

Board Meeting Agenda

Thursday 13 August 2020 by videoconference

Est Time	Item	Topic	Objective		Page
B: PUBLIC SESSION					
PBE Item for Consideration					
10.55 am	5	IPSASB Revenue and Transfer Expenses	(JS/VSF)		
	5.1	Cover memo	Consider	Paper	
	5.2	Memo: disclosures	Consider	Paper	
	5.3	Draft comment letter	Consider	Paper	
	5.4	IPSASB EDs (in separate file)	Note	Papers	Link
	5.5	Comparison of disclosure requirements	Note	Paper	
12.25 pm		<i>Lunch</i>			
Accounting Standards Framework					
12.55 pm	6	Targeted Review of the Accounting Standards Framework	(GS)		
	6.1	Cover Memo	Note	Paper	
	6.2	Feedback Statement	Note	Paper	
For-profit Item for Approval					
1.05 pm	7	Classification of Liabilities as Current or Non-current – Deferral of Effective Date	(TC)		
	7.1	Cover memo (including PBE Policy Approach)	Note	Paper	
	7.2	<i>Classification of Liabilities as Current or Non-current – Deferral of Effective Date</i>	Approve	Paper	
	7.3	Draft signing memorandum	Approve	Paper	
For-profit and PBE Items for Approval					
1.15 pm	8	Going Concern Disclosures	(JP)		
	8.1	Cover memo	Note	Paper	
	8.1A	Detailed analysis of submissions by question <u>Amendments to FRS-44</u>	Note	Paper	
	8.2	<i>Going Concern Disclosures</i> (Amendments to FRS-44)	Approve	Paper	
	8.3	Draft signing memorandum – <i>Going Concern Disclosures</i> (Amendments to FRS-44) <u>Amendments to PBE IPSAS 1</u>	Approve	Paper	

Est Time	Item	Topic	Objective		Page
	8.4	<i>Going Concern Disclosures</i> (Amendments to PBE IPSAS 1)	Approve	Paper	
	8.5	Draft signing memorandum – <i>Going Concern Disclosures</i> (Amendments to PBE IPSAS 1)	Approve	Paper	
		<u>Submissions</u>			
	8.6	Submissions received: ED 2020-2 and ED 2020-3 (covering both EDs unless noted)			
	8.6.1	Online Feedback	Note	Paper	
	8.6.2	Todd Beardsworth, OAG	Note	Paper	
	8.6.3	Simon O’Connor, EY	Note	Paper	
	8.6.4	Amir Ghandar & Simon Grant, CA ANZ	Note	Paper	
	8.6.5	Michael Webb, Barrister (FRS-44)	Note	Paper	
	8.6.6	Darby Healey, KPMG	Note	Paper	
	8.6.7	Stephen Layburn, Barrister (FRS-44)	Note	Paper	
	8.6.8	Charlotte McLoughlin, Solicitor (FRS-44)	Note	Paper	
	8.6.9	Dr Gary Pflugrath, CPA Australia	Note	Paper	
1.45 pm	9	Insurance	(VSF)		
		<u>NZ IFRS 17</u>			
	9.1	Cover memo – Amendments to NZ IFRS 17	Note	Paper	
	9.2	<i>Amendments to NZ IFRS 17</i>	Approve	Paper	
	9.3	Draft signing memorandum – <i>Amendments to NZ IFRS 17</i>	Approve	Paper	
	9.4	<i>Extension of the Temporary Exemption from Applying NZ IFRS 9</i>	Approve	Paper	
	9.5	Draft signing memorandum – <i>Extension of the Temporary Exemption from Applying NZ IFRS 9</i>	Approve	Paper	
	9.6	NZ Society of Actuaries – copy of submission on IASB ED/2019/4 <i>Amendments to IFRS 17</i>	Note	Supp paper	Link
	9.7	IASB Project Summary and Feedback Statement	Note	Supp paper	Link
		<u>PBE IFRS 17</u>			
	9.8	Cover memo – <i>Amendments to PBE IFRS 17</i>	Note	Paper	
	9.9	<i>Amendments to PBE IFRS 17</i>	Approve	Paper	
	9.10	Draft signing memorandum – <i>Amendments to PBE IFRS 17</i>	Approve	Paper	
PBE Item for Approval					
2.15 pm	10	2020 Amendments to PBE FRS 48	(JS)		
	10.1	Cover memo	Consider	Paper	
	10.2	<i>2020 Amendments to PBE FRS 48</i>	Approve	Paper	
	10.3	Draft signing memorandum	Approve	Paper	

