to the development of an amending PBE Standard using the IFRIC 14 guidance in the IPSAS amending standard as a starting point.
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 expected to develop an IPSAS on the topic in an acceptable time frame).	Not applicable.

Questions for the Board:

Q4. Does the Board **AGREE <u>NOT</u>** to incorporate IFRIC 14 guidance into PBE suite?

Exposure Draft

52. The draft ED *Amendments to PBE Standards: Specific IFRIC Interpretations* is attached as Agenda Item 9.1b.

IFRIC 1 and IFRIC 5 guidance

53. The proposed amendments to PBE IPSAS 19 reflect our recommendations regarding the IFRIC 1 and IFRIC 5 guidance. As previously noted, the ED and IPSAS pronouncements use different terminology. The ED refers to "cost model" and "revaluation model" (in line with PBE IPSAS 17 *Property, Plant, and Equipment* and PBE IPSAS 31 *Intangible Assets*), while IPSASB pronouncements refer to "historical cost model" or "current value model" (in line with IPSAS 45 and IPSAS 31).

54. In addition, because there are no nuclear power plants in New Zealand, we modified the proposed illustrative examples to reference a geothermal power plant instead of a nuclear one.

IFRIC 7 guidance

55. The proposed amendments to PBE IPSAS 10 relating to the IFRIC 7 guidance are aligned with the IPSASB pronouncement, except for the guidance related to deferred taxes. As IPSAS standards do not include guidance on accounting for income taxes, the IPSASB pronouncement refers to international or national accounting standards.

56. In New Zealand, PBE IAS 12 *Income Taxes* (which is based in IAS 12) provides such guidance. Therefore, we have aligned the requirements for accounting for deferred taxes with NZ IFRIC 7 and have referred to PBE IAS 12. The following changes have been made to the IPSAS pronouncements. New text is underlined and deleted text is struck through.

A3. At the reporting date, deferred tax items are recognised and measured in accordance with PBE IAS 12 Income Taxes. However, the deferred tax figures in the opening statement of financial position for the reporting period shall be determined as follows:

(a) the entity remeasures the deferred tax items in accordance with PBE IAS 12 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening statement of financial position of the reporting period by applying the measuring unit at that date.

(b) the deferred tax items remeasured in accordance with (a) are restated for the change in the measuring unit from the date of the opening statement of financial position of the reporting period to the end of that reporting period.

The entity applies the approach in (a) and (b) in restating the deferred tax items in the opening statement of financial position of any comparative periods presented in the restated financial statements for the reporting period in which the entity applies this Standards.

A4.~~A3.~~ After an entity has restated its financial statements, all corresponding figures in the financial statements for a subsequent reporting period, including deferred tax items, are restated by applying the change in the measuring unit for that subsequent reporting period only to the restated financial statements for the previous reporting period.

~~A4. For reporting entities subject to income taxes, guidance on the determination of deferred tax items in the opening statement of financial position for the reporting period can be found in the relevant international or national accounting standards dealing with income taxes.~~

RDR concessions

57. The ED does not introduce any new disclosure requirements; therefore, no RDR considerations are needed.

Commencement and application

58. We propose a mandatory date 1 January 2027. Earlier application would be permitted for accounting periods that begin before 1 January 2027, but do not end before the amendments take effect (which is 28 days after the final amendments are issued).

59. The proposed mandatory date is one year later than the IPSASB mandatory date due to the timing of the NZ consultation. We do not consider this to be an issue, given the very limited scope of the proposals.

Consultation plan

60. In considering the consultation timeline for this ED, we have taken into account the XRB's current project on PBE FRS 48 *Service Performance Information*, and EDs on PBE IPSAS 47 *Revenue* and PBE IPSAS 48 *Transfer Expenses*.

61. As such, we do not plan to issue this ED until September2025. Regarding the consultation period, we recommend the standard duration of approximately 90 days and do not see any compelling reasons to extend or shorten this timeframe.

62. The expected timeline is outlined below:

63. The ED has very limited scope and application in New Zealand. As such, we propose to develop a short Consultation Document, to solicit feedback on overarching questions around the proposals, which includes:

    (a) Whether respondents agree with the proposed amendments to PBE IPSAS 19;

    (b) Whether respondents agree with the proposed amendments to PBE IPSAS 10;

    (c) Whether respondents agree with the proposed mandatory date;

    (d) Whether respondents agree with the decision not to incorporate IFRIC 14 guidance into the PBE Standards suite;

    (e) Whether respondents have any other feedback on the ED.

64. Planned outreach activities include:

    (a) Publishing the ED on the XRB consultation website;

    (b) Raising awareness about the consultation through the Accounting Alert; and

    (c) Reaching out to entities potentially affected by the decision not to incorporate IFRIC 14.

Question for the Board

Q5. Does the Board have any comments on the ED or the consultation plan?

Q6. Does the Board **AGREE** to a 90-day consultation period for the ED?

Q7. Does the Board **APPROVE** issuing ED *Amendments to PBE Standards: Specific IFRIC Interpretations* (subject to any comments raised at this meeting to be finalised via review by the Chair)?

Q8. Does the Board **APPROVE** issuing the accompanying Consultation Document (subject to any comments raised at this meeting, to be finalised via review by the Chair)?

Attachments

Agenda item 9.1b: Draft ED *Amendments to PBE Standards: Specific IFRIC Interpretations*

Agenda item 9.1c: Draft Consultation Document

Agenda item 9.1d: Detail of defined benefit plans reviewed (non-public paper)

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Appendix

This Appendix highlights difference between the IFRIC 1 based guidance in PBE IPSAS 19 Appendix A and IPSAS 19 Appendix B. The differences are highlighted as follow:

- Yellow highlights – amendments recommended
- Purple highlights - differences arising from the updated definition of liability in the Conceptual Framework (no action needed this time)
- Green highlights - differences arising from IPSAS 43 and IPSAS 45 not adopted in NZ (no action needed at this time)
- Grey highlights – other differences mainly arising from permanent difference between PBE IPSAS and IPSAS (no action needed)

PBE IPSAS 19	IPSAS 19	Comments
Appendix A	**Appendix B**	
Application Guidance *Changes in Existing Decommissioning, Restoration and Similar Liabilities* *This Appendix is an integral part of PBE IPSAS 19.*	**Changes in Existing Decommissioning, Restoration and Similar Liabilities** *This Appendix is an integral part of IPSAS 19.*	**No action needed** - No substantial difference
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	**Introduction** B1. 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 paragraph 14(c) of IPSAS 45, *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	**No action needed** - Only differences arising from IPSAS 43 and IPSAS 45 not being adopted in NZ

PBE IPSAS 19	IPSAS 19	Comments
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.	consequence of having used the item during a particular period for purposes other than to produce inventories during that period. Similarly, under paragraph 25(d) of IPSAS 43, *Leases*, the cost of the right-of-use asset includes the initial estimate of costs to be incurred by a 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. IPSAS 19 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.	B2. This Appendix applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both: (a) Recognized as part of the cost of an item of property, plant, and equipment in accordance with IPSAS 45 or as part of the cost of a right-of-use asset in accordance with IPSAS 43; and (b) Recognized as a liability in accordance with IPSAS 19. For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant, rehabilitating environmental damage in extractive industries, or removing equipment.	**No action needed** - Only differences arising from IPSAS 43 and IPSAS 45 not being adopted in NZ

PBE IPSAS 19	IPSAS 19	Comments
Issue A3. 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).	B3. 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 transfer of resources embodying service potential or 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 IPSAS 19 (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).	**No action needed** - Only differences arising from the updated definition of liability
Consensus A4. 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 A3–A5 below.	**Application of IPSAS 19 to Changes in Existing Decommissioning, Restoration and Similar Liabilities** B4. Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the transfer of resources embodying service potential or economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for in accordance with paragraphs B5–B7 below.	**Heading to be updated** Proposed to read as follow: ***"Application of PBE IPSAS 19 to Changes in Existing Decommissioning, Restoration and Similar Liabilities"*** **Paragraphs' reference to be corrected.** Proposed to read as follow: A4. *"… in accordance with paragraphs A5–A7 below"* Other differences arise from the updated definition of liability
A5. If the related asset is measured using the cost model:	B5. If the related asset is measured using the historical cost model:	**Minor adjustment** Proposed to read as follow:

PBE IPSAS 19	IPSAS 19	Comments
(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. (c) 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.* (d)	(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 recognized immediately in surplus or deficit. (c) 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 IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*	*(c) .... 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 or PBE IPSAS 26 Cash-Generating Assets.*
A6. If the related asset is measured using the revaluation model: (b) Changes in the liability alter the revaluation surplus or deficit previously recognised on that class of assets. (iii) 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	B6. If the related asset is measured using the current value model: (a) 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 the current value at the reporting date. If a revaluation is necessary, all assets of that class shall be revalued. Any such revaluation shall be taken into account in	The equivalent of paragraph A6(c) of PBE IPSAS 19 is paragraph B6(a) of IPSAS 19. **Potentially misleading wording to be amended.** Proposed to read as follow: *(d) Changes in the liability ....* *(i) A decrease in the liability shall (subject to (b)) be recognised in other comprehensive revenue*

PBE IPSAS 19	IPSAS 19	Comments
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. (iv) 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. (c) 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. (d) 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	determining the amounts to be recognized in surplus or deficit or in net assets/equity. (b) Changes in the liability alter the revaluation surplus or deficit previously recognized on that class of assets, so that: (i) A decrease in the liability shall (subject to (c)) be recognized in net assets/equity and increase the revaluation surplus within net assets/equity, except that it shall be recognized in surplus or deficit to the extent that it reverses a revaluation deficit on the class of assets that was previously recognized in surplus or deficit; (ii) An increase in the liability shall be recognized in surplus or deficit, except that it shall be recognized in net assets/equity 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 class of assets. (c) In the event that a decrease in the liability exceeds the carrying amount that would have been recognized had the asset been carried under the historical cost model, the excess shall be recognized immediately in surplus or deficit. (d) IPSAS 1, *Presentation of Financial Statements* requires disclosure in the	*and expense and accumulated in net assets/equity under the heading of revaluation surplus. However, the decrease in the liability 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) An increase in the liability shall be recognised in surplus or deficit. However, the increase in the liability 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.* *(e) ….* *(f) …. using fair value at the at the reporting date …*

PBE IPSAS 19	IPSAS 19	Comments
comprehensive revenue and expense under (a). If a revaluation is necessary, all assets of that class shall be revalued. (e) 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.	statement of changes in net assets/equity of each component of net assets/equity. 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.	
A7. 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.	B7. 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 recognized in surplus or deficit as they occur. This applies under both the historical cost model and the current value model.	**No action needed** - Only differences arising from IPSAS 45 not being adopted in NZ
A8. 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.	B8. The periodic unwinding of the discount shall be recognized in surplus or deficit as a finance cost as it occurs. Capitalization under IPSAS 5, *Borrowing Costs* is not permitted	**No action needed** - No difference

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Amendments to PBE Standards: Specific IFRIC Interpretations

Proposed amendments to PBE IPSAS 19 and PBE IPSAS 10

Exposure Draft

Submissions close 30 November 2025

September 2025

NZASB EXPOSURE DRAFT 2025-X

Amendments to PBE Standards: Specific IFRIC Interpretations

([Proposed] Amendments to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* and PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*)

Issued [date]

This [draft] Standard amends certain application guidance in PBE IPSAS 19, namely Appendix A *Changes in existing Decommissioning, Restoration and Similar Liabilities* and Appendix B *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* and adds Appendix A *Applying the Restatement Approach under PBE IPSAS 10 Financial Reporting in Hyperinflationary Economies* to PBE IPSAS 10, as a result of amendments arising from *Amendments to IPSAS Standards: Specific IFRIC Interpretations*.

