

PUBLIC BENEFIT ENTITY STANDARDS
IMPACT ASSESSMENT FOR PUBLIC SECTOR PBEs

Prepared June 2012

Issued November 2013

This document contains assessments of the impact for **public sector** PBEs of transitioning from full NZ IFRS (as applied by PBEs for annual periods beginning on or after 1 July 2011) and the PBE Standards for public sector PBEs proposed in the exposure draft for those standards issued in June 2012.

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ISBN 978-1-927238-92-9

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Introduction

The impact assessments in this document formed part of the Invitation to Comment that accompanied the *Exposure Draft PBE Standards for Public Sector PBEs (ED PBE Standards)* issued in June 2012. The impact assessments have been made available in this document, as they may continue to be of interest during the period of initial application of PBE Standards.

Readers should note the following important points:

- The impact assessments were based on the differences between full NZ IFRS, as applied by PBEs for annual periods beginning on or after 1 July 2011, and the proposed PBE Standards for public sector PBEs as contained in the ED. Since then changes to the PBE Standards (compared to the ED) have occurred:
 - Key changes to the proposals set out in the June 2012 ED were noted in the *Feedback Statement On Exposure Draft Submissions On Public Benefit Entity Standards (PBE Standards) for Public Sector PBEs* (May 2013).
 - Proposed NFP enhancements to the PBE Standards for Public Sector PBEs (as issued in May 2013) are shown as marked up text in the ED NZASB 2013-5 *Enhancements to the PBE Standards for Not-For-Profit Entities*.
- The impact of adopting PBE Standards may be more significant where an entity has previously applied differential reporting recognition and measurement concessions.
- The exact impact of moving from existing standards to PBE Standards and PBE Standards RDR will differ from entity to entity. Each entity will need to assess the impact of the requirements in PBE Standards on the entity.
- The impact assessments are for information purposes only and do not form part of the standards.

PBE Standards		Expected impact (as at June 2012)
PBE Framework	<i>Public Benefit Entities' Framework</i>	none
PBE IPSAS 1	<i>Presentation of Financial Statements</i>	relatively small
PBE IPSAS 2	<i>Cash Flow Statements</i>	minimal
PBE IPSAS 3	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	minimal
PBE IPSAS 4	<i>The Effects of Changes in Foreign Exchange Rates</i>	relatively small
PBE IPSAS 5	<i>Borrowing Costs</i>	minimal
PBE IPSAS 6	<i>Consolidated and Separate Financial Statements</i>	relatively small
PBE IPSAS 7	<i>Investments in Associates</i>	relatively small
PBE IPSAS 8	<i>Interests in Joint Ventures</i>	relatively small
PBE IPSAS 9	<i>Revenue from Exchange Transactions</i>	relatively small
PBE IPSAS 10	<i>Financial Reporting in Hyperinflationary Economies</i>	minimal
PBE IPSAS 11	<i>Construction Contracts</i>	minimal
PBE IPSAS 12	<i>Inventories</i>	minimal
PBE IPSAS 13	<i>Leases</i>	minimal
PBE IPSAS 14	<i>Events after the Reporting Date</i>	minimal
PBE IPSAS 16	<i>Investment Property</i>	relatively small
PBE IPSAS 17	<i>Property, Plant and Equipment</i>	relatively small
PBE IPSAS 19	<i>Provisions, Contingent Liabilities and Contingent Assets</i>	minimal
PBE IPSAS 20	<i>Related Party Disclosures</i>	relatively small
PBE IPSAS 21	<i>Impairment of Non-Cash-Generating Assets</i>	minimal
PBE IPSAS 22	<i>Disclosure of Information About the General Government Sector</i>	minimal
PBE IPSAS 23	<i>Revenue from Non-Exchange Transactions</i>	significant
PBE IPSAS 25	<i>Employee Benefits</i>	minimal
PBE IPSAS 26	<i>Impairment of Cash-Generating Assets</i>	relatively small
PBE IPSAS 27	<i>Agriculture</i>	relatively small
PBE IPSAS 28	<i>Financial Instruments: Presentation</i>	minimal
PBE IPSAS 29	<i>Financial Instruments: Recognition and Measurement</i>	minimal
PBE IPSAS 30	<i>Financial Instruments: Disclosures</i>	minimal
PBE IPSAS 31	<i>Intangible Assets</i>	minimal
PBE IPSAS 32	<i>Service Concession Arrangements: Grantor</i>	significant
PBE IFRS 3	<i>Business Combinations</i>	minimal
PBE IFRS 4	<i>Insurance Contracts</i>	minimal
PBE IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>	minimal
PBE IAS 12	<i>Income Taxes</i>	minimal
PBE IAS 34	<i>Interim Financial Reporting</i>	minimal

PBE Standards		Expected impact (as at June 2012)
PBE FRS 42	<i>Prospective Financial Statements</i>	minimal
PBE FRS 43	<i>Summary Financial Statements</i>	minimal
PBE FRS 45	<i>Service Concession Arrangements: Operator</i>	minimal
PBE FRS 46	<i>First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs</i>	
PBE FRS 47	<i>First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs</i>	

Impact of adopting the Public Benefit Entities' *Framework* (PBE *Framework*)

Comparison of the PBE *Framework* with the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2010): Part B – Public Benefit Entities Only (NZ *Framework: Part B*)

There are no substantive differences between the PBE *Framework* and the NZ *Framework: Part B*.

The PBE *Framework* is a transitional framework that has been developed pending the development and issuance of a conceptual framework for public benefit entities by the International Public Sector Accounting Standards Board (IPSASB). Changes to the text of the NZ *Framework: Part B* have therefore been limited to those that are regarded as essential in this context (for example, changes have been made to reflect the service nature of public benefit entities). In contrast to PBE Standards, the PBE *Framework* continues to use the terminology adopted in the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRSs) to describe the financial statements and other elements. For example, the PBE *Framework* still uses the term “income” whereas the equivalent term in PBE Standards is “revenue”. The PBE *Framework* acknowledges this difference and explains the reasons for this approach in the Basis for Conclusions.

The PBE *Framework* reflects the new standard-setting arrangements in New Zealand. It therefore refers to the current standard setting bodies and relevant pronouncements, including the proposed PBE Standards.

As with the NZ *Framework: Part B*, the PBE *Framework* does not override any financial reporting requirements in PBE Standards.

Impact of difference(s)

The NZASB has not identified any significant impact on PBEs from the adoption of the PBE *Framework*.

Impact of adopting PBE IPSAS 1 *Presentation of Financial Statements*

Comparison of PBE IPSAS 1 with NZ IAS 1 *Presentation of Financial Statements*

The substantive differences between PBE IPSAS 1 and NZ IAS 1 (effective 1 July 2011) are:

- PBE IPSAS 1 requires the presentation of a statement of financial performance whereas NZ IAS 1 requires the preparation of a statement of comprehensive income. Under NZ IAS 1, the statement of comprehensive income may be presented in either one statement (in two sections) or in two separate statements: an income statement and a statement of comprehensive income. PBE IPSAS 1 requires the presentation of a statement of financial performance (equivalent to the NZ IAS 1 income statement) and a statement of changes in net assets/equity (that includes the other comprehensive income items of the NZ IAS 1 statement of comprehensive income).
- PBE IPSAS 1 includes the following New Zealand specific disclosures similar to those that were originally included in NZ IAS 1 (issued 2004) but which more recently were included in FRS-44 New Zealand Additional Disclosures. The New Zealand specific disclosures relate to:
 - (a) the statutory base under which the financial statements were prepared;
 - (b) whether the financial statements were prepared in accordance with Tier 1 or Tier 2 PBE Standards, and in the case of Tier 2 entities, the criteria that establish the entity as eligible to report in accordance with Tier 2 PBE Standards;
 - (c) fees paid to auditors and the types of services for which those fees were paid; and
 - (d) presentation requirements for statements of service performance, where such statements are presented.
- PBE IPSAS 1 includes non-integral implementation guidance, based on Technical Practice Aid 9 *Service Performance Reporting*.
- PBE IPSAS 1 does not include Appendix A of NZ IAS 1 *New Zealand Application Guidance: When is an entity a public benefit entity?* This Application Guidance is now included in draft Standard XRB A1 *Accounting Standards Framework*.