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.

Legal status of amending Standard

This [draft][1] amending 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] amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The [draft] amending Standard was published under the Legislation Act 2019 on [date] and takes effect on [date].

Commencement and application

The [draft] amending Standard has a mandatory date of 1 January 2027, meaning it must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this [draft] amending Standard takes effect – refer to paragraphs 112.12 – 112.12.3 in Part C and paragraphs 39.4 – 39.4.3 in Part D of this [draft] amending Standard.

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

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CONTENTS

Part A – Introduction

This Standard includes:

- Amendments to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. Those amendments clarify the accounting for decommissioning, restoration and similar liabilities in Appendix A, as well as the scope of Appendix B, which relates to decommissioning, restoration and environmental rehabilitation funds.
- Amendments to PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*. Those amendments clarify how an entity restates its financial statements in the first year of hyperinflation.

The amendments align the Appendices A and B of PBE IPSAS 19 and Appendix A of PBE IPSAS 10 with certain aspects of *Amendments to IPSAS Standards: Specific IFRIC Interpretations*.

Part B – Scope

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

Tier 2 public benefit entities are required to comply with all the requirements in this Standard.

Part C – Amendments to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 112.12 – 112.12.3 are added. In Appendix A, paragraphs A4 – A6 and heading before paragraph A4 are amended. In Appendix B, paragraphs B1-B4 and the related heading are added and paragraphs B1–B8 are renumbered as paragraphs B5–B12. Heading before the new paragraph B6 is amended. New text is underlined and deleted text is struck through.

Commencement and Application

...

Amendments to PBE Standards: Specific IFRIC Interpretations

112.12 The amending Standard *Amendments to PBE Standards: Specific IFRIC Interpretations*, issued in [month year] amended paragraphs A4 and A5 in Appendix A and amended Appendix B by adding paragraphs B1 – B4. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs 112.12.1 – 112.12.3. An entity that applies these amendments to an 'early adoption accounting period' shall disclose that fact.

When the amending Standard takes effect (section 27 Financial Reporting Act 2013)

112.12.1 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on [date] and takes effect on [date].

Accounting period in relation to which the amending Standard commences to apply (section 28 Financial Reporting Act 2013)

112.12.2 The accounting periods in relation to which this amending Standard commences to apply are:

(a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.

(b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

112.12.3 In paragraph 112.12.2:

Early adopter means a reporting entity that applies this amending Standard for an early adoption accounting period.

Early adoption accounting period means an accounting period of the early adopter:

(a) That begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and

(b) For which the early adopter:

  (i) First applies this amending Standard in preparing its financial report; and

  (ii) Discloses in its financial report for that accounting period that this amending Standard has been applied for that period.

Mandatory date means 1 January 2027.

...

Appendix A

Application Guidance *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

This Appendix is an integral part of PBE IPSAS 19.

...

~~Consensus~~ Application of PBE IPSAS 19 to Changes in Existing Decommissioning, Restoration and Similar Liabilities

A4. 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 ~~A3–A5~~ A5–A7 below.

A5. If the related asset is measured using the cost model:

…

(c) 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~~ or PBE IPSAS 26 *Cash-Generating Assets.*

A6. 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 class of assets.

  (i) ~~If the carrying amount of a class of assets is increased as a result of changes in the liability, the increase~~ A decrease in the liability shall (subject to (b)) be recognised in other comprehensive revenue and expense and accumulated in net assets/equity under the heading of revaluation surplus. However, the ~~increase~~ decrease in the liability 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~~ An increase in the liability shall be recognised in surplus or deficit. However, the ~~decrease~~ increase in the liability 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) …

(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~~ the reporting date. 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.

…

Appendix B

Application Guidance *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

This Appendix is an integral part of PBE IPSAS 19.

Introduction

B1. The purpose of decommissioning, restoration and environmental rehabilitation funds, hereafter referred to as ‘decommissioning funds’ or ‘funds’, is to segregate assets to fund some or all of the costs of decommissioning plant (such as a power plant) or certain equipment (such as cars), or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land), together referred to as ‘decommissioning’.

B2. Contributions to these funds may be voluntary or required by regulation or law. The funds may have one of the following structures:

(a) Funds that are established by a single contributor to fund its own decommissioning obligations, whether for a particular site, or for a number of geographically dispersed sites.

(b) Funds that are established with multiple contributors to fund their individual or joint decommissioning obligations, when contributors are entitled to reimbursement for decommissioning expenses to the extent of their contributions plus any actual earnings on those contributions less their share of the costs of administering the fund. Contributors may have an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor.

(c) Funds that are established with multiple contributors to fund their individual or joint decommissioning obligations when the required level of contributions is based on the current activity of a contributor and the benefit obtained by that contributor is based on its past activity. In such cases there is a potential mismatch in the amount of contributions made by a contributor (based on current activity) and the value realisable from the fund (based on past activity).

B3. Such funds generally have the following features:

(a) The fund is separately administered by independent trustees.

(b) Entities (contributors) make contributions to the fund, which are invested in a range of assets that may include both debt and equity investments, and are available to help pay the contributors’ decommissioning costs. The trustees determine how contributions are invested, within the constraints set by the fund’s governing documents and any applicable legislation or other regulations.

(c) The contributors retain the obligation to pay decommissioning costs. However, contributors are able to obtain reimbursement of decommissioning costs from the fund up to the lower of the decommissioning costs incurred and the contributor’s share of assets of the fund.

(d) The contributors may have restricted access or no access to any surplus of assets of the fund over those used to meet eligible decommissioning costs.

Scope

B4. This Appendix applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that have both of the following features:

(a) The assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and

(b) A contributor's right to access the assets is restricted.

Issues

B~~1~~5. The issues addressed in this Appendix are:

(a) How should a contributor account for its interest in a fund?

(b) When a contributor has an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor, how should that obligation be accounted for?

~~Consensus~~ Application of PBE IPSAS 19 to Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Accounting for an Interest in a Fund

B~~2~~6. The contributor shall recognise its obligation to pay decommissioning costs as a liability and recognise its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay.

B~~3~~7. The contributor shall determine whether it has control, joint control or significant influence over the fund by reference to PBE IPSAS 35 *Consolidated Financial Statements,* PBE IPSAS 36 *Investments in Associates and Joint Ventures*, and PBE IPSAS 37 *Joint Arrangements*. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.

B~~4~~8. If a contributor does not have control, joint control or significant influence over the fund, the contributor shall recognise the right to receive reimbursement from the fund as a reimbursement in accordance with this Standard. This reimbursement shall be measured at the lower of:

(a) The amount of the decommissioning obligation recognised; and

(b) The contributor's share of the fair value of the net assets of the fund attributable to contributors.

Changes in the carrying value of the right to receive reimbursement other than contributions to and payments from the fund shall be recognised in surplus or deficit in the period in which these changes occur.

Accounting for Obligations to make Additional Contributions

B~~5~~9. When a contributor has an obligation to make potential additional contributions, for example, in the event of the bankruptcy of another contributor or if the value of the investment assets held by the fund decreases to an extent that they are insufficient to fulfil the fund's reimbursement obligations, this obligation is a contingent liability that is within the scope of this Standard. The contributor shall recognise a liability only if it is probable that additional contributions will be made.

Disclosure

B~~6~~10. A contributor shall disclose the nature of its interest in a fund and any restrictions on access to the assets in the fund.

B~~7~~11. When a contributor has an obligation to make potential additional contributions that is not recognised as a liability (see paragraph 5), it shall make the disclosures required by paragraph 100 of this Standard.

B~~8~~12. When a contributor accounts for its interest in the fund in accordance with paragraph 4, it shall make the disclosures required by paragraph 98(c) of this Standard.

Paragraphs BC8 – BC10 and the related heading are added. New text is underlined.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 19.

…

Amendments to PBE Standards: Specific IFRIC Interpretations

BC8. In November 2024 the IPSASB issued *Amendments to IPSAS Standards: Specific IFRIC Interpretations* which amended IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets.* The amendments incorporate into IPSAS 19:

(a) IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, first issued by the IASB in 2004, and

(b) IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, first issued by the IASB in 2004.

BC9. Those amendments clarify how an entity should account for specific changes in estimates of existing liabilities to dismantle, remove and restore a property, plant and equipment asset and how an entity that is a contributor to a decommissioning fund should account for its obligation to pay decommissioning costs and its related interest in that fund.

BC10. As noted in paragraph BC5, the NZASB had already included the requirements of NZ IFRIC 1 and NZ IFRIC 5 in PBE IPSAS 19 when it issued PBE IPSAS 19. However, following the issuance of the abovementioned IPSASBs' pronouncement, the NZASB decided to:

(a) amend Appendix A *Changes in Existing Decommissioning, Restoration and Similar Liabilities* to clarify that when there is a change in a decommissioning, restoration or similar liability and the entity measures the related asset using the revaluation model, the entity accounts for the increase or decrease in the liability (through other comprehensive revenue and expense or surplus or deficit, as required by paragraph A6), rather than an increase or decrease in the carrying amount of a class of assets related to the liability;

(b) introduce two examples illustrating application of Appendix A; and

(c) amend Appendix B *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* to clarify that the Appendix applies to decommissioning funds that are administered separately and where contributor's right to access the assets is restricted.

Paragraphs IE3 – IE14 and the related heading are added. Paragraph IE1 is amended. New text is underlined and deleted text is struck through.

Illustrative Example

~~This example accompanies~~ These examples accompany, but ~~is~~ are not part of, PBE IPSAS 19.

Present Value of a Provision

...

IE1. The expected value of a provision at the end of year 5 is 2000 ~~currency units~~ CU[1]. This expected value has not been risk-adjusted. An appropriate discount rate that takes account of the risk associated with this cash flow has been estimated at 12%.

...

Changes in Existing Decommissioning, Restoration and Similar Liabilities

IE3. Examples 2 and 3 illustrate how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities, as presented in Appendix A of PBE IPSAS 19, using the following common facts:

An entity has a geothermal power plant and a related decommissioning liability. The power plant started operating on January 1, 20X0. The plant has a useful life of 40 years. Its initial cost was CU120,000; this included an amount for decommissioning costs of CU10,000, which represented CU70,400 in estimated cash flows payable in 40 years discounted at a risk-adjusted rate of 5 per cent. The entity's financial year ends on December 31.

Example 2: Cost Model

[1] In these examples, monetary amounts are denominated in 'currency units (CU)'.

IE4. On December 31, 20X9, the plant is 10 years old. Accumulated depreciation is CU30,000 (CU120,000 × 10/40 years). Because of the unwinding of discount (5 per cent) over the 10 years, the decommissioning liability has grown from CU10,000 to CU16,300.