Impact of difference(s)

Entities that are currently required to present certain items in the statement of comprehensive income would now be required to present those items in the statement of changes in net assets/equity. For example, a PBE currently accounting for revaluations on a class of asset basis, as permitted by NZ IAS 16 *Property, Plant and Equipment*, would recognise a net revaluation increase in other comprehensive income and accumulate it in equity under the heading of revaluation surplus. A PBE accounting for revaluations on a class of asset basis in accordance with the proposed PBE IPSAS 17 *Property, Plant and Equipment* would recognise the increase directly in net assets/equity and present it in the statement of changes in net assets/equity.

The inclusion in PBE IPSAS 1 of the New Zealand specific disclosures will have no impact on an entity that previously applied NZ IFRSs.

The inclusion of non-integral guidance on service performance reporting is not expected to impact on current practice, nor is it expected to constrain ongoing developments in service performance reporting.

Impact of adopting PBE IPSAS 2 Cash Flow Statements

Comparison of PBE IPSAS 2 with NZ IAS 7 Statement of Cash Flows

The substantive differences between PBE IPSAS 2 and NZ IAS 7 (effective 1 July 2011) are:

- PBE IPSAS 2 requires an entity reporting cash flows from operating activities using the direct method to present a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities. Although this reconciliation is not currently required by NZ IAS 7, it is required by FRS-44 *New Zealand Additional Disclosures*. The reconciliation requirement in PBE IPSAS 2 is based on the requirements in FRS-44.
- All entities applying PBE Standards will be required to present a cash flow statement. Previously entities that qualified for differential reporting concessions were not required to do so.

Impact of difference(s)

As the requirement in PBE IPSAS 2 to prepare the reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities is currently required by FRS-44, it will have no impact on an entity that previously applied NZ IFRSs.

Any entity applying PBE IPSAS 2 that previously took advantage of the differential reporting concession not to present a statement of cash flows will now be required to do so.

Impact of adopting PBE IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors

Comparison of PBE IPSAS 3 with NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

There are no substantive differences between PBE IPSAS 3 and NZ IAS 8 (effective 1 July 2011).

Impact of difference(s)

The NZASB has not identified any significant impact on an entity from the adoption of PBE IPSAS 3.

Impact of adopting PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Comparison of PBE IPSAS 4 with NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*

The substantive difference between PBE IPSAS 4 and NZ IAS 21 (effective 1 July 2011) is that PBE IPSAS 4 has no corresponding requirements to the following requirements in NZ IAS 21:

- NZ IAS 21 requires the disposal of part of a foreign operation to be accounted for as a disposal if there is loss of control of a subsidiary that includes a foreign operation, loss of significant influence of an associate that includes a foreign operation, or loss of joint control of a jointly controlled entity that includes a foreign operation;
- NZ IAS 21 requires, on the disposal of a foreign operation, the cumulative amount of the exchange differences relating to a foreign operation that have been attributed to the minority interest to be derecognised, but not reclassified to profit or loss; and
- NZ IAS 21 requires, if there is a partial disposal of a controlled entity that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to be re-attributed to the minority interest in that foreign operation.

Impact of difference(s)

The absence of requirements in PBE IPSAS 4 on partial disposals may result in some entities accounting for the partial disposals of foreign operations differently than under NZ IAS 21. Although this difference may have a significant impact on some entities, the NZASB considers that this is unlikely to have a significant impact on the PBE sector as a whole.

Impact of adopting PBE IPSAS 5 *Borrowing Costs*

Comparison of PBE IPSAS 5 with NZ IAS 23 *Borrowing Costs*

There are no substantive differences between PBE IPSAS 5 and NZ IAS 23 as applicable to PBEs (effective 1 July 2009):

- Both standards permit an entity to capitalise borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset.
- The scope of NZ IAS 23 explicitly excludes qualifying assets measured at fair value, for example, a biological asset and inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis. PBE IPSAS 5 is silent as to the treatment of qualifying assets measured at fair value.

Impact of difference(s)

The NZASB does not expect there to be a significant impact on an entity from the adoption of PBE IPSAS 5.

Impact of adopting PBE IPSAS 6 Consolidated and Separate Financial Statements

Comparison of PBE IPSAS 6 with NZ IAS 27 Consolidated and Separate Financial Statements

The substantive differences between PBE IPSAS 6 and NZ IAS 27 (effective 1 July 2011) are:

- NZ IAS 27 establishes the accounting requirements for a parent entity when it loses control of a subsidiary. PBE IPSAS 6 contains less guidance than NZ IAS 27 on accounting for the loss of control of a controlled entity.
- From the date an entity ceases to be a controlled entity and provided the entity does not become an associate or a jointly controlled entity, PBE IPSAS 6 requires the carrying amount of any remaining investment to be regarded as the cost on initial measurement of a financial instrument. NZ IAS 27 requires that any investment retained in the former subsidiary be measured at fair value. This fair value is regarded as the fair value on initial recognition of a financial asset in accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement*.
- Where an investor prepares separate financial statements, PBE IPSAS 6 permits investments in controlled entities, jointly controlled entities and associates to be accounted for at cost, using the equity method or as a financial instrument in accordance with PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. NZ IAS 27 requires these investments to be accounted for at cost or in accordance with NZ IAS 39.
- PBE IPSAS 6 requires losses applicable to the minority interest that exceed the minority interest in the controlled entity to be allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. NZ IAS 27 requires profit or loss and other comprehensive income attributable to the non-controlling interest to be attributed to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance.
- NZ IAS 27 refers explicitly to NZ SIC-12 *Consolidation—Special Purpose Entities* for additional guidance on determining whether an entity controls a special purpose entity. NZ SIC-12 has not been incorporated into PBE IPSAS 6 but the Application Guidance which forms an integral part of PBE IPSAS 6 includes similar guidance to that in NZ SIC-12.
- NZ IAS 27 establishes the accounting requirements in the separate financial statements of a new parent entity which is established as a result of specified reorganisations of a group. PBE IPSAS 6 is silent on this matter.

Impact of difference(s)

As a consequence of the differences between PBE IPSAS 6 and NZ IAS 27:

- (a) the gain or loss on the loss of control of a controlled entity may be measured differently;
- (b) the measurement on initial recognition as a financial asset of any investment retained in the controlled entity when control is lost may be different;
- (c) investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of an investor may be measured differently;
- (d) losses attributable to the minority interest which exceed the minority interest would not necessarily result in the minority interest having a deficit balance;
- (e) the composition of a group is unlikely to be different under PBE IPSAS 6 because the integral Application Guidance, which is drawn from FRS-37 *Consolidating Investments in Subsidiaries*, is consistent with the guidance on determining whether an entity controls a special purpose entity; and
- (f) a new parent entity that is established as a result of the reorganisation of a group would need to determine the accounting treatment in its separate financial statements.

Impact of adopting PBE IPSAS 7 *Investments in Associates*

Comparison of PBE IPSAS 7 with NZ IAS 28 *Investments in Associates*

The substantive differences between PBE IPSAS 7 and NZ IAS 28 (effective 1 July 2011) are:

- The scope of PBE IPSAS 7 is narrower than the scope of NZ IAS 28. PBE IPSAS 7 applies to all investments in associates where the investor holds an ownership interest in the form of a shareholding or other formal equity structure. NZ IAS 28 applies to all investments in associates regardless of the basis of the significant influence.
- NZ IAS 28 establishes the accounting requirements for an investor when it loses significant influence of an associate. PBE IPSAS 7 contains less guidance than NZ IAS 28 on accounting for the loss of significant influence of an associate.
- Where there is a loss of significant influence, PBE IPSAS 7 requires an investor to use the carrying amount of the investment retained in the former associate as the cost on initial recognition of a financial asset in accordance with PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. NZ IAS 28 requires an investor to measure at fair value any investment the investor retains in the former associate and this is regarded as the fair value of a financial asset on its initial recognition in accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement*.

Impact of difference(s)

As a consequence of the differences between PBE IPSAS 7 and NZ IAS 28:

- (a) some investments in associates that are within the scope of NZ IAS 28 may not be within the scope of PBE IPSAS 7 and would, therefore, not be equity accounted;
- (b) the gain or loss on the loss of significant influence of an associate may be measured differently; and
- (c) the measurement on initial recognition as a financial asset of any investment retained in an associate when significant influence is lost may be different.

Impact of adopting PBE IPSAS 8 *Interests in Joint Ventures*

Comparison of PBE IPSAS 8 with NZ IAS 31 *Interests in Joint Ventures*

The substantive differences between PBE IPSAS 8 and NZ IAS 31 (effective 1 July 2009) are:

- NZ IAS 31 establishes the accounting requirements for a venturer when it loses joint control of a joint venture. PBE IPSAS 8 contains less guidance than NZ IAS 31 on accounting for the loss of joint control of a joint venture.
- PBE IPSAS 8 is silent regarding the accounting for an interest in a previously jointly controlled entity that becomes neither a controlled entity or an investment in an associate. NZ IAS 31 requires such an investment to be accounted for in accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement*. The fair value of the investment when it ceases to be a jointly controlled entity is regarded as its fair value on initial recognition in accordance with NZ IAS 39.

Impact of difference(s)

As a consequence of the differences between PBE IPSAS 8 and NZ IAS 31:

- (a) the gain or loss on the loss of joint control of a joint venture may be measured differently; and
- (b) the initial measurement of an investment in a previously jointly controlled entity could be different. The impact of this difference will depend on the significance of investments in previously jointly controlled entities that become investments rather than controlled entities or investments in associates.

Impact of adopting PBE IPSAS 9 Revenue from Exchange Transactions

Comparison of PBE IPSAS 9 with NZ IAS 18 Revenue

The substantive differences between PBE IPSAS 9 and NZ IAS 18 (1 January 2009) are:

- PBE IPSAS 9 requires dividends or similar distributions on equity securities to be deducted from the cost of the securities if they are declared from pre-acquisition net surplus. NZ IAS 18 requires dividends to be recognised as revenue when the right to receive the dividend is established. It does not differentiate between dividends from pre-acquisition and post-acquisition surplus. Any impairment of the investment in a subsidiary as a result of a dividend from pre-acquisition surplus is considered following recognition of the dividend.
- The definition of revenue in PBE IPSAS 9 encompasses gains. It is therefore broader than the definition of that term in NZ IAS 18 and is equivalent to the term “income” in NZ IFRSs.
- There are a number of interpretations within NZ IFRSs that are associated with NZ IAS 18. Some, but not all of the guidance in these interpretations have been incorporated in PBE IPSAS 9. The following interpretations have not been incorporated in PBE IPSAS 9:
 - (a) recognition of revenue arising from an exchange of dissimilar advertising services (NZ SIC-31 *Revenue—Barter Transactions Involving Advertising Services*);
 - (b) accounting for revenue arising from customer loyalty programmes (NZ IFRIC 13 *Customer Loyalty Programmes*);
 - (c) accounting for agreements for the construction of real estate (NZ IFRIC 15 *Agreements for the Construction of Real Estate*); and
 - (d) accounting for transfers of assets from customers (NZ IFRIC 18 *Transfers of Assets from Customers*).
- Both NZ IAS 18 and PBE IPSAS 9 include specific conditions that must be met for revenue to be recognised from the sale of goods, including that the costs incurred in respect of the transaction can be measured reliably. NZ IAS 18 contains additional guidance on this condition, which is not included in PBE IPSAS 9.

Impact of difference(s)

The absence of requirements in PBE IPSAS 9 on the transactions and events covered by NZ SIC-31, NZ IFRIC 13, NZ IFRIC 15 and NZ IFRIC 18, may result in some entities accounting differently for these transactions and events than under NZ IFRSs. Although this may have a significant impact on some entities, the NZASB considers it is unlikely to have a significant impact on public sector PBEs as a whole.

Impact of adopting PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*

Comparison of PBE IPSAS 10 with NZ IAS 29 *Financial Reporting in Hyperinflationary Economies*

The substantive differences between PBE IPSAS 10 and NZ IAS 29 (effective 1 January 2009) are:

- PBE IPSAS 10 does not contain the following requirements or guidance found in NZ IAS 29:
 - (a) clarification of the application of the restatement approach to current cost financial statements;
 - (b) a requirement that any differences between the carrying amount and the tax base of assets and liabilities, as a result of restatement of financial statements, be accounted for in accordance with NZ IAS 12 *Income Taxes*;
 - (c) a requirement for disclosure of whether the financial statements are based on a historical cost approach or a current cost approach; and
 - (d) clarification of the application of the restatement approach to financial statements in a hyperinflationary economy, including the application to deferred tax.
- PBE IPSAS 10 requires an entity that includes budgetary information in its financial statements to restate that information in accordance with the Standard.

Impact of difference(s)

The NZASB considers that the impact of the differences between PBE IPSAS 10 and NZ IAS 29 on an entity is unlikely to be significant. Relatively few PBEs are likely to have controlled entities whose functional currency is the currency of a hyperinflationary economy.

Impact of adopting PBE IPSAS 11 *Construction Contracts*

Comparison of PBE IPSAS 11 with NZ IAS 11 *Construction Contracts*

The substantive difference between PBE IPSAS 11 and NZ IAS 11 (effective 1 January 2009) is:

- The guidance in NZ IFRIC 15 *Agreements for the Construction of Real Estate*, which refers to the equivalent NZ IAS 11 *Construction Contracts*, is not included in PBE IPSAS 11. NZ IFRIC 15 explains that determining whether an agreement for the construction of real estate is within the scope of NZ IAS 11 or NZ IAS 18 *Revenue* depends on judgement, the terms of the agreement and all the surrounding facts and circumstances.

Impact of difference(s)

The absence of the guidance in NZ IFRIC 15 may result in some entities accounting differently for agreements for the construction of real estate than under NZ IFRSs. Although this may have a significant impact on some entities, the NZASB considers it is unlikely to have a significant impact on public sector PBEs as a whole.

Impact of adopting PBE IPSAS 12 Inventories

Comparison of PBE IPSAS 12 with NZ IAS 2 Inventories

The substantive difference between PBE IPSAS 12 and NZ IAS 2 (effective 1 January 2009) is that PBE IPSAS 12 specifies that the cost of inventories acquired through a non-exchange transaction shall be measured at their fair value as at the date of acquisition. NZ IAS 2 specifies that, in the case of inventories acquired at no cost or for nominal consideration, cost shall be the current replacement cost as at the date of acquisition.

Impact of difference(s)

The NZASB has not identified any significant impact from the adoption of PBE IPSAS 12 as the measurement of cost of inventories acquired through a non-exchange transaction at fair value at the date of acquisition is unlikely to be materially different from the current replacement cost of those inventories at that date.

Impact of adopting PBE IPSAS 13 Leases

Comparison of PBE IPSAS 13 with NZ IAS 17 Leases and relevant Interpretations

There are no substantive differences between PBE IPSAS 13 and NZ IAS 17 (effective 1 July 2010) when the Standards are considered in conjunction with the relevant interpretations that form part of NZ IFRSs.

In conjunction with the relevant interpretations, NZ IAS 17:

- establishes requirements for the recognition of operating lease incentives in the financial statements of both lessees and lessors (NZ SIC-15 *Operating Leases—Incentives*);
- establishes requirements for the recognition and disclosure of a series of transactions that involve the legal form of a lease, where the overall economic effect cannot be understood without reference to the series of transactions as a whole (NZ SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*); and
- provides guidance for determining whether an arrangement is, or contains, a lease that should be accounted for in accordance with NZ IAS 17 (NZ IFRIC 4 *Determining whether an Arrangement contains a Lease*).

These Interpretations have been incorporated into PBE IPSAS 13 as integral guidance to ensure that they continue to be applied.