IE5. On December 31, 20X9, the discount rate has not changed. However, the entity estimates that, as a result of technological advances, the net present value of the decommissioning liability has decreased by CU8,000. Accordingly, the entity adjusts the decommissioning liability from CU16,300 to CU8,300. On this date, the entity makes the following journal entry to reflect the change:

	CU	**CU**
Dr Decommissioning liability	8,000	
Cr Asset (cost model)		8,000

IE6. Following this adjustment, the carrying amount of the asset is CU82,000 (CU120,000 – CU8,000 – CU30,000), which will be depreciated over the remaining 30 years of the asset's life, giving a depreciation expense for the next year of CU2,733 (CU82,000 ÷ 30). The next year's finance cost for the unwinding of the discount will be CU415 (CU8,300 × 5 per cent).

IE7. If the change in the liability had resulted from a change in the discount rate, instead of a change in the estimated cash flows, the accounting for the change would have been the same but the next year's finance cost would have reflected the new discount rate.

Example 3: Revaluation Model

IE8. The entity adopts the revaluation model in PBE IPSAS 17 whereby the plant is revalued with sufficient regularity that the carrying amount does not differ materially from fair value. The plant is the only asset in its class. The entity's policy is to eliminate accumulated depreciation at the revaluation date against the gross carrying amount of the asset, in accordance with paragraph 50 of PBE IPSAS 17.

IE9. When accounting for revalued assets to which decommissioning liabilities attach, it is important to understand the basis of the valuation obtained. For example:

(a) If an asset is valued using discounted cash flows, some valuers may value the asset without deducting any allowance for decommissioning costs (a 'gross' valuation), whereas others may value the asset after deducting an allowance for decommissioning costs (a 'net' valuation), because an entity acquiring the asset will generally also assume the decommissioning obligation. For financial reporting purposes, the decommissioning obligation is recognised as a separate liability, and is not deducted from the asset. Accordingly, if the asset is valued on a net basis, it is necessary to adjust the valuation obtained by adding back the allowance for the liability, so that the liability is not counted twice.

(b) If an asset is valued using depreciated replacement cost, the valuation obtained may not include an amount for the decommissioning component of the asset. If it does not, an appropriate amount will need to be added to the valuation to reflect the depreciated replacement cost of that component.

IE10. Assume that a market-based discounted cash flow valuation of CU115,000 is obtained at December 31, 20X2. It includes an allowance of CU11,600 for decommissioning costs, which represents no change to the original estimate, after the unwinding of three years' discount. The amounts included in the statement of financial position at December 31, 20X2 are therefore:

	CU
Asset (revaluation model) (1)	126,600
Accumulated depreciation	nil
Decommissioning liability	(11,600)
Net assets	115,000
Accumulated comprehensive revenue and expense (2)	(10,600)
Revaluation surplus (3)	15,600

Notes:

1. Valuation obtained of CU115,000 plus decommissioning costs of CU11,600, allowed for in the valuation but recognised as a separate liability = CU126,600.

2. Three years' depreciation on original cost CU120,000 × 3/40 = CU9,000 plus cumulative discount on CU10,000 at 5 per cent compound = CU1,600; total CU10,600.

3. Revalued amount CU126,600 less previous net book value of CU111,000 (cost CU120,000 less accumulated depreciation CU9,000).

IE11. The depreciation expense for 20X3 is therefore CU3,420 (CU126,600 × 1/37) and the discount expense for 20X3 is CU600 (5 per cent of CU11,600). On December 31, 20X3, the decommissioning liability (before any adjustment) is CU12,200 and the discount rate has not changed. However, on that date, the entity estimates that, as a result of technological advances, the present value of the decommissioning liability has decreased by CU5,000. Accordingly, the entity adjusts the decommissioning liability from CU12,200 to CU7,200.

IE12. The whole of this adjustment is taken to revaluation surplus, because it does not exceed the carrying amount that would have been recognised had the asset been carried under the cost model. If it had done, the excess would have been taken to surplus or deficit in accordance with paragraph A6(a) of Appendix A of PBE IPSAS 19. The entity makes the following journal entry to reflect the change:

	CU	CU
Dr Decommissioning liability	5,000	
Cr Revaluation surplus[2]		5,000

IE13. The entity decides that a full valuation of the asset is needed at December 31, 20X3, in order to ensure that the carrying amount does not differ materially from fair value. Suppose that the asset is now valued at CU107,000, which is net of an allowance of CU7,200 for the reduced decommissioning obligation that should be recognised as a separate liability. The valuation of the asset for financial reporting purposes, before deducting this allowance, is therefore CU114,200. The following additional journal entry is needed:

	CU	CU
Dr Accumulated depreciation (1)	3,420	
Cr Asset (revaluation model)		3,420
Dr Revaluation surplus (2)	8,980	
Cr Asset (revaluation model) (3)		8,980

Notes:

1. Eliminating accumulated depreciation of CU3,420 in accordance with the entity's accounting policy.
2. The debit is to revaluation surplus because the deficit arising on the revaluation does not exceed the credit balance existing in the revaluation surplus in respect of the asset.
3. Previous valuation (before allowance for decommissioning costs) CU126,600, less cumulative depreciation of CU3,420, less new valuation (before allowance for decommissioning costs) CU114,200.

IE14. Following this valuation, the amounts included in the statement of financial position are:

	CU
Asset (revaluation model)	114,200

[2] Throughout this example, changes to the revaluation surplus are recognised through other comprehensive revenue and expense.

Accumulated depreciation	nil
Decommissioning liability	(7,200)
Net assets	107,000
Accumulated comprehensive revenue and expense (1)	(14,620)
Revaluation surplus (2)	11,620

Notes:

1. CU10,600 at December 31, 20X2 plus 20X3's depreciation expense of CU3,420 and discount expense of CU600 = CU14,620.

2. CU15,600 at December 31, 20X2, plus CU5,000 arising on the decrease in the liability, less CU8,980 deficit on revaluation = CU11,620.

Part D – Amendments to PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*

Paragraphs 39.4 – 39.4.3 and Appendix A (paragraphs A1 – A4) and the related heading are added. Heading above paragraph 39.4 is amended. New text is underlined and deleted text is struck through.

~~Effective date~~ Commencement and Application

...

Amendments to PBE Standards: Specific IFRIC Interpretations

39.4 The amending Standard *Amendments to PBE Standards: Specific IFRIC Interpretations*, issued in [month year] added Appendix A (paragraphs A1 – A4). An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs 39.4.1 – 39.4.3. An entity that applies these amendments to an 'early adoption accounting period' shall disclose that fact.

When the amending Standard takes effect (section 27 Financial Reporting Act 2013)

39.4.1 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on [date] and takes effect on [date].

Accounting period in relation to which the amending Standard commences to apply (section 28 Financial Reporting Act 2013)

39.4.2 The accounting periods in relation to which this amending Standard commences to apply are:

(c) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.

(d) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

39.4.3 In paragraph 39.4.2:

Early adopter means a reporting entity that applies this amending Standard for an early adoption accounting period.

Early adoption accounting period means an accounting period of the early adopter:

(d) That begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and

(e) For which the early adopter:

(iii) First applies this amending Standard in preparing its financial report; and

(iv) Discloses in its financial report for that accounting period that this amending Standard has been applied for that period.

Mandatory date means 1 January 2027.

...

Appendix A

Applying the Restatement Approach under PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*

This Appendix is an integral part of PBE IPSAS 10.

A1. This Appendix provides guidance on how to apply the requirements of this Standard in a reporting period in which an entity identifies, using the criteria in paragraph 5, the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with this Standard. Specifically, this Appendix addresses:

(a) How should the requirement "... stated in terms of the measuring unit current at the reporting date" in paragraph 11 be interpreted when an entity applies the Standard?

(b) How should an entity account for opening deferred tax items in its restated financial statements?

A2. In the reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, not having been hyperinflationary in the prior period, the entity shall apply the requirements of this Standard as if the economy had always been hyperinflationary. Therefore, in relation to non-monetary items measured at historical cost, the entity's opening statement of financial position at the beginning of the earliest period presented in the financial statements shall be restated to reflect the effect of inflation from the date the assets were acquired, and the liabilities were incurred or assumed until the reporting date. For non-monetary items carried in the opening statement of financial position at amounts current at dates other than those of acquisition or incurrence, that restatement shall reflect instead the effect of inflation from the dates those carrying amounts were determined until the reporting date.

A3. At the reporting date, deferred tax items are recognised and measured in accordance with PBE IAS 12 *Income Taxes*. However, the deferred tax figures in the opening statement of financial position for the reporting period shall be determined as follows:

(a) the entity remeasures the deferred tax items in accordance with PBE IAS 12 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening statement of financial position of the reporting period by applying the measuring unit at that date.

(b) the deferred tax items remeasured in accordance with (a) are restated for the change in the measuring unit from the date of the opening statement of financial position of the reporting period to the end of that reporting period.

The entity applies the approach in (a) and (b) in restating the deferred tax items in the opening statement of financial position of any comparative periods presented in the restated financial statements for the reporting period in which the entity applies this Standards.

A4. After an entity has restated its financial statements, all corresponding figures in the financial statements for a subsequent reporting period, including deferred tax items, are restated by applying the change in the measuring unit for that subsequent reporting period only to the restated financial statements for the previous reporting period.

Paragraphs BC3 – BC5 and the related heading are added. New text is underlined.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 10.

…

Amendments to PBE Standards: Specific IFRIC Interpretations

BC3. IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* issued by the IASB in November 2005 clarifies how an entity restates its financial statements in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency. The IPSASB subsequently incorporated this Interpretation to IPSAS 10, *Financial Reporting in Hyperinflationary Economies*, by issuing amending standard *Amendments to IPSAS Standards: Specific IFRIC Interpretations* in January 2025.

BC4. The NZASB considered this guidance is appropriate for application by public benefit entities and amended PBE IPSAS 10 by issuing *Amendments to PBE Standards: Specific IFRIC Interpretations* in [month, year]. Those amendments are equivalent to the IPSASB pronouncements where more detail guidance to the restatement of deferred tax items is provided.

BC5. Illustrative example on the application of IFRIC 7 to the restatement of deferred tax items is available in the additional material for NZ IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* on the XRB website.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date: 23 May 2025

To: NZASB Members

From: Gali Slyuzberg

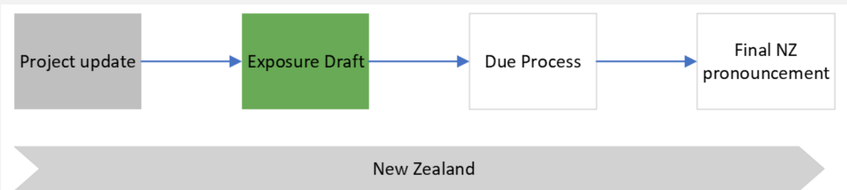
Subject: **Amendments to XRB A2 *Meaning of Specified Statutory Size Thresholds***

COVER SHEET

Project priority and complexity

Project purpose	To update XRB A2 *Meaning of Specified Statutory Size Thresholds* in line with recent amendments to the Financial Reporting Act 2013 ('FRA'), as resulting from the Regulatory Systems (Economic Development) Amendment Act 2025. The amendments relate to the statutory definition of 'large' and 'specified not-for-profit entity' in the FRA, which are used to determine an entity's statutory financial reporting obligations.
Cost/benefit considerations	XRB A2 defines the meaning of certain terms used in the statutory definition of 'large' and 'specified not-for-profit entity' in the FRA. As such, it is beneficial and important to reflect the recent amendment to the FRA in XRB A2, so that XRB A2 remains consistent with the FRA. The costs and benefits of the statutory amendments will have been considered by the Government when enacting those amendments.
Project priority	**Low priority** The amendments to XRB A2 are relatively minor and reflect amendments to primary legislation (FRA). The amendments to the FRA apply to accounting periods commencing on or after 1 September 2025, so the amendments to XRB A2 need to be issued before that date.