PBE IPSAS 13:

- clarifies that a lease may be one element in a broader set of arrangements with private sector entities to construct, own, operate and/or transfer assets, and if an arrangement contains an identifiable operating lease or finance lease as defined in the standard, the provisions of the standard are applied in accounting for the lease component of the arrangement; and
- clarifies that the incremental borrowing rate of interest must reflect the existence of any government guarantee and related fees, thereby leading to use of a lower incremental borrowing rate.

Impact of difference(s)

The NZASB does not expect a significant impact on an entity from the adoption of PBE IPSAS 13 as the relevant interpretations have been included as integral appendices to PBE IPSAS 13; and the clarifications noted above are not expected to have a significant impact.

Impact of adopting PBE IPSAS 14 *Events after the Reporting Date*

Comparison of PBE IPSAS 14 with NZ IAS 10 *Events after the Reporting Period*

There are no substantive differences between the requirements of PBE IPSAS 14 and NZ IAS 10 (effective 1 July 2009).

Impact of difference(s)

The NZASB does not expect a significant impact on PBEs from the adoption of PBE IPSAS 14.

Impact of adopting PBE IPSAS 16 *Investment Property*

Comparison of PBE IPSAS 16 with NZ IAS 40 *Investment Property*

The substantive difference between PBE IPSAS 16 and NZ IAS 40 (as amended in 2011) is that PBE IPSAS 16 requires valuations of investment property to be undertaken (or reviewed) by an independent valuer and disclosures about those independent valuers.

Impact of difference(s)

Revaluations of investment property are required to be undertaken (or reviewed) by an independent valuer and the following additional disclosures are required in respect of each valuer:

- (a) the name of the valuer;
- (b) the total fair value of the property valued by that valuer, and
- (c) the date(s) of such valuations.

Many entities will previously have complied with these valuation and disclosure requirements as they were previously requirements in NZ IAS 40. These valuation and disclosure requirements were removed from NZ IAS 40 in April 2011 as a result of the *Harmonisation Amendments*.

Impact of adopting PBE IPSAS 17 Property, Plant and Equipment

Comparison of PBE IPSAS 17 with NZ IAS 16 Property, Plant and Equipment

The substantive differences between PBE IPSAS 17 and NZ IAS 16 (as amended in 2011) are:

Estimation of fair value

Both PBE IPSAS 17 and NZ IAS 16:

- (a) require that property, plant and equipment be recognised initially at cost and subsequently using either the cost model or the revaluation model. Under the revaluation model, where the fair value of the asset can be measured reliably, the asset is measured at fair value; and
- (b) permit the estimation of fair value only when there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment. In the case of NZ IAS 16, there is an additional criterion: the item must be rarely sold.

PBE IPSAS 17 contains integral guidance on the use of depreciated replacement cost (DRC) in estimating the fair value of property, plant and equipment. This guidance is similar to that in NZ IAS 16 but it has been revised to reflect recent guidance from the valuation profession.

Independent valuations of property, plant and equipment

When NZ IAS 16 was first issued in 2004, it required that valuations of property, plant and equipment be undertaken (or reviewed) by an independent valuer and it also required disclosures about those valuers. As part of the *Harmonisation Amendments*, approved in April 2011, the requirement for valuations of property, plant and equipment to be undertaken (or reviewed) by an independent valuer, and the related disclosures, were removed. PBE IPSAS 17 requires that valuations of property, plant and equipment be undertaken (or reviewed) by an independent valuer and requires the associated disclosures unless an active market for the asset exists.

Heritage assets disclosure

A PBE may have heritage assets that do not meet the recognition criteria for assets and are therefore not recognised in the financial statements. PBE IPSAS 17 requires a description of any unrecognised heritage assets, together with an estimate of the value of such assets. NZ IAS 16 does not specify any requirements in respect of unrecognised heritage assets.

Current differential reporting concessions

NZ IAS 16 contains a differential reporting concession which permits qualifying entities to adopt the same rates of depreciation for financial reporting as for income tax purposes except when assets have been revalued in accordance with the revaluation model.

NZ IAS 16 also contains a differential reporting concession in respect of the reconciliation for each class of property, plant and equipment between the carrying amount at the beginning and the end of the period. Qualifying entities are still required by NZ IAS 16 to disclose impairment losses recognised or reversed and depreciation.

Impact of difference(s)

As a consequence of the differences between PBE IPSAS17 and NZ IAS 16:

Estimation of fair value

Because the integral guidance on estimating the fair value of property, plant and equipment is based on current guidance, updated for changes in valuation terminology, it is not expected to have a significant impact .

Independent valuations of property, plant and equipment

Entities applying PBE IPSAS 17 are required to (i) have valuations of property, plant and equipment undertaken (or reviewed) by an independent valuer where there is no active market for the asset, and (ii) make the following disclosures additional to those required by NZ IAS 16 (as amended in 2011):

- (a) in respect of each valuer employed (i) the name of the valuer, (ii) a statement in respect of each valuer as to whether they are an employee of the entity or whether they are contracted as an independent valuer, (iii) the total fair value of the property, plant and equipment valued by that valuer, (iv) where the

valuation has been conducted by an employee of the entity, the name of the independent valuer who reviewed the valuation, and (v) the date(s) of such valuations.

- (b) where applicable, that an entity has not used an independent valuer because there is an active market or readily available price indices that establish the fair value of an item of property, plant and equipment; and
- (c) impairment losses recognised/reversed in surplus or deficit and depreciation in respect of each class of property, plant and equipment.

Many entities will previously have complied with these valuation and disclosure requirements as they were previously requirements in NZ IAS 16. These valuation and disclosure requirements were removed from NZ IAS 16 in April 2011 as a result of the *Harmonisation Amendments*.

Heritage Assets

The additional disclosure in PBE IPSAS 17 regarding heritage assets that are unrecognised is not expected to have a significant impact as a number of public benefit entities already make these disclosures.

Current differential reporting concessions

Qualifying entities that adopt the income tax rates of depreciation will be required to apply a depreciation method which reflects the pattern in which the asset's expected future economic benefits or service potential is expected to be consumed by the entity. This may not necessarily be the same as the depreciation rates used for income tax purposes.

Impact of adopting PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets

Comparison of PBE IPSAS 19 with NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets

There are no substantive differences between PBE IPSAS 19 and NZ IAS 37 (effective 1 January 2009). However, some guidance previously located in three interpretations within NZ IFRSs has been included as integral guidance in PBE IPSAS 19. The three interpretations are:

- (a) NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*;
- (b) NZ IFRIC 5 *Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*; and
- (c) NZ IFRIC 6 *Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment*.

Impact of difference(s)

The NZASB does not expect that the differences between PBE IPSAS 19 and NZ IAS 37 will have a significant impact on the PBE sector as a whole.

Impact of adopting PBE IPSAS 20 Related Party Disclosures

Comparison of PBE IPSAS 20 with NZ IAS 24 Related Party Disclosures

NZ IAS 24 (2009) is an amended version of NZ IAS 24 (2004) and applies for annual periods beginning on or after 1 January 2011. A number of PBE entities will be still to adopt the 2009 version of NZ IAS 24, or will be considering its requirements. To assist in understanding the implications of ED PBE IPSAS 20, the table below compares NZ IAS 24 (2004) with NZ IAS 24 (2009) and also with PBE IPSAS 20 *Related Party Disclosures* which is drawn from IPSAS 20 *Related Party Disclosures*. PBE IPSAS 20 takes a significantly different approach from both versions of NZ IAS 24, the current standards within NZ IFRSs. The requirements of PBE IPSAS 20 focus more clearly on the principles underlying related party disclosures than either version of NZ IAS 24.

NZ IAS 24 (2004)	NZ IAS 24 (2009)	PBE IPSAS 20
Definition of a Related Party		
<p>A party is related to an entity if the party controls, has significant influence or joint control over the entity.</p> <p>Parties are also related if a party is an associate, joint venture or subsidiary of the entity, or is a member of the key management personnel (KMP) of the entity or its parent, or is a close family member of any individual that (a) controls, jointly controls or significantly influences the entity or (b) is a member of the KMP of an entity or its parent.</p>	<p>Same principle as NZ IAS 24 (2004). The definition of a related party has been amended to remove some inconsistencies and to make it symmetrical between related parties.</p>	<p>Same principle as NZ IAS 24 (2004 and 2009). PBE IPSAS 20 definition is less detailed and does not include two specific points to the same extent as NZ IAS 24 (2009):</p> <p>(a) An entity is a related party if it is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity, and</p> <p>(b) if the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.</p> <p>PBE IPSAS 20 does not explicitly state whether KMP of the parent are considered to be related parties of the reporting entity.</p>
<p>IMPACT</p> <p>Although the principles are similar, the three standards contain differences at the detailed level. Entities will need to apply the principles and guidance in PBE IPSAS 20 to determine whether entities are related parties, particularly in the case of KMPs.</p>		

NZ IAS 24 (2004)	NZ IAS 24 (2009)	PBE IPSAS 20
Transactions with government-related entities		
<p>Exempts transactions between related parties subject to common control or significant influence by the Crown that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that entity at arm's length in the same circumstances.</p> <p>No exemption for other transactions with government-related entities.</p>	<p>Partial exemption for transactions with government-related entities.</p> <p>Requires disclosure of the nature and amount of individually significant transactions with government-related entities, regardless of whether they occur within a normal supplier or client/recipient relationship on normal terms and conditions. For other government-related transactions that are collectively but not individually significant, a qualitative or quantitative indication of their extent is also required under NZ IAS 24 (2009).</p>	<p>Exempts all transactions between related parties that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances.</p>
<p>IMPACT</p> <p>Under NZ IAS 24 (2004) very few transactions between Crown-related entities were disclosed separately due to the insertion of PBE paragraphs that provided an exemption. However, there was no exemption in respect of other types of government-related transactions, such as transactions between two entities controlled by the same local authority.</p> <p>On adopting NZ IAS 24 (2009) both Crown-related entities and other types of government-related entities may find the new paragraphs could have a significant impact.</p> <p>Under PBE IPSAS 20 the exemption is fundamentally different from NZ IAS 24 (2009). In practice, it is expected that most transactions between a reporting entity controlled by a government and other government-related entities would not require disclosure.</p> <p>The impact will differ on a case-by-case basis.</p>		
Transactions with Ministers of the Crown		
<p>NZ IAS 24 (2004) does not specifically address transactions with Ministers of the Crown in the PBE exemption.</p>	<p>Partially exempts disclosure of transactions with Ministers, and close members of those Ministers' family, except for a Minister (or close member of that Minister's family) during the time that Minister had portfolio responsibility for the reporting entity. Specific disclosures are still required about individually significant transactions and transactions that are collectively, but not individually, significant.</p>	<p>PBE IPSAS 20 exempts disclosure for all related party transactions that are on a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances.</p>
<p>IMPACT</p> <p>On adopting NZ IAS 24 (2009) Crown-related entities may find the new paragraphs could have a significant impact.</p> <p>On moving to PBE IPSAS 20 it is expected that less disclosure will be required.</p> <p>The impact will differ on a case-by-case basis.</p>		

NZ IAS 24 (2004)	NZ IAS 24 (2009)	PBE IPSAS 20
Disclosure of related party commitments		
<p>NZ IAS 24 (2004) did not specify the disclosure of commitments between related parties.</p>	<p>NZ IAS 24 (2009) requires disclosure of commitments between related parties, including the terms and conditions of such agreements, and any details of guarantees given or received.</p>	<p>There is no specific mention of a requirement to disclose commitments between related parties in PBE IPSAS 20. However, commitments arising from transactions may need to be disclosed.</p>
<p>IMPACT</p> <p>Entities will need to ensure that commitments are disclosed as required on adopting NZ IAS 24 (2009). This is not expected to be onerous; however, the impact will differ on a case-by-case basis. On moving to PBE IPSAS 20, entities will need to consider whether these disclosures should be retained.</p>		
Definition of key management personnel		
<p>Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.</p>	<p>The definition of key management personnel is the same as that in NZ IAS 24 (2004).</p>	<p>Key management personnel are defined as all directors or members of the governing body of the entity; and other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity. Where the requirement is met the definition is deemed to include:</p> <ul style="list-style-type: none"> (i) a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity; (ii) In some cases key advisors of that member; and (iii) the chief executive or permanent head of the reporting entity.
<p>IMPACT</p> <p>PBE IPSAS 20 provides more detail in the definition of key management personnel and may be interpreted as being wider than the definition in NZ IAS 24 (2004) and (2009). The impact will differ on a case-by-case basis.</p>		

NZ IAS 24 (2004)	NZ IAS 24 (2009)	PBE IPSAS 20
Key management personnel remuneration		
<p>Compensation is defined as including all employee benefits (as defined in NZ IAS 19 <i>Employee Benefits</i>) including employee benefits to which NZ IFRS 2 <i>Share-based Payment</i> applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity.</p> <p>Disclosure of short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits and share-based payment shall be made for key management personnel of the entity or its parent.</p>		<p>Remuneration of key management personnel is any consideration or benefit derived directly or indirectly by key management personnel from the reporting entity for services provided in their capacity as members of the governing body, or otherwise as employees of the reporting entity.</p> <p>The disclosure requirements are more detailed in particular specifying:</p> <ul style="list-style-type: none"> - Disclosure of aggregate remuneration by major class of KMP. - Disclosure of the number of individuals deemed to be KMP. - Details of loans where the loans are not widely available to non-KMP or members of the public. - Remuneration, other than on normal terms and conditions, paid to close family members of KMP.
<p>IMPACT</p> <p>The disclosure requirements of PBE IPSAS 20 are more specific than those in either NZ IAS 24 (2004) or NZ IAS 24 (2009). Therefore the difference in definition of key management personnel remuneration and the additional disclosure requirements may have a significant impact for public benefit entities. The impact will differ on a case-by-case basis.</p>		

NZ IAS 24 (2004)	NZ IAS 24 (2009)	PBE IPSAS 20
Disclosure of related party transactions		
<p>Required disclosures include the nature of the related party relationship as well as information about those transactions and outstanding balances necessary for users to understand the potential effect of the relationship on the financial statements.</p> <p>Disclosures that transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.</p> <p>Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.</p>	<p>The requirements in NZ IAS 24 (2009) are the same as those in NZ IAS 24 (2004), other than that the 2009 standard includes requirements regarding commitments between related parties as discussed above.</p>	<p>PBE IPSAS 20 requires disclosure of transactions between related parties, other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstance.</p>
<p>IMPACT</p> <p>On adoption of PBE IPSAS 20 the volume of disclosure requirements should decrease as PBE IPSAS 20 requires the disclosure of transactions <u>other than</u> those that occur on a normal arm's length basis. The impact will differ on a case-by-case basis.</p>		

Impact of adopting PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets*

Comparison of PBE IPSAS 21 with NZ IAS 36 *Impairment of Assets*

The substantive differences between PBE IPSAS 21 and NZ IAS 36 (effective 1 January 2009) are:

- PBE IPSAS 21 does not apply to non-cash-generating property, plant and equipment and intangible assets that are measured at revalued amounts.
- PBE IPSAS 21 contains minimum indicators of impairment that specifically focus on non-cash-generating assets. NZ IAS 36 contains minimum indicators of impairment that focus mainly on cash-generating assets.
- PBE IPSAS 21 requires value-in-use to be measured using either a depreciated replacement cost approach, restoration cost approach or a service units approach while NZ IAS 36 requires value-in-use to be measured using depreciated replacement cost if the entity would, if deprived of the asset, replace its remaining service potential.
- PBE IPSAS 21 contains requirements, guidance and disclosures on re-designating an asset from a cash-generating asset to a non-cash-generating asset.

Impact of difference(s)

The NZASB considers that the impact of the differences between PBE IPSAS 21 and NZ IAS 36 is likely to be as follows.