Overview of agenda item

Project Status	
Board action required	• AGREE to RECOMMEND that the XRB Board approves a domestic ED proposing to amend XRB A2, with a short comment period of 14 days. • AGREE that, if there are no significant changes to the ED proposals after the consultation period, staff can seek XRB Board approval to issue the amending standard after confirmation with the NZASB Chair, without further discussion with the NZASB.

Purpose and introduction[1]

1. XRB A2 defines, for the purposes of various enactments, the meaning of terms used to specify size thresholds that an entity is required to apply to determine if a particular statutory provision applies. As part of this purpose, XRB A2 specifies the meaning of certain elements of the definitions of 'large' and 'specified not-for-profit entity' in the Financial Reporting Act 2013 ('FRA'). Other enactments refer to the definition of 'large' or 'specified not-for-profit entity' as per the FRA when requiring entities to prepare financial statements in accordance with standards issued by the XRB.

2. The Regulatory Systems (Economic Development) Amendment Act 2025, enacted on 29 March 2025, included amendments to the FRA that relate to the definitions of 'large' and 'specified not-for-profit entity'. We recommend reflecting these amendments in XRB A2.

Recommendations

3. The Board is asked to:
   (a) PROVIDE FEEDBACK on the draft ED with proposed amendments to XRB A2;
   (b) RECOMMEND to the XRB Board to issue the ED proposing amendments to XRB A2, with a short comment period of 14 days; and
   (c) AGREE that, if there are no significant changes to the ED proposals after the consultation period, staff can seek XRB Board approval to issue the amending standard after confirmation with the NZASB Chair, without further discussion with the NZASB.

Structure of this memo

4. The remaining sections in this memo are:
   (a) Background
   (b) Amendments to the FRA and proposed amendments to XRB A2
   (c) Draft ED
   (d) Proposed approach to consultation
   (e) Proposed approach to approval of the final amending standard
   (f) Next steps

Background

5. The FRA defines the terms 'large' and 'specified not-for-profit entity' for the purpose of other enactments that impose financial reporting requirements on certain entities. For example:
   (a) The Companies Act 1993 require 'large' companies as defined in the FRA to report in accordance with generally accepted accounting practice (GAAP) – for most companies,

[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® Accounting Standards, IFRIC® Interpretations and IASB® papers).

which are for-profit entities, compliance with GAAP means compliance with the XRB's Tier 1 or Tier 2 for-profit standards.

(b) The Charities Act 2005 requires registered charities that are 'specified not-for-profit entities' as defined in the FRA to report in accordance with GAAP (generally Tier 1, Tier 2 or Tier 3 PBE accounting standards as issued by the XRB, assuming the charity is a PBE), while registered charities that are not 'specified not-for-profit entities' are required to report in accordance with GAAP or a non-GAAP standard (i.e. the Tier 4 Standard). The Incorporated Societies Act 2022 includes a similar requirement for incorporated societies that are not 'small societies'.

6. The FRA specifies in section 47 that, for the purpose of the sections containing the definitions of 'large' and 'specified not-for-profit entity' (sections 45 and 46 respectively), a financial reporting standard that is expressed as applying for the purpose of that section must be applied in determining whether the provisions in these sections apply.

7. XRB A2 is that financial reporting standard that section 47 of the FRA refers to. As such, XRB A2 sets out the meaning of certain elements of the statutory definition of 'large' and 'specified not-for-profit entity' in the FRA. For example, XRB A2 defines 'total revenue' and 'total assets' for the purpose of the definition of 'large' in the FRA. XRB A2 also defines the meaning of 'operating payments' for the purpose of the definition of 'specified not-for-profit entity' in the FRA.

8. Regulatory Systems Amendment Acts aim to improve regulatory systems by ensuring that they are effective, efficient and align with best regulatory practice. The amendments in these Acts achieve this by clarifying and updating statutory provisions to better give effect to the purpose of that Act and its provisions; addressing regulatory duplication, gaps, errors, and inconsistencies within and between different pieces of legislation; keeping the regulatory system up to date and relevant; and removing unnecessary compliance/implementation costs.

9. As noted above, the Regulatory Systems (Economic Development) Amendment Act 2025 included amendments to the FRA with respect to the definitions of 'large' and 'specified not-for-profit entity'. The amendments to the FRA are explained in the next section. We recommend amending XRB A2 to reflect these legislative amendments.

Amendments to the FRA and proposed amendments to XRB A2

10. The amendments to the FRA included in the Regulatory Systems (Economic Development) Amendment Act 2025, and the proposed amendments to XRB A2 as a result of these legislative amendments, are set out in the table on the next page.

Table 1 Amendments to the FRA and proposed amendments to XRB A2

Amendments to FRA	**Reason** (see MBIE's policy proposals paper)	**Proposed amendment to XRB A2**
Section 45 – Meaning of 'large': Existing subsection 45(1) says that an entity (other than an overseas company) is 'large' with respect to an accounting period if, in each of the two preceding accounting periods, the entity and its subsidiaries have total assets over $66 million, or total revenue over $33 million. Existing subsection 45(2) has a similar requirement for overseas companies, with lower thresholds. Subsection 45(2A) was added to say that an entity (other than an overseas company) is 'large' if the entity has, on the balance date of the period, *one or more subsidiaries* that are 'large' as per subsection 45(1) – and the same requirement is added for overseas companies that have one or more subsidiaries that are 'large' as per subsection 45(2).	It is common to incorporate a new company and then use it to acquire controlling shareholding in an existing 'large' company. Before the amendment to section 45, a new company in this situation would not be 'large' – due to having no revenue or assets in the previous two accounting periods – and therefore would not need to prepare GAAP-compliant financial statements. The amendment to section 45 ensures that, following the acquisition of a 'large' company, a new company is deemed 'large' and therefore must prepare GAAP-compliant financial statements – consistent with existing companies that have 'large' subsidiaries.	• Amend paragraph 4, which sets out the scope of XRB A2, to include a reference to section 45(2A) of the FRA; • Add paragraph 6A to set out the requirement in section 45(2A) of the FRA – after existing paragraphs 5 and 6 that set out sections 45(1) and 45(2); and • In paragraph 8, which sets out the meaning of 'total assets' and 'total revenue' for the purpose of FRA sections 45(1) and 45(2) that use the term 'large', add a reference to section 45(2A), as it also refers to 'large'.
Section 46 – Specified not-for-profit entity: Section 46 is amended as follows: "For the purposes of an enactment that refers to this section, an entity is a *specified not-for-profit entity* in respect of an accounting period if, in each of the 2 preceding accounting periods of the entity, the total operating payments of the entity <u>and all entities it controls (if any)</u> are $140,000 or more. Section 47 is updated to refer to 'control' is a term to be defined in an XRB accounting standard.	For some entities (e.g. charities), reporting in Tier 4 is possible only if the entity does not meet the definition of 'specified not-for-profit entity'. Before the amendment to section 46, the definition of 'specified not-for-profit entity' referred only to the operating payments of the entity itself. However, how a group of entities structures itself should not determine the group's reporting tier. The amendments ensure that an entity considers the operating payments of the entities it controls when determining whether it is a 'specified not-for-profit entity'.	• Amend paragraph 3 (objective section) and paragraph 4 (scope section) to reflect that XRB A2 sets out the meaning of 'control' for the purpose of section 46 of the FRA; • Amend paragraph 14, which quotes the definition of 'specified not-for-profit entity', to reflect the amendment to section 46 of FRA; and • Add paragraph 16A, to explain that for the purpose of section 46 of FRA, the meaning of 'control' is set out in the relevant PBE Standards issued by the NZASB (consistent with existing wording in XRB A2 for the purpose of the Charities Act 2005). We referred to PBE Standards because the determination of whether an entity is a 'specified not-for-profit entity' determines whether the entity can apply the Tier 4 Standard – which applies to PBEs, rather than for-profit entities. While 'PBE Standards' generally refers to Tier 1 and Tier 2 standards, the Tier 3 and Tier 4 Standards ultimately refer to PBE Standards for assessing control.

Cost/benefit considerations

11. The proposed amendments to XRB A2 reflect amendments to the FRA. In enacting the amendments to the FRA, the Government will have already assessed the costs and benefits of these amendments.

12. Considering that XRB A2 sets out the meaning for certain aspects of the definition of 'large' and 'specified not-for-profit entity' in the FRA, it is beneficial and important to amend XRB A2 in line with the recent amendments to FRA with respect to these definitions.

13. In addition: We note that XRB A1 and the Tier 4 Standard already require PBEs to consider the operating payments of the entities that they control when assessing their total operating payments, for the purpose of determining whether they can report under the 'non-GAAP' Tier 4 Standard. Therefore, we expect that the amendments to XRB A2 to reflect the addition of the words "and all entities it controls (if any)" into the definition of 'specified not-for-profit entity' in the FRA would not impact entities' assessment of whether they can apply the Tier 4 Standard or not, and therefore would not result in additional costs for entities.

Draft ED

14. A draft ED proposing amendments to XRB A2 as described in the section above is included as Agenda Item 10.1b.

15. The ED specifies that the amendments apply to accounting periods beginning on or after 29 September 2025. This is consistent with the commencement and application wording in Schedule 6 of the Regulatory Systems (Economic Development) Amendment Act 2025, with respect to the amendments to sections 45 and 46 of the FRA.

16. The ED adds paragraphs to the Basis for Conclusions accompanying XRB A2, to explain the abovementioned amendments.

17. As the ED proposes amendments to XRB A2, the ED (and final amending standard) will need to be approved by the XRB Board. We are seeking the NZASB's agreement to recommend that the XRB Board approves the ED for public consultation.

Proposed approach to consultation

18. The proposed amendments to XRB A2 reflect amendments to the FRA, which were already consulted on by MBIE and which the XRB cannot change. However, stakeholders might potentially have comments on matters such as the clarity of the proposed amendments to XRB A2 or interactions with other standards. Considering this – as well as the need to have the amending standard 'come into effect' before the mandatory date of 29 September 2025 – we recommend a short consultation period of 14 days for the ED.

19. Considering the nature of the proposed amendments, we have not developed a Consultation Document to accompany the ED – we consider it is sufficient to describe the ED proposals and rationale for them on the webpage where we upload the ED. We do not recommend outreach activities beyond publishing the ED on the website and mentioning it in an Accounting Alert.

Proposed approach to approval of the final amending standard

20. As the ED proposals would be mandatory to apply for periods beginning on or after 29 September 2025, we consider that the final amending standard should 'come into effect' before that date. An amending standard comes into effect on the 28th day after it is gazetted – meaning that we would need to gazette the amending standard at least 28 days before 29 September 2025.

21. Considering the timing of XRB Board meetings, this means that we would need to:
    (a) Seek approval to publish the ED at the XRB Board meeting on 3rd July;
    (b) Consult on the ED for 14 days, say from 7th July until 21st July; and
    (c) Seek approval to issue the amending standard at the XRB Board meeting on 13th August.

22. Considering the nature of the amendments and timeframe above, we recommend that if there are no significant changes to the ED proposals after the consultation period, staff will:
    (a) Confirm the lack of changes to the ED (or any editorial changes) with the NZASB Chair; and
    (b) Take the amending standard directly to the XRB Board for approval, i.e. without taking this item to the NZASB again.

23. We do not expect changes to the ED as a result of the consultation. However, if there are significant changes, we will bring the amending standard again to the NZASB August meeting.

Questions for the Board

Q1. Does the Board have any other **COMMENTS** on the draft ED *Amendments to XRB A2 resulting from the Regulatory Systems (Economic Development) Amendment Act 2025*?

Q2. Does the Board **AGREE TO RECOMMEND** to the XRB Board to approve the ED for public consultation?

Q3. Does the Board **AGREE TO RECOMMEND** a 14-day consultation period for the ED?

Q4. Does the Board **AGREE** that, after the consultation period and confirmation with the NZASB Chair, staff can seek XRB Board approval to issue the amending standard?

Next steps

24. If the Board agrees with our recommendations, we will seek the XRB Board's approval of the ED at its meeting on 3rd July 2025, and proceed with consultation and approval as described above.

Attachments

Agenda item 10.1b: Draft ED

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Amendments to XRB A2 resulting from the Regulatory Systems (Economic Development) Amendment Act 2025

Exposure Draft

Submissions close 25 July 2025

July 2025

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB EXPOSURE DRAFT 2025-3

Amendments to XRB A2 resulting from the Regulatory Systems (Economic Development) Amendment Act 2025

Issued [date]

This [draft] amending Standard amends XRB A2 *Meaning of Specified Statutory Size Thresholds*. XRB A2 defines, for the purposes of various enactments, the meaning of terms used to specify size thresholds that an entity is required to apply to determine if a particular statutory provision applies. This [draft] amending Standard updates XRB A2 in line with amendments relating to the statutory definition of 'large' and 'specified not-for-profit entity' in the Financial Reporting Act 2013, as amended by the Regulatory Systems (Economic Development) Amendment Act 2025.

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

Legal status of amending Standard

This [draft] amending Standard was issued on [date] by the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The [draft] amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The [draft] amending Standard was published under the Legislation Act 2019 on [date] and takes effect on [date].

Commencement and application

This [draft] amending Standard applies to entities that are required to determine whether they meet the definitions of 'large' or 'specified not-for-profit entity' in sections 45 and 46 of the Financial Reporting Act 2013.

The [draft] amending Standard has a mandatory date of 29 September 2025, meaning it must be applied for accounting periods that begin on or after this date. This is consistent with the relevant commencement and application provisions in the Regulatory Systems (Economic Development) Amendment Act 2025.

ISBN XXX

CONTENTS

Part A – Introduction

This [draft] amending Standard amends XRB A2 Meaning of Specified Statutory Size Thresholds. XRB A2 defines, for the purposes of various enactments, the meaning of terms used to specify size thresholds that an entity is required to apply to determine if a particular statutory provision applies. This [draft] amending Standard updates XRB A2 in line with amendments relating to the statutory definition of 'large' and 'specified not-for-profit entity' in the Financial Reporting Act 2013, as amended by the Regulatory Systems (Economic Development) Amendment Act 2025.

Part B – Scope

This [draft] amending Standard applies to entities that are required to determine whether they meet the definition of 'large' or 'specified not-for-profit entity' in sections 45 and 46 of the Financial Reporting Act 2013.

Part C – Amendments to XRB A2 *Meaning of Specified Statutory Size Thresholds*

Paragraphs 3, 4, 8 and 14 are amended. Paragraphs 6A, 16A and 27 are added. New text is underlined and deleted text is struck through. Paragraphs 5, 6, 15 and 16 are not amended but are included for context.

A. INTRODUCTION

Objective

[...]

3. The Financial Reporting Act 2013 and the Companies Act 1993 provide for specified terminology ("total assets", "total revenue" and "total operating payments" in both Acts, and "control" in the Financial Reporting Act 2013) relating to the size threshold of an entity for reporting purposes to be defined in a financial reporting standard issued by the XRB. Similarly, the Friendly Societies and Credit Unions Act 1982 and the Incorporated Societies Act 2022 provide for the specified terms ("total operating expenditure" and "total operating payments" respectively) relating to the size thresholds in those Acts to be defined in a financial reporting standard issued by the XRB. The Charities Act 2005 (as amended by the Charities Amendment Act 2014) and the Incorporated Societies Regulations 2023 provides for specified terminology ("total operating expenditure" and "control") relating to the size threshold of a charitable entity or society for assurance purposes to be defined in a financial reporting standard issued by the XRB. Relevant entities, in determining whether a particular provision of an Act applies, must apply the financial reporting standard that contains the meanings of those terms in assessing whether its particular size threshold has been met.

Scope

4. This Standard applies to an entity that is required under an enactment to apply the following provisions, as applicable:

   (a) sections 45(1)(a), ~~and~~ 45(2)(a) and 45(2A)(a) of the Financial Reporting Act 2013 (to determine "total assets");

   (b) sections 45(1)(b), ~~and~~ 45(2)(b) and 45(2A)(b) of the Financial Reporting Act 2013 (to determine "total revenue");

   (c) section 46 of the Financial Reporting Act 2013 (to determine "total operating payments" and "control");

   (d) […]

B. SPECIFIED STATUTORY SIZE THRESHOLDS AND THEIR DEFINITIONS

Financial Reporting Act 2013 and Companies Act 1993: "Large" and the determination of "total assets" and "total revenue"

5. Section 45(1) of the Financial Reporting Act 2013 provides that, for the purpose of an enactment that refers to section 45, an entity (other than an overseas company or a subsidiary of an overseas company) is "large" in respect of an accounting period if at least one of the following applies:

   (a) as at the balance date of each of the 2 preceding accounting periods, the total assets of the entity and its subsidiaries (if any) exceed $66 million; or

   (b) in each of the 2 preceding accounting periods, the total revenue of the entity and its subsidiaries (if any) exceeds $33 million.

6. Section 45(2) of the Financial Reporting Act 2013 provides that, for the purpose of an enactment that refers to section 45, an overseas company or a subsidiary of an overseas company is "large" in respect of an accounting period if at least one of the following applies:

   (a) as at the balance date of each of the 2 preceding accounting periods, the total assets of the entity and its subsidiaries (if any) exceed $22 million; or

   (b) in each of the 2 preceding accounting periods, the total revenue of the entity and its subsidiaries (if any) exceeds $11 million.

6A. Section 45(2A) of the Financial Reporting Act 2013 provides that:

   (a) an entity (other than an overseas company or a subsidiary of an overseas company) is "large" in respect of an accounting period if the entity has, on the balance date of the period, 1 or more subsidiaries that are "large" in respect of that accounting period under section 45(1); and

   (b) an overseas company or a subsidiary of an overseas company is "large" in respect of an accounting period if the entity has, on the balance date of the period, 1 or more subsidiaries that are "large" in respect of that accounting period under section 45(2).

[…]

8. For the purposes of sections 45(1), ~~and~~ 45(2) and 45(2A) of the Financial Reporting Act 2013 and section 204(3) of the Companies Act 1993, the amount of total assets and total revenue are determined as follows:

   (a) where financial statements are prepared in accordance with accounting standards issued by the XRB or its sub-board, the New Zealand Accounting Standards Board, total assets and total revenue are the respective amounts recognised in the financial statements of the entity, prepared in accordance with the requirements of the Tier 2 accounting standards as specified in External Reporting Board Standard A1 *Application of the Accounting Standards Framework* that are in effect and applicable to the entity as at each of the relevant balance dates or in each of the relevant accounting periods; and

   (b) where financial statements are not prepared, or where financial statements are not prepared as specified in paragraph (a), total assets and total revenue are the respective amounts derived from the entity's accounting records, determined in accordance with the requirements of Tier 2 accounting standards as specified in External Reporting Board Standard A1 *Application of the Accounting Standards Framework* that would be relevant to the entity if it was reporting in accordance with those accounting standards.

[…]

Financial Reporting Act 2013: "Specified not-for-profit entity" and the determination of "total operating payments"

14. Section 46 of the Financial Reporting Act 2013 sets out the meaning of a "specified not-for-profit entity". For the purposes of an enactment that refers to section 46, an entity is a specified not-for-profit entity in respect of an accounting period if, in each of the 2 preceding accounting periods of the entity, the total operating payments of the entity and all entities it controls (if any) are $140,000 or more.

15. For the purpose of section 46 of the Financial Reporting Act 2013, total operating payments means the total amount of any payment (including grant payments and income tax payments, where applicable), other than a capital payment, made by the entity during the accounting period.

16. For the purpose of paragraph 15, a capital payment is a payment during the accounting period for the purchase of a resource with an expected life greater than twelve months, to be owned or partly owned and used by the entity to support the entity's activities or to provide services or products. Capital payments do not include payments for operating purposes or payments for resources to be passed to other entities.

16A. For the purposes of section 46 of the Financial Reporting Act 2013, the meaning of the term "control" is set out in the relevant PBE Standards issued by the New Zealand Accounting Standards Board as applicable to public benefit entities.

C. COMMENCEMENT AND APPLICATION

[…]

27. *Amendments to XRB A2 resulting from the Regulatory Systems (Economic Development) Amendment Act 2025*, issued in [August] 2025, amended paragraphs 3, 4, 8 and 14 and added paragraphs 6A and 16A. An entity shall apply those amendments to accounting periods beginning on or after 29 September 2025.

In the Basis for Conclusions, paragraphs BC10B, BC12 and BC13 are added. New text is underlined.

BASIS FOR CONCLUSIONS ON STANDARD XRB A2 *MEANING OF SPECIFIED STATUTORY SIZE THRESHOLDS*

This Basis for Conclusions accompanies, but is not part of, Standard XRB A2 Meaning of Specified Statutory Size Thresholds.

[…]

Other statutory measures

[…]

BC10B. The XRB decided that for the purpose of the definition of a "specified not-for-profit entity" in the Financial Reporting Act 2013, the term "control" should have the same meaning as that set out in the relevant PBE Standards as applicable to public benefit entities.

[…]

Amendments to XRB A2 resulting from the Regulatory Systems (Economic Development) Amendment Act 2025

BC12. The Regulatory Systems (Economic Development) Amendment Act 2025 amended the following sections of the Financial Reporting Act 2013, which relate to legislative size thresholds that determine an entity's financial reporting obligations:

(a) Section 45: Amendments to specify that, for the purpose of section 45, an entity is 'large' in respect of an accounting period if the entity has, on the balance date of the period, one or more subsidiaries that are 'large' in respect of that accounting period.