- The impact is expected to be insignificant in respect of property, plant and equipment and intangible assets that are measured at revalued amounts because these assets are subject to sufficiently regular revaluations to ensure that the carrying amount does not differ materially from fair value.
- Some non-cash-generating assets not previously assessed as being impaired may now be impaired.
- Although PBE IPSAS 21 includes methods other than depreciated replacement cost for measuring value-in-use, it is not anticipated that the methods will result in materially different amounts for value-in-use.
- The impact is expected to be insignificant in respect of re-designating an asset from a cash-generating asset to a non-cash-generating asset because this re-designation is generally well understood in practice. However, an entity would be required to disclose the criteria developed to distinguish cash-generating assets from non-cash generating assets.
- An entity will be required to disclose the approach used to determine value-in-use for a material impairment loss if the recoverable service amount is based on value-in-use.

Impact of adopting PBE IPSAS 22 *Disclosure of Financial Information about the General Government Sector*

There is no equivalent standard to PBE IPSAS 22 in NZ IFRSs or IFRSs. The Standard will apply only if the New Zealand Government elects to provide information on the general government sector in its financial statements. The Standard is not relevant for other PBEs.

Impact of difference(s)

This Standard is expected to have no impact as the New Zealand Government does not currently present information on the general government sector in its consolidated financial statements. If it were to do so, it would need to comply with the requirements of this Standard.

Impact of adopting PBE IPSAS 23 *Revenue from Non-Exchange Transactions*

There is no equivalent standard to PBE IPSAS 23 in NZ IFRSs.

Impact

The impact from applying PBE IPSAS 23 will depend on an entity's previous accounting policies in respect of revenue from non-exchange transactions.

This Standard requires that in recognising revenue from non-exchange transactions, an entity shall recognise an asset and revenue only to the extent that a liability is not also recognised. A liability is recognised only to the extent that the present obligations have not been satisfied. The Standard requires that an entity recognise a liability in respect of a transferred asset only when the transferred asset is subject to a condition. The key feature of a condition is that the asset must be consumed as specified, or future economic benefits or service potential must be returned to the owner.

The Standard does not permit the recognition of a liability in respect of a transferred asset that is subject to a restriction.

Compared to existing practice, the Standard may lead to the earlier recognition of some non-exchange revenue, and the recognition of fewer liabilities in respect of transferred assets.

Impact of adopting PBE IPSAS 25 *Employee Benefits*

Comparison of PBE IPSAS 25 with NZ IAS 19 *Employee Benefits*

The substantive differences between PBE IPSAS 25 and NZ IAS 19 (effective 1 July 2009) are:

- PBE IPSAS 25 requires the rate used to discount post-employment benefit obligations to reflect the time value of money. It states that judgement is required as to whether the time value of money is best approximated by reference to market yields at the reporting date on government bonds, high quality corporate bonds or by another financial instrument. NZ IAS 19 requires the rate used to discount post-employment benefit obligations to be determined by reference to market yields on high quality corporate bonds, unless there is no deep market in such bonds, in which case government bonds shall be used.
- PBE IPSAS 25 does not include the requirements in NZ IFRIC 14 *NZ IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* that limit the measurement of the amount of a defined benefit asset to the present values by an entity if there are minimum funding requirements imposed on the entity.
- PBE IPSAS 25 requires disclosure of the basis on which the discount rate for a defined benefit plan has been determined.
- PBE IPSAS 25 does not include the example from NZ IAS 19 that illustrates the calculation of the liability for accumulated sick leave.

Impact of difference(s)

PBE IPSAS 25 and NZ IAS 19 both require that the rate used to discount post-employment benefit obligations should reflect the time value of money, but the detailed requirements for determining that rate differ. Although the principle underlying the selection of the discount rate is identical, it is possible that the rate used to discount post-employment benefit obligations in accordance with PBE IPSAS 25 could differ from that currently used, resulting in the employee liability being measured at a different amount. This difference is not expected to impact many entities as PBEs currently determine the rate by reference to market yields on government bonds and it is not expected that this practice would change.

The measurement of the amount of a defined benefit asset, if there are minimum funding requirements imposed on an entity, may differ.

The exclusion of the example illustrating the calculation of a liability for accumulated sick leave is not expected to have any impact on the adoption of PBE Standards because the requirements for measuring such a liability have not changed.

Impact of adopting PBE IPSAS 26 *Impairment of Cash-Generating Assets*

Comparison of PBE IPSAS 26 with NZ IAS 36 *Impairment of Assets*

The substantive differences between PBE IPSAS 26 and NZ IAS 36 (effective 1 January 2009) are:

- PBE IPSAS 26 does not apply to cash-generating property, plant and equipment measured at revalued amounts and intangible assets that are regularly revalued to fair value.
- The indicators for impairment testing differ.
- PBE IPSAS 26 outlines that fair value less costs to sell does not reflect a forced sale. Under NZ IAS 36, fair value less costs to sell may reflect a forced sale if management is compelled to sell the asset immediately.
- PBE IPSAS 26 contains requirements, guidance and disclosures on re-designating an asset from a cash-generating asset to a non-cash-generating asset.
- NZ IAS 36 requires corporate assets that do not independently generate cash flows to be tested for impairment by associating the corporate assets with cash-generating assets. PBE IPSAS 26 contains no similar requirement.

Impact of difference(s)

The exclusion of cash-generating property, plant and equipment that is measured at revalued amounts from the scope of PBE IPSAS 26 could have a significant impact if:

- (a) the revalued asset's fair value is determined on a basis other than its market value; or
- (b) the incremental costs to dispose of the asset are substantial because there would be a significant difference between the fair value and the fair value less costs to sell.

Some assets that are currently impaired under NZ IAS 36 may not be impaired under PBE IPSAS 26 because PBE IPSAS 26 has more scope exclusions than NZ IAS 36.

There could be a difference in the measurement of fair value less costs to sell for an asset that management is compelled to sell immediately.

The impact is expected to be insignificant in respect of re-designating an asset from a cash-generating asset to a non-cash-generating asset because this re-designation is generally well understood in practice. However, an entity would be required to disclose the criteria developed to distinguish cash-generating assets from non-cash generating assets.

Corporate assets of PBEs would generally be non-cash-generating assets and would, therefore, be measured in accordance with PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets*.

Impact assessment of adopting PBE IPSAS 27 Agriculture

Comparison of PBE IPSAS 27 with NZ IAS 41 Agriculture

The substantive differences between PBE IPSAS 27 and NZ IAS 41 (effective 1 January 2009) are:

- The scope of PBE IPSAS 27 differs from the scope of NZ IAS 41.
 - (a) PBE IPSAS 27 applies to biological assets distributed at no charge or for a nominal charge. It does not apply to biological assets held for the provision or supply of services, for example, police dogs. NZ IAS 41 is silent on both of these matters.
 - (b) PBE IPSAS 27 is silent on the treatment of government grants relating to agricultural activity; under PBE Standards, an entity would apply either PBE IPSAS 9 *Revenue from Exchange Transactions* or PBE IPSAS 23 *Revenue from Non-Exchange Transactions* as appropriate. NZ IAS 41 requires a government grant related to a biological asset that is measured at cost less any accumulated depreciation and accumulated impairment losses (because fair value cannot be measured reliably) to be accounted for in accordance with NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. However, public benefit entities are prohibited from applying the recognition, measurement and presentation requirements in NZ IAS 20. NZ IAS 41 also requires disclosures regarding government grants related to agricultural activity
- PBE IPSAS 27 requires more disclosures than NZ IAS 41.

Impact of difference(s)

No significant impact is expected as a consequence of the scope differences in (a) above. PBE IPSAS 27 explains that assets held for the provision or supply of services are not used in agricultural activities as defined. Where those biological assets meet the definition of an asset, other PBE Standards should be considered in determining the appropriate accounting.

The NZASB has not identified any impact of the scope difference in (b) above regarding the treatment of government grants related to biological assets. The impact would depend on how PBEs currently account for government grants related to a biological asset.