(b) Section 46: Amendments to specify that, for the purpose of the definition of a specified not-for-profit entity, total operating payments are those of the entity and all entities it controls, if any.

BC13. The XRB amended this Standard to reflect the amendments to the Financial Reporting Act 2013 described in paragraph BC 12.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date: 29 May 2025

To: NZASB Members

From: Alex Stainer

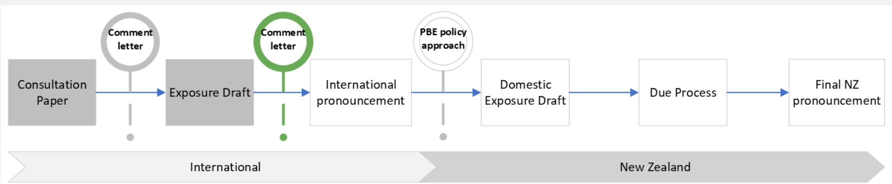
Subject: **IPSASB ED 93 *Definition of Material* – Phase 1**

COVER SHEET

Project priority and complexity

Project purpose	To influence the direction of the IPSASB project to align the definition of material in the IPSAS Standards with the Conceptual Framework and improve the application of materiality to reduce over-disclosure of irrelevant information and under-disclosure of relevant information.
Cost/benefit considerations	Materiality is fundamental to balancing the benefits and costs of reporting. Improving the application of materiality will lead to lower costs and greater benefits of reporting.
Project priority	**Low priority** The IPSASB have separated the project into 3 phases • **Phase 1 –** align definition of material across IPSAS Standards and Conceptual Framework • **Phase 2 –** issue guidance to help the application of materiality for financial reporting based on IFRS Practice Statement 2 • **Phase 3 –** develop guidance on the application of materiality for sustainability reporting The project is currently at Phase 1. At this stage, IPSASB are recommending targeted amendments to several IPSAS Standards to align the definition of material with the Conceptual Framework.

Overview of agenda item

Project Status	
Board action required	**Low complexity** **APPROVE the comment letter for submission to the IPSASB.**

Purpose and introduction[1]

1. In May 2025, the IPSASB issued Exposure Draft ED 93 *Definition of Material*. ED 93 proposes targeted amendments to the definition of material in the Conceptual Framework, and associated amendments to align the definition of material throughout IPSAS Standards where necessary.

2. The purpose of this memo is to seek the Board's approval of the draft comment letter in respect of this ED.

Recommendations

3. The Board is asked to APPROVE the comment letter for submission to IPSASB.

Background

4. During 2021, the IPSASB received feedback during its Mid-Period Work Program Consultation that entities in the public sector face challenges in making material judgments when preparing financial statements in accordance with IPSAS, and use disclosure requirements in IPSAS as a 'checklist'. These challenges sometimes result in entities providing too much irrelevant information and/or not enough relevant information in their financial statements.

5. The IPSASB received strong support for its proposal in the 2021 Mid-Period Work Program Consultation to develop public sector-specific guidance on making materiality judgments when preparing financial statements, using IFRS Practice Statement 2 as its basis. The IPSASB subsequently considered that, before developing the abovementioned guidance, it is necessary to first ensure that the materiality requirements in IPSAS Standards are consistent with the 2023 updates to the guidance on materiality in the IPSASB Conceptual Framework.

6. At its September 2024 meeting, the IPSASB added a limited scope project on Making Materiality Judgements to its work program. The project brief was finalised in March 2025. The IPSASB decided to structure the project into three phases:

   (a) Phase 1 – Review and align the definition of 'material' across IPSASB financial reporting (i.e. aligning IPSAS Standards with the IPSASB Conceptual Framework).

   (b) Phase 2 – Develop non-authoritative guidance on making materiality judgements when preparing financial statements in accordance with IPSAS Standards, by adapting IFRS Practice Statement 2 *Making Materiality Judgments* to the public sector context. One of the public sector factors to be addressed in Phase 2 is the broader scope of the term 'primary users' in the IPSAS Standards compared to IFRS Accounting Standards.

   (c) Phase 3 – Develop guidance for materiality judgments in sustainability reporting under IPSASB Sustainability Reporting Standards, subject to the finalisation of IPSASB SRS ED 1 *Climate-related Disclosures*.

7. IPSASB ED 93 was issued as part of Phase 1 of this project.

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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® Accounting Standards, IFRIC® Interpretations and IASB® papers).

Summary of proposals in IPSASB ED 93

8. IPSASB ED 93 includes the following proposals, to help reporting entities in making materiality judgements when preparing financial statements:

   (a) Clarify in the Conceptual Framework that decisions about materiality are intended to reflect the information needs of the primary users of general purpose financial reports – rather than all possible users.

   (b) Align the definition of 'material' in IPSAS 1 *Presentation of Financial Statements* and other IPSAS with the description of materiality in the IPSASB Conceptual Framework – e.g. by adding a reference to not obscuring material information, updating the wording of the materiality threshold from 'could influence' to 'could reasonably be expected to influence', and reflecting the update above regarding 'primary users'.

   Updated definition of 'material' in IPSAS 1: Information is material if omitting, misstating *or obscuring it* could *reasonably be expected* to influence the discharge of accountability by the entity, or the decisions that *primary users* make on the basis of the entity's general purpose financial statements prepared for that reporting period.

   (c) Add guidance on materiality into IPSAS 1, particularly with respect to not obscuring material information – aligned with the IASB's 2018 amendments in *Definition of Material*, which amended IAS 1 *Presentation of Financial Statements* (carried over into IFRS 18 *Presentation and Disclosure in Financial Statements*).

Summary of outreach and feedback received

9. We have published IPSASB ED 93 on our website and notified stakeholders about the ED via Accounting Alert. At the time of writing, we have not yet received formal feedback on IPSASB ED 93.

10. However, we have received informal feedback on the draft version of ED 93 from the public sector stakeholders that attend our 'pre-meeting' briefings for the New Zealand IPSASB Member, ahead of IPSASB meetings. Below is a summary of these stakeholders' feedback.

    (a) There was support for clarifying that materiality decisions reflect the need of 'primary' users, and for changing the words 'could influence' to 'could reasonably be expected to influence'. These amendments were seen as contributing to efficient and effective reporting.

    (b) There was a comment that public sector entities tend to focus on subsets of users, such as taxpayers/ratepayers and investors/bondholders (where applicable) when considering materiality, as considering the wider public is overly challenging. The ED proposals seem to reflect/support this practice.

    (c) However, some stakeholders questioned whether the proposed focus on 'primary users' would have much impact on making materiality judgements in the public sector – noting that the definition of 'primary users' in the IPSASB Conceptual Framework is broad. As such, adding the word 'primary' ahead of 'users' in the definition of materiality might not necessarily make it easier for public sector entities to make materiality judgements. We note that this comment highlights the importance of 'Phase 2' of the IPSASB's project.

11. It is also worth noting that in 2022, when we consulted on the IPSASB's proposals to add a reference to *not obscuring information* into the materiality guidance in the Conceptual Framework, we received feedback that this amendment would be useful for PBEs.

Summary of proposals in comment letter

12. Our draft comment letter in included as an attachment as part of this Agenda Item. The draft letter has been informed by feedback received from stakeholders at IPSASB briefing meetings to date, and staff preliminary views.

13. The ED does not include any specific matters for comment, so we have reviewed and commented on the proposals based only on feedback received and on matters identified during our review.

14. A summary of the matters raised in the draft comment letter is included below.

Table 1 – Summary of comment letter

Section	**Summary**
Cover letter	• Supportive of the proposed amendments to the definition of material. • Supportive of aligning the IPSAS Standards to the definition within the Conceptual Framework. • There will be significant challenges to improve the application of materiality, especially given the remaining broadness of 'primary users' in the public sector. • We don't expect Phase 1 to significantly impact the application of material and Phase 2 will be more critical to reducing over disclosure of irrelevant information and under disclosure of relevant information. • Application guidance will need to be tailored sufficiently to the public sector to ensure that challenges such as the broadness of primary users is addressed well. • Proposed some minor improvements to the amendments in Appendix A
Appendix A	• Suggest to further consider the similarities/differences and interactions between general purpose financial statements and information prepared in accordance with the IPSASB's RPG's (such as service performance information) and sustainability reporting requirements when considering materiality, and how these considerations impact the materiality requirements in the different suites of IPSASB standards/RPGs. • Include in the proposed footnote of paragraph 2.4 of the Conceptual Framework an explicit reference that 'users' does not include 'other users' noted in paragraph 2.6 of the Conceptual Framework • Noted that despite the intent of paragraph BC 46 of IPSAS 1 it is not explicitly referenced that primary users and users can be read interchangeably in the IPSAS Standards, and that they should add a footnote into IPSAS 1 similar to the proposed footnote of paragraph 2.4 of the Conceptual Framework.

Section	Summary
	• Remove superfluous wording 'prepared for that reporting entity' in paragraph 30 of IPSAS 14, to be consistent with the use of similar wording in paragraph 87 of IPSAS 19.

Open consultation

15. As the consultation is currently open on our website and does not close until 27 June, it is possible that we may receive submissions providing feedback on these proposals after this meeting. We note that comments are due to the IPASB by 14 July 2025, and the next NZASB meeting is on 12 August 2025.

16. On this basis, we propose that the Board approves the draft comment letter at this meeting (i.e. June), with any changes identified at this meeting and any other non-substantive changes to be finalised by Chair review – subject to us not receiving any substantive feedback that impacts the views provided in the draft comment letter.

17. If substantive feedback is received that impacts the views outlined in the comment letter, we will discuss with the Chair and revisit the appropriate course of action to finalise the comment letter. This may mean seeking Board approval of the updated letter via circular resolution.

Questions for the Board

Q1. Does the Board approve the draft comment letter, subject to not receiving any substantive feedback that impacts the views provided in the comment letter?

Q2. Does the Board agree that any changes to the draft comment letter raised at this meeting, and from any subsequent and non-substantive feedback during the consultation period, should be finalised through review by the Chair?

Next steps

18. If the Board agrees to this, then we will update the draft comment letter for any feedback received and will submit the letter to the IPSASB prior to 14 July 2025.

Attachments

Draft comment letter

IPSASB ED 93 *Definition of Material*

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

26 May 2025

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

Dear Ross

IPSASB Exposure Draft 93 Definition of Material

Thank you for the opportunity to comment on the Exposure Draft, *Definition of Material* (the ED). The ED has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you. Our comments have been informed by consultation with public sector practitioners.

Overall, we are supportive of the proposed amendments. The Phase 1 proposals to align the definition of materiality in IPSAS with the Conceptual Framework and to emphasise not obscuring material information is necessary to support an improved and consistent application of materiality. We support the introduction of the words 'primary' and 'reasonably be expected to influence' into the definition of material, as focusing on primary users and reasonable expectations will contribute to efficient and effective reporting.

While Phase 1 is important for consistency across IPSASB literature and includes helpful changes for preparers, we believe Phase 2 and the development of application guidance will be more critical in achieving the project’s objective, i.e. to improve the application of materiality to reduce over-disclosure of irrelevant information and under-disclosure of relevant information.

There are significant challenges in improving the application of materiality in the public sector. The broad range of users in the public sector means materiality decisions are nuanced and complex. We agree that service recipients, resource providers and their associated representatives are primary users of public sector entities’ financial statements/financial reports. However, this group covers a broad range of users with diverse information needs. While representatives of service recipients and resource providers (e.g. representatives of taxpayers/ratepayers) generally have a good understanding of public sector entities’ financial statements, it cannot be expected that all primary users do so to the same extent. In practice, a narrowing focus on users already occurs as considering the wider public is too challenging.

The Phase 1 changes may therefore have a minimal impact on public sector entities' materiality judgements, given the definition of 'primary users' in the Conceptual Framework remains broad.

Phase 2 will be crucial in addressing these challenges. Specifically, it is crucial that when the IPSASB develops application guidance based on IFRS Practice Statement 2 *Making Materiality Judgements*, the guidance should be sufficiently tailored to the public sector. Where changes are not made to the Practice Statement, it should be adequately explained why the guidance is appropriate for the public sector, considering the differences in primary users between sectors and the broadness of the user base in the public sector. It may also be helpful for the IPSASB to consider feedback and developments from the IASB's *Climate-related and Other Uncertainties in Financial Statements* project, given that the illustrative examples developed as part of that project include examples relating to the application of materiality.

In addition, we have noted several minor points in respect of the drafting of the proposed amendments within Appendix A to this letter.

If you have any queries or require clarification of any matters in the letter, please contact Alex Stainer (alex.stainer@xrb.govt.nz) or me.

Yours sincerely,

Dr Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix A

Materiality definition in different contexts

IPSAS 1 vs Conceptual Framework

1. The proposed definition of *material* in IPSAS 1 is identical to the definition of *material* included in the IPSASB Conceptual Framework, except that the Conceptual Framework refers to decisions that primary users make on the basis of the entity's 'general purpose financial reports', whereas IPSAS 1 refers to 'general purpose financial statements'.

Conceptual Framework, para 3.32 – per ED 93	IPSAS 1, para 7 – per ED 93
Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's **GPFRs** prepared for that reporting period. […]	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's **general purpose financial statements** prepared for that reporting period.

2. We consider the difference highlighted above to be intentional, highlighting different boundaries of the relevant pronouncements. IPSAS 1 relates to the preparation of general purpose *financial statements*, whereas the Conceptual Framework covers the broader general purpose *financial reports* (GPFR). These GPFR encompass information prepared in accordance with the IPSASB's Recommended Practice Guidelines (RPG) (e.g. service performance information), and may, in the future, include sustainability disclosures.

3. We recommend that this distinction, along with its rationale and implications for preparers, be clearly articulated in the Basis for Conclusions. In particular, we suggest clarifying whether preparers are expected to consider materiality in the context of the entity's full suite of GPFR (as implied by the Conceptual Framework definition of materiality), in addition to considering materiality specifically for the general purpose financial statements (as required in IPSAS 1). We consider this clarification to be important in the light of ongoing developments in sustainability reporting and the IPSASB's recent deliberations on whether to develop authoritative guidance based on RPG 1 and RPG 3.

<u>IPSAS 1 vs IPSASB SRS 1</u>

4. Additionally, we encourage the IPSASB to consider the following: IPSASB SRS ED 1 defines materiality with reference to decisions made based on the entity's GPFR, for climate-related disclosures. Moreover, the description of users of financial statements and materiality requirements in SES ED 1 appears broadly aligned with the materiality requirements in IPSAS 1 for general purpose financial statements. We encourage the IPSASB to consider the similarities and differences in the information needs of primary users and the nature of their decisions with respect to the financial statements versus climate-related disclosures. These differences may have implications on how materiality requirements are articulated in IPSAS Standards compared to the IPSASB SRS. In doing so, we note the importance of connectivity between financial and sustainability reporting, while also recognising the differences in their respective boundaries, the time horizons, and the nature of information they contain.

Proposed footnote for paragraph 2.4 in the Conceptual Framework

5. We support the addition of the footnote for paragraph 2.4 within the Conceptual Framework, the terms 'primary users' and 'users' are now intended to be read interchangeably throughout the Conceptual Framework. For completeness, the footnote should also explicitly acknowledge that 'users' do not include the 'other users' noted specifically in paragraph 2.6 of the Conceptual Framework. This helps clarify the rationale for the footnote, reflects the important discussion of users in paragraph 2.6, and underscores the necessity of including 'primary' within the definition of material.

'Primary user' and 'user' in IPSAS Standards

6. The ED clarifies that the terms 'primary users' and 'users' should be read interchangeably in the Conceptual Framework. Paragraph BC 46 of IPSAS 1 implies that these terms should also be read interchangeably throughout IPSAS Standards.

7. Paragraph BC 46 of IPSAS 1 notes that *'the IPSASB thinks that it is not necessary to make amendments to change all instances of 'users' to 'primary users' in IPSAS Standards. Part 1 of this ED clarifies that these terms are intended to be interpreted in the same way and proposes adding a footnote to paragraph 2.4 of the Conceptual Framework that states that throughout the Conceptual Framework, the terms 'primary users' and users' are both used to refer to those service recipients and their representatives and resource providers and their representatives who must rely on general purpose financial reports for much of the financial information they need'*.

8. However, it is not explicitly stated at any point in the authoritative text of IPSAS Standards or in the Conceptual Framework that these terms should be read interchangeably throughout the IPSAS Standards. The proposed footnote for the Conceptual Framework refers only to the interchangeability of the terms within the Conceptual Framework, rather than IPSAS Standards.

9. We recommend adding a footnote into the authoritative part of IPSAS 1 similar to the proposed footnote of paragraph 2.4 of the Conceptual Framework, to confirm that 'primary users' and 'users' can be interpreted in the same way, and revising paragraph BC 46 of IPSAS 1 accordingly.

Removing 'prepared for that reporting entity' from paragraph 30 of IPSAS 14

10. In paragraph 30 of the proposed amendments to IPSAS 14, the wording 'prepared for that reporting entity' is superfluous. Paragraph 87 of IPSAS 19 which uses similar wording to paragraph 30 of IPSAS 14, does not include 'prepared for that reporting entity' at the end of the paragraph. Excluding 'prepared for that reporting entity' does not change the meaning of the sentence, and for consistency and conciseness should be removed.

Exposure Draft 93
May 2025
Comments due: July 14, 2025

IPSAS®

Proposed International Public Sector Accounting Standard ®

Definition of Material (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework)

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 and sustainability reporting 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 and sustainable development.

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (IPSAS®), IPSASB Sustainability Reporting Standards™ (IPSASB SRS™) and Recommended Practice Guidelines™ (RPG™) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS Accounting Standards relate to the general purpose financial statements (financial statements) and are authoritative. IPSASB SRS Standards relate to sustainability disclosures and are authoritative. RPG Guidelines are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS Accounting Standards and IPSASB SRS Standards, RPG Guidelines do not establish requirements. IPSASB SRS Standards and RPG Guidelines do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

REQUEST FOR COMMENTS

This Exposure Draft (ED) 93, *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by July 14, 2025**.

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

IPSASB's Making Materiality Judgements Project

This project aims to address the difficulties in making materiality judgments when preparing general purposes financial reports. These difficulties can contribute to a disclosure problem, in which entities provide too much irrelevant information and not enough relevant information in their financial statements.

This project will be undertaken in three distinct phases:

- **Phase 1**—Enhance consistency of the definition of 'material' between the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (Conceptual Framework) and IPSAS Standards and clarify that decisions about materiality are intended to reflect the information needs of the primary users of financial statements.
- **Phase 2**—Develop non-authoritative guidance on making materiality judgements when preparing financial statements in accordance with IPSAS Standards.

  The IPSASB expects to adapt IFRS® Practice Statement 2 *Making Materiality Judgments*, to the public sector context. One of the public sector factors to be addressed in Phase 2 is the broader scope of the term 'primary users' in the IPSAS Standards compared to IFRS® Accounting Standards.
- **Phase 3**—Develop guidance on making materiality judgments when preparing sustainability reports in accordance with IPSASB SRS Standards, subject to the finalization and approval of IPSASB SRS ED 1, *Climate-related Disclosures*.

This ED proposes changes to the definition of material in line with the scope of Phase 1 of the project. The aim is to achieve a consistent definition of material across the Conceptual Framework and IPSAS Standards before developing non-authoritative guidance in Phase 2 to assist entities in applying this definition.

The proposals in this ED consider consistency between existing guidance in the Conceptual Framework and IPSAS Standards and do not consider responses received on the concept of materiality proposed in IPSASB SRS ED 1, *Climate-related Disclosures*.

Objective of the ED

The objective of this ED is to propose amendments to:

(a) Clarify that decisions about materiality are intended to reflect the needs of the primary users of general purpose financial reports; and

(b) Align materiality guidance across the IPSAS Standards with the Conceptual Framework.

Summary of Proposed Changes in ED 93

The amendments to the following pronouncements clarify that decisions about materiality are intended to reflect the information needs of the primary users of general purpose financial reports, introduce new guidance to help entities make materiality judgements and align the definition of material in IPSASB's literature:

(a) Chapter 2: Objectives and Users of General Purpose Financial Reporting Contents and Chapter 3: Qualitative Characteristics of the Conceptual Framework (Part 1);

(b) IPSAS 1, *Presentation of Financial Statements* (Part 2);

(c) IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (Part 3); and

Consequential amendments (Part 4) are made to:

(a) IPSAS 14, *Events After the Reporting Date*;

(b) IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;

(c) IPSAS 42, *Social Benefits*; and

(d) IPSAS 45, *Property, Plant, and Equipment*.

The final pronouncement is expected to include amendments to specific IPSAS standards, as discussed in this ED.

Guide for Respondents

The IPSASB welcomes comments on all the matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording. Comments must be submitted in English.

EXPOSURE DRAFT 93, DEFINITION OF MATERIAL (AMENDMENTS TO IPSAS 1, IPSAS 3, AND CONCEPTUAL FRAMEWORK)

CONTENTS

AMENDMENT: PART 1 – AMENDMENTS TO THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

Amendments to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Paragraphs 2.4 (footnote is added) and 3.32 are amended. New text is underlined and deleted text is struck through.

…

Chapter 2: Objectives and Users of General Purpose Financial Reporting

…

Users of General Purpose Financial Reports

…

2.4 Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives (hereafter referred to as “service recipients and resource providers”, unless identified otherwise).[1]

…

Chapter 3: Qualitative Characteristics

…

Constraints on Information Included in General Purpose Financial Reports

Materiality

…

3.32. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity’s GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

…

[1] Throughout the Conceptual Framework, the terms ‘primary users’ and ‘users’ refer to those service recipients and their representatives and resource providers and their representatives who must rely on general purpose financial reports for much of the financial information they need.

Constraints on Information Included in General Purpose Financial Reports

Materiality

…

Revision in 2025

BC3.32I In December 2024, the IPSASB decided to review the consistency of the description of materiality in the Conceptual Framework to enhance the clarity of application. The IPSASB noted that the description of materiality refers to users. This term could be interpreted broader than the scope of financial reporting, which is the information needs of primary users, as described in paragraph 1.7 of the Conceptual Framework. For consistency purposes, the IPSASB decided to clarify that the users referred to in the description of materiality are the primary users of GPFRs, as opposed to other users.