The following additional disclosures are required by PBE IPSAS 27:

- (a) A description of biological assets that distinguishes between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge.
- (b) The nature and extent of restrictions on the entity's use or capacity to sell biological assets.
- (c) The reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period would separately include:
 - (i) the fair value gain or loss for bearer biological assets and for consumable biological assets;
 - (ii) increases due to assets acquired through a non-exchange transaction; and
 - (iii) decreases due to distributions at no charge or for a nominal charge.

Impact of adopting PBE IPSAS 28 *Financial Instruments: Presentation*

Comparison of PBE IPSAS 28 with NZ IAS 32 *Financial Instruments: Presentation*

PBE IPSAS 28 *Financial Instruments: Presentation* is based on IPSAS 28 *Financial Instruments: Presentation*, which, in turn, is based on IAS 32 *Financial Instruments: Presentation*. Although, the requirements of PBE IPSAS 28 are very similar to those of NZ IAS 32, the IPSASB made a number of changes to make IPSAS 28 more appropriate for public sector entities. The IPSASB's rationale for making these changes is set out in the IPSASB's Basis for Conclusions on IPSAS 28. This Basis for Conclusions is appended to PBE IPSAS 28.

The substantive differences between PBE IPSAS 28 and NZ IAS 32 (effective 1 July 2010) are:

- PBE IPSAS 28 does not apply to financial guarantee contracts recognised and measured in accordance with PBE IFRS 4 *Insurance Contracts*. PBE IPSAS 28 requires that PBE IFRS 4 be followed for presentation of such contracts (paragraphs 3 and AG5 to AG9). PBE IPSAS 28 permits financial guarantee contracts to be accounted for as insurance contracts so long as the issuer elects to do so and uses accounting applicable to insurance contracts (paragraph AG 8). This election is made on a contract by contract basis at the time of adoption of PBE IPSAS 28 and is irrevocable. In contrast, NZ IAS 32 permits financial guarantee contracts to be accounted for as insurance contracts only so long as the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts.
- PBE IPSAS 28 provides guidance on whether a financial guarantee is contractual or non-contractual (paragraphs AG3–AG4 and AG20); this guidance clarifies an area where previously judgement was required by PBEs. NZ IAS 32 does not provide any guidance in this area.
- PBE IPSAS 28 also provides guidance on whether assets and liabilities (including non-exchange arrangements) in the public sector arise out of contractual or non-contractual arrangements (paragraphs AG19 to AG22); this guidance clarifies an area where previously judgement was required by PBEs. NZ IAS 32 does not provide any guidance in this area.
- PBE IPSAS 28 permits rights issues (including rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer to be accounted for as derivative liabilities (regardless of the currency in which the exercise price is denominated) (paragraphs 11 and 16). Following the IASB October 2009 amendment "Classification of Rights Issues" NZ IAS 32 requires that such rights issues be classified as equity. Prior to the issue of the IASB amendment, such rights issues were likely to have been accounted for as derivative liabilities.
- PBE IPSAS 28 states that unissued currency is not a financial instrument (paragraph AG 10); NZ IAS 32 does not refer to unissued currency. Guidance on unissued currency is provided in PBE IPSAS 12 *Inventories* and NZ IAS 2 *Inventories*.

Impact of difference(s)

The NZASB has not identified any significant impact on entities currently applying NZ IFRSs from the adoption of PBE IPSAS 28. Entities that have not previously applied NZ IFRS may have more choice in the treatment of some financial guarantee contracts.

Impact of adopting PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*

Comparison of PBE IPSAS 29 with NZ IAS 39 *Financial Instruments: Recognition and Measurement*

The substantive differences between PBE IPSAS 29 and NZ IAS 39 (effective 1 July 2010) are:

- *Scope*

PBE IPSAS 29 could be used to account for financial guarantee contracts in more circumstances than permitted by NZ IAS 39. PBE IPSAS 29 permits an issuer of a financial guarantee contract to apply either PBE IPSAS 29, or, in certain circumstances, PBE IFRS 4 *Insurance Contracts* in recognising and measuring financial guarantee contracts (see PBE IPSAS 29, paragraph AG4 and PBE IPSAS 28, paragraph AG8). PBE IPSAS 28 paragraph AG8 states that:

- (a) If an entity previously applied accounting applicable to insurance contracts and adopted an accounting policy that treated financial guarantee contracts as insurance contracts, it may continue to treat such contracts either as insurance contracts or as financial instruments; and
- (b) If an entity previously did not apply accounting applicable to insurance contracts, it may elect to treat financial guarantee contracts either as insurance contracts or as financial instruments on adoption of PBE IPSAS 28.

In both (a) and (b) above, the election is made on a contract by contract basis, and the choice is irrevocable.

In contrast to NZ IAS 39, PBE IPSAS 29 does not require a previous explicit assertion that the entity regards such contracts as insurance contracts. NZ IAS 39 limits this election to situations where the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts.

PBE IPSAS 29 may also be applied to insurance contracts which involve the transfer of financial risk (see paragraph 2(e)). NZ IAS 39 does not apply to such insurance contracts.

The principles from NZ IFRIC 9 *Reassessment of Embedded Derivatives* and NZ IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* are included as authoritative appendices to PBE IPSAS 29. These interpretations are published as separate documents in NZ IFRSs and do not form part of NZ IAS 39.

- *Concessionary Loans*

PBE IPSAS 29 contains integral Application Guidance which clarifies the accounting for recognition and measurements of concessionary loans (AG 84 – AG 90). Such loans are granted to, or received at, below market terms and should be distinguished from the waiver of debt owing to or by an entity. NZ IAS 39 (paragraphs AG64 and AG65) contains limited guidance on initial recognition of loans that carry no interest and loans that bear an off-market interest rate.

Impact of difference(s)

The NZASB has not identified any significant impact on current practice under NZ IAS 39 from the adoption of PBE IPSAS 29. PBEs that have applied NZ IFRSs would already have determined the treatment of financial guarantee contracts in accordance with NZ IAS 39 and their treatment of such contracts would not be expected to change.

The requirements in PBE IPSAS 29 on concessionary loans are more explicit than those set out in NZ IAS 39 and, in the event that entities have granted or received concessionary loans and have accounted for them in a manner different to that required by PBE IPSAS 29, they would be required to change the treatment of such loans.

Impact of adopting PBE IPSAS 30 *Financial Instruments: Disclosures*

Comparison of PBE IPSAS 30 with NZ IFRS 7 *Financial Instruments: Disclosures*

The substantive differences between PBE IPSAS 30 and NZ IFRS 7 (effective 1 July 2011) are:

- *Scope:*

PBE IPSAS 30 does not apply to financial guarantee contracts recognised and measured in accordance with PBE IFRS 4 *Insurance Contracts*. This difference is consistent with the scope of PBE IPSAS 28 *Financial Instruments: Presentation* and PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. However, an entity applying PBE IPSASs may elect to treat financial guarantee contracts as insurance contracts in more circumstances than permitted by NZ IFRSs.

Further, disclosures made under PBE IPSAS 30 for financial guarantees will be dependent on whether they are contractual or non-contractual as determined in accordance with the additional Application Guidance in PBE IPSAS 28 and will therefore follow on from the recognition and measurement requirements as per PBE IPSAS 29.

- *Concessionary Loans:*

PBE IPSAS 30 requires disclosures of concessionary loans granted, including reconciliations between opening and closing carrying amounts, the nominal value of loans, the purpose and terms of the various types of loan, and the valuation assumptions.

- *Additional disclosures:*

PBE IPSAS 30 requires disclosure of the circumstances leading to a provision being recognised (under PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*) for a financial guarantee contract issued through a non-exchange transaction, where no fair value can be determined. This disclosure is not required by NZ IFRS 7.

PBE IPSAS 30 does not include disclosure requirements relating to the transfers of financial assets. Paragraphs 42A to 42H and associated application guidance addressing the transfers of financial assets were added to NZ IFRS 7 in 2010.

Impact of difference(s)

Apart from the impact of complying with the additional concessionary loan disclosures the NZASB has not identified any significant impact on PBEs from the adoption of PBE IPSAS 30.