BC3.32J The revision to add ‘primary’ ahead of ‘users’ in the description of materiality in paragraph 3.32 emphasizes that the decisions about materiality are intended to reflect the information needs of primary users and not of other users. This is consistent with paragraphs 2.4 and 2.6 of the Conceptual Framework, which describes that other users may benefit from the information in GPFRs; however, these are explicitly prepared to respond to the information needs of primary users.

BC3.32K The IPSASB also added a footnote to paragraph 2.4 explaining that throughout the Conceptual Framework, the terms ‘primary users’ and ‘users’ refer to those service recipients and their representatives and resource providers and their representatives who rely on GPFRs for much of the financial information they need. The footnote avoids the need to change every single instance of the term ‘users’ to ‘primary users’ throughout the Conceptual Framework.

…

AMENDMENT: PART 2 – AMENDMENTS TO IPSAS 1, PRESENTATION OF FINANCIAL STATEMENTS

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs 7 and 13 are amended. Paragraphs 12A, 13A, and 153R are added. New text is underlined and deleted text is struck through.

…

Definitions

7. …

Material: ~~Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.~~ Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's general purpose financial statements prepared for that reporting period.

…

Materiality

12A. Materiality depends on the nature and amount of the item judged in the particular circumstances of each entity. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

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

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

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

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

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

13. Assessing whether information ~~an omission or misstatement~~ could reasonably be expected to influence the discharge of accountability by the entity, or decisions ~~of~~ made by primary users of a specific reporting entity's general purpose financial statements~~, and so be material,~~ requires an entity to consider ~~consideration of~~ the characteristics of those users while also considering the entity's own circumstances. ~~Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting, and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.~~

13A. Many existing and potential service recipients and their representatives and resource providers and their representatives cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of public sector programs and operations and who review and analyze the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

…

Effective Date and Transition

Effective Date

…

153R. **Paragraphs 7 and 13 are amended and paragraphs 12A and 13A are added by [Draft] *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework), issued in [Month] [Year]. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 1.

…

Revision of IPSAS 1 as a result of ED 93, Definition of Material (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) issued in [Month and Year]

BC40. In December 2024, the IPSASB decided that the definition of material in IPSAS 1 should be reviewed for consistency with the Conceptual Framework. The IPSASB noted that the description of materiality in the Conceptual Framework differed from the definition of material in IPSAS 1.

BC41. The IPSASB noted that the differences between the description of materiality in the Conceptual Framework and the definition of material in IPSAS 1 could imply that the IPSASB intended these to have different meanings and be applied differently in practice. The IPSASB discussed that the description of materiality was revised with the update of the Conceptual Framework in 2023, specifically: obscuring information was added as a materiality factor, and the materiality threshold was softened. The IPSASB agreed the updates to the Conceptual Framework should be reflected throughout IPSAS Standards.

BC42. The IPSASB also reviewed the revisions to IAS 1, *Presentation of Financial Statements*, included in *Definition of Material* (Amendments to IAS 1 and IAS 8) issued by the IASB in October 2018, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions. The IPSASB supported the alignment of the definition of material in IPSAS 1 with the IASB's definition but noted that users of GPFRs in the public sector use these both for the discharge of accountability and decision-making purposes. To reflect this difference in the public sector, the definition of material in IPSAS 1, consistent with the Conceptual Framework, includes the term discharge of accountability.

Proposed amendments to the definition of material

BC43. The IPSASB proposes aligning the definition of material in IPSAS 1 with the description of materiality in the Conceptual Framework. The IPSASB discussed that this is appropriate, as the Conceptual Framework establishes the concepts to be applied in developing IPSAS Standards. Such proposed amendments include:

(a) Add obscuring information as an additional materiality factor because the inclusion of immaterial disclosures can have a negative impact on primary users, rather than just being unnecessary;

(b) Soften the materiality threshold from 'could influence' to 'could reasonably be expected to influence' because it imposes a more realistic expectation on preparers' assessment of materiality, as almost anything 'could' influence the decision of primary users;

(c) Add 'discharge of accountability' because the provision of information in GPFSs should enable primary users to hold the entity accountable for the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations; and

(d) Add 'primary' ahead of users because it emphasizes that the decisions about materiality are intended to reflect primary users' information needs and not all users.

BC44. Additionally, aligning the definition of material with the Conceptual Framework will:

(a) Ensure consistent application of materiality by entities when making materiality judgements in the preparation of financial statements in accordance with IPSAS Standards; and

(b) Align the definition of material with IAS 1 Presentation of Financial Statements, consistent with the IASB's Definition of Material (Amendments to IAS 1 and IAS 8) issued by the IASB in October 2018.

Proposed amendment to the clarification accompanying the definition of material

BC45. The IPSASB reviewed the revisions to IAS 1 *Presentation of Financial Statements*, included in *Definition of Material* (Amendments to IAS 1 and IAS 8) issued by the IASB in October 2018, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments to the clarification accompanying the definition of material.

Proposed amendments to other IPSAS Standards

BC46. The IPSASB thinks that it is not necessary to make amendments to change all instances of 'users' to 'primary users' in IPSAS Standards. Part 1 of this ED clarifies that these terms are intended to be interpreted in the same way and proposes adding a footnote to paragraph 2.4 of the Conceptual Framework that states that throughout the Conceptual Framework, the terms 'primary users' and 'users' are both used to refer to those service recipients and their representatives and resource providers and their representatives who must rely on general purpose financial reports for much of the financial information they need.

BC47. The proposed amendments to the definition of material in IPSAS 1 are not considered to be substantive. Rather, these align the definition of material in IPSAS 1 with the Conceptual Framework. Therefore, the IPSASB only proposes amendments to IPSAS where the definition of material is quoted.

AMENDMENT: PART 3 – AMENDMENTS TO IPSAS 3, ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

Amendments to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph 7 is amended, paragraph 8 and its subheading are deleted, and paragraph 59I is added. New text is underlined and deleted text is struck through.

…

Definitions

…

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

…

<u>**The term Material is defined in IPSAS 1 and is used in this Standard with the same meaning as in IPSAS 1.**</u>

~~**Materiality**~~ [Deleted]

8. ~~Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.~~ [Deleted]

…

Effective Date

…

59I <u>**Paragraph 7 was amended, and paragraph 8 and its subheading were deleted by [draft] ED 93, *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework), issued in [Month] [Year]. An entity shall apply this amendment prospectively for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted.**</u>

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 3.

…

<u>**Revision of IPSAS 3 as a result of [Draft] ED 93, Definition of Material (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) issued in [Month and Year]**</u>

BC22. <u>The IPSASB proposes to delete the description of materiality from IPSAS 3 because IPSAS 1, *Presentation of Financial Statements* includes the revised definition of material and clarification guidance on this definition proposed in ED 93, *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework). The IPSASB decided to add an explicit cross-reference from IPSAS 3 to IPSAS 1 on the definition of material.</u>

AMENDMENT: PART 4 – AMENDMENTS TO OTHER IPSAS STANDARDS

Amendments to IPSAS 14, *Events after the Reporting Date*

Paragraphs 5 and 30 are amended, and paragraph 32H is added. New text is underlined and deleted text is struck through.

…

Definitions

…

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

…

<u>The term Material is defined in IPSAS 1, Presentation of Financial Statements and is used in this Standard with the same meaning as in IPSAS 1.</u>

…

Disclosure

…

Disclosure of Non-adjusting Events after the Reporting Date

30. **If non-adjusting events after the reporting date are material, non-disclosure could <u>reasonably be expected to</u> influence <u>the discharge of accountability by the entity, or</u> ~~the economic~~ decisions ~~of~~ <u>that the primary</u> users <u>of general purpose financial statements</u> ~~taken~~ <u>make</u> on the basis of the <u>entity's general purpose</u> financial statements <u>prepared for that reporting entity</u>. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting date:**

(a) The nature of the event; and

(b) An estimate of its financial effect, or a statement that such an estimate cannot be made.

…

Effective Date

32H. **<u>Paragraphs 5 and 30 were amended by [draft] ED 93, *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework), issued in [Month] [Year]. An entity shall apply this amendment prospectively for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies this amendment for an earlier period, it shall disclose that fact. An entity shall apply this amendment when it applies the amendments to the definition of material in paragraph 7 of IPSAS 1.</u>**

…

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 18, 87, and AG18 are amended, and paragraph 111Q is added. New text is underlined and deleted text is struck through.

…

Definitions

…

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

…

The term Material is defined in IPSAS 1, *Presentation of Financial Statements* and is used in this Standard with the same meaning as in IPSAS 1.

…

Application of the Recognition and Measurement Rules

…

Restructuring

…

87. A decision by management or the governing body to restructure, taken before the reporting date, does not give rise to a constructive obligation at the reporting date unless the entity has, before the reporting date:

(a) Started to implement the restructuring plan; or

(b) Announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting date, disclosure may be required under IPSAS 14, Events after the Reporting Date, if the restructuring is material and non-disclosure could reasonably be expected to influence the discharge of accountability by the entity, or ~~the economic~~ decisions ~~of~~ that the primary users of general purpose financial statements make on the basis of the entity's general purpose ~~taken on the~~ financial statements.

…

Effective Date

111Q. **Paragraphs 18 and 87 were amended by [draft] ED 93, *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework), issued in [Month] [Year]. An entity shall apply this amendment prospectively for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies this amendment for an earlier period, it shall disclose that fact. An entity shall apply this amendment when it applies the amendments to the definition of material in paragraph 7 of IPSAS 1.**

…

Application Guidance

…

Collective and Individual Services

…

Presentation and Disclosures of Collective and Individual Services

AG18. An entity shall present and disclose information about collective services and individual services in accordance with other IPSAS, including IPSAS 1, ~~*Presentation of Financial Statements,*~~ IPSAS 2, *Cash Flow Statements,* and IPSAS 18, *Segment Reporting*.

…

Amendments to IPSAS 42, *Social Benefits*

Paragraph IG5 is amended. New text is underlined, and deleted text is struck through.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 42.

…

Recognition and Measurement of Liabilities and Expenses in IPSAS 42

…

IG5. In considering the liability to be recognized as at the reporting date, entities may find it helpful to refer to the discussion of materiality in IPSAS 1, *Presentation of Financial Statements* ~~IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*~~.

…

Amendments to IPSAS 45, *Property, Plant, and Equipment*

Paragraphs IG12(a) and IG12(c) are amended. New text is underlined, and deleted text is struck through.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 45.

…

Capitalization Threshold for Costs

What factors should be considered when choosing a capitalization threshold?

…

IG12. Factors to consider when setting capitalization thresholds include:

(a) **Meeting the information needs of primary users:** Capitalization thresholds should result in reported information that meets the needs of external primary users of the financial statements. Capitalization thresholds should result in reported amounts for recognized assets that achieve the qualitative characteristics, including relevance and representational faithfulness.

...

(c) **Cost-benefit:** When capitalization thresholds are set at appropriate levels, they reduce the cost of tracking large numbers of small-value items, while still conferring the benefits of meeting primary users' needs and capturing material values. If a capitalization threshold is set too low, this could create significant additional costs – in the form of work for staff – without any benefit.

…

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529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 **F** +1 (212) 286-9570
www.ipsasb.org