Impact of adopting PBE IPSAS 31 *Intangible Assets*

Comparison of PBE IPSAS 31 with NZ IAS 38 *Intangible Assets*

The substantive differences between PBE IPSAS 31 and NZ IAS 38 (effective 1 July 2009) are:

- NZ IAS 38 does not permit an intangible asset acquired in exchange for a non-monetary asset to be measured at fair value if the transaction lacks commercial substance whereas PBE IPSAS 31 requires measurement at fair value in such a case; and
- NZ IAS 38 requires disclosure of the carrying amount that would have been recognised had a revalued class of intangible assets been measured after recognition using the cost model.

Impact of difference(s)

As a consequence of the differences between PBE IPSAS 31 and NZ IAS 38:

- (a) intangible assets acquired in exchange for a non-monetary asset where the transaction lacks commercial substance would be measured at fair value in accordance with PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. Although this may have a significant impact on some entities, the NZASB considers it is unlikely to have a significant impact on public sector PBEs as a whole; and
- (b) entities are not required to disclose the carrying amount that would have been recognised had a revalued class of intangible assets been measured after recognition using the cost model.

Impact of adopting PBE IPSAS 32 *Service Concession Arrangements: Grantor*

Comparison of PBE IPSAS 32 with NZ IFRSs

There is no guidance equivalent to PBE IPSAS 32 in NZ IFRSs. An entity presenting financial statements in accordance with NZ IFRSs, and which was a grantor in a service concession arrangement, would have determined its accounting policies in accordance with the requirements of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Impact of difference(s)

It is difficult to assess the impact of this draft Standard as there have been relatively few service concession arrangements to date in New Zealand. Where such arrangements occur the guidance in PBE IPSAS 32 will clarify the accounting by the grantor. For example, PBE IPSAS 32 provides guidance on the recognition of a service concession asset under construction.

Impact of adopting PBE IFRS 3 *Business Combinations*

PBE IFRS 3 was developed as there is no equivalent guidance within IPSASs.

Comparison of PBE IFRS 3 with NZ IFRS 3 *Business Combinations*

There are no substantive difference between PBE IFRS 3 and NZ IFRS 3 (effective 1 July 2010).

Impact of difference(s)

The NZASB has not identified any significant impact on an entity from the adoption of PBE IFRS 3.

Impact of adopting PBE IFRS 4 *Insurance Contracts*

PBE IFRS 4 was developed as there is no equivalent guidance within IPSASs.

Comparison of PBE IFRS 4 with NZ IFRS 4 *Insurance Contracts*

There are no substantive differences between the requirements of PBE IFRS 4 and NZ IFRS 4 (effective 1 July 2009).

Impact of difference(s)

The NZASB has not identified any significant impact on an entity from the adoption of PBE IFRS 4.

Impact of adopting PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

PBE IFRS 5 was developed as there is no equivalent guidance within IPSASs.

Comparison of PBE IFRS 5 with NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Other than the inclusion of a definition of “value in use of a non-cash generating asset”, there are no substantive differences between PBE IFRS 5 and NZ IFRS 5 (effective 1 July 2009).

Impact of difference(s)

The NZASB has not identified any significant impact on an entity from the adoption of PBE IFRS 5.

Impact of adopting PBE IAS 12 *Income Taxes*

PBE IAS 12 was developed as there is no equivalent guidance within IPSASs.

Comparison of PBE IAS 12 with NZ IAS 12 *Income Taxes*

PBE IAS 12 contains the same requirements as NZ IAS 12. In addition, it contains:

- (a) requirements for the disclosures related to imputation credits previously located in FRS-44 *New Zealand Additional Disclosures*; and
- (b) Application guidance addressing the requirements of NZ SIC-25 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders*.

Impact of difference(s)

The NZASB has not identified any impact on public benefit entities from the adoption of PBE IAS 12.

Impact of adopting PBE IAS 34 *Interim Financial Reporting*

PBE IAS 34 was developed as there is no equivalent guidance within IPSASs.

Comparison of PBE IAS 34 with NZ IAS 34 *Interim Financial Reporting*

The substantive differences between PBE IAS 34 and NZ IAS 34 (effective 1 July 2011) are:

- The components of a complete set of financial statements in PBE IAS 34 align with those set out in PBE IPSAS 1 *Presentation of Financial Statements*. Besides the change in the titles of the financial statements, a complete set of financial statements now includes a statement of financial performance and a statement of changes in net assets/equity instead of an income statement and a statement of comprehensive income. All references and discussion in PBE IAS 34 to the statement of comprehensive income is consequently amended or deleted (paragraphs 8, 8A and 20(b)).
- PBE IAS 34 requires a comparison between budget and actual amounts where an entity makes its approved budget for an interim period publicly available (paragraph 8(e)).
- PBE IAS 34 does not include any requirements in respect of the calculation and presentation of earnings per share that was previously in NZ IAS 34 paragraphs 11 and 11A.
- PBE IAS 34 requires the disclosure of dividends paid and other distributions made by a PBE for each class of equity instrument rather than dividends paid in, aggregate and per share, separately for ordinary and other shares (paragraph 16A(f)).
- PBE IAS 34 includes the consensus in NZ IFRIC 10 *Interim Financial Reporting and Impairment* which prohibits an entity from reversing an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost (paragraph 28.1).

Impact of difference(s)

The NZASB does not expect any significant impact on PBEs arising from the differences between PBE IAS 34 and NZ IAS 34. PBE IAS 34 does not impose a requirement for a PBE to prepare an interim financial report: it provides requirements where an entity is required by legislation or elects to prepare an interim financial report. Many of the differences between PBE IAS 34 and NZ IAS 34 relate to aspects of NZ IAS 34 which were not relevant for PBEs.

NZASB noted that public benefit entities that had previously presented a single statement of comprehensive income would now be required to present a statement of financial performance and a statement of changes in net assets/equity in accordance with PBE IPSAS 1. However, this is expected to be a change in format and presentation rather than a change in any measurement or recognition requirements.

Impact of adopting PBE FRS 42 *Prospective Financial Statements*

PBE FRS 42 was developed as there is no equivalent guidance within IPSASs.

Comparison of PBE FRS 42 with FRS-42 *Prospective Financial Statements*

The substantive difference between PBE FRS 42 and FRS-42 (effective 1 July 2009) is:

- There are no RDR disclosure concessions in PBE FRS 42. FRS-42 contains a differential reporting concession that permits a qualifying entity not to prepare a prospective statement of cash flows.

Impact of difference(s)

All Tier 2 PBEs will be required to prepare a prospective cash flow statement when preparing prospective financial statements.

Impact of adopting PBE FRS 43 *Summary Financial Statements*

PBE FRS 43 was developed as there is no equivalent guidance within IPSASs.

Comparison of PBE FRS 43 with FRS-43 *Summary Financial Statements*

There are no substantive differences between PBE FRS 43 and FRS-43 (effective 1 January 2012).

PBE FRS 43 requires that entities disclose when they have not applied PBE Standards for all periods reported in multi-period summary financial statements. FRS-43 is silent on this matter.

Impact of difference(s)

The NZASB has not identified any significant impact on an entity from the adoption of PBE FRS 43.

Impact of adopting PBE FRS 45 *Service Concession Arrangements: Operator*

PBE FRS 45 was developed as there is no equivalent guidance within IPSASs.

Comparison of PBE FRS 45 *Service Concession Arrangements: Operator* with NZ SIC-29 *Service Concession Arrangements: Disclosures* and NZ IFRIC 12 *Service Concession Arrangements*

There are no significant differences between the requirements of PBE FRS 45 and NZ SIC-29 *Service Concession Arrangements: Disclosures* and NZ IFRIC 12 *Service Concession Arrangements* except that PBE FRS 45 explicitly acknowledges the two treatments of borrowing costs permitted by PBE IPSAS 5 *Borrowing Costs*. Because PBE FRS 45 has been developed for application by PBE operators, it does not refer to private sector operators.

Impact of difference(s)

The NZASB has not identified any significant impact on an entity from the adoption of PBE FRS 45.