Est Time	Item	Topic	Objective		Page
	10.4	Submissions received			
	10.4.1	R1 BDO	Note	Paper	
	10.4.2	R2 InterChurch Bureau	Note	Paper	
	10.4.3	Online feedback	Note	Paper	
	10.4.4	Placeholder for further submissions and online feedback (post Board mailout)	Note	Late papers	
	10.5	Audit NZ Bulletin two: Implications of the COVID-19 emergency for service performance reporting	Note	Supp Paper	Link
Standards for Noting					
2.30 pm	11	Standards Approved	(VSF)		
	11.1	Approval 118 <i>Reference to the Conceptual Framework</i>	Note	Paper	
	11.2	Approval 119 <i>Onerous Contracts—Cost of Fulfilling a Contract</i>	Note	Paper	
	11.3	Approval 120 <i>Annual Improvements to NZ IFRS 2018–2020</i>	Note	Paper	
	11.4	Approval 121 <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	Note	Paper	

Next NZASB meeting:

Thursday 10 September 2020



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 31 July 2020

To: NZASB Members

From: Joanne Scott and Vanessa Sealy-Fisher

Subject: **Cover memo: IPSASB Revenue and Transfer Expenses**

Purpose¹

1. The purpose of this item is to:
 - (a) pull together discussions and work done to date (this memo);
 - (b) seek feedback on the disclosure proposals in all three EDs (see agenda item 5.2);
 - (c) seek feedback on the draft comment letter (see agenda item 5.3); and
 - (d) seek feedback on work required over the next month.
2. We plan to go through the disclosure memo (agenda item 5.2) first and then go through the draft comment letter (agenda item 5.3) question by question. Our objective is to get sufficient guidance to draft a complete comment letter for the Board's September meeting.

Background

3. The IPSASB issued the EDs in February. Comments are due to the NZASB by 23 September and the IPSASB by 1 November.
4. We distributed a combined file containing the three EDs and the At a Glance documents to Board members on 26 February. The combined file is also available as a separate file alongside these agenda papers.
5. The Board has been working its way through the proposals at its meetings this year. In addition we have presented to the TRG and the NZAuASB on aspects of the proposals. We have also carried out targeted outreach and discussed, or offered to discuss, the proposals with a number of constituents. Some have already told us that they are too busy to engage with the EDs.
6. Although the Board has not completed its deliberations, it is time to start pulling the Board's views together and considering the comment letter. We have therefore drafted some sections of the comment letter and included bullet points in other sections. The proposed comments are open for discussion; *they do not necessarily reflect an agreed Board view*. The draft

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comment letter includes some ‘Notes for the Board’ which contain background information about the proposed comments.

7. Disclosures are discussed in a separate memo (see agenda item 5.2). The draft comment letter includes our proposed response to the disclosure questions.
8. We will discuss the comment letter again at the Board’s meeting on 10 September. We have scheduled a short meeting on 15 October to consider submissions from New Zealand constituents and finalise the letter.
9. We are conscious that there are a lot of terms used in the EDs and that it can be difficult to keep track of the groups of transactions across the EDs. We have therefore prepared the following table to assist in thinking about the various categories of transactions.

ED 70 Revenue with Performance Obligations	ED 71 Revenue without Performance Obligations	ED 72 Transfer Expenses
Revenue from transactions with performance obligations (must have a binding arrangement)	Revenue from transactions with present obligations (must have a binding arrangement)	Transfer expenses with performance obligations to deliver goods and services to <u>third-party beneficiaries</u> (must have a binding arrangement)
	Revenue from transactions without present obligations (may or may not have a binding arrangement) <i>Can be split further</i>	Transfer expenses without performance obligations (may or may not be a binding arrangement) <i>Can be split further</i>
	Revenue from taxes, including other compulsory contributions and levies	

Structure of this memo

10. The remaining sections in this memo are:
 - (a) Progress to date;
 - (b) Editorial comments;
 - (c) GASB Preliminary Views document; and
 - (d) Next steps.

Progress to date

11. The following tables give an overview of discussions to date and progress on the comment letter. More background is set out beside each SMC in the draft comment letter (as ‘Notes to the Board’). At this stage we have focused on drafting responses to ED 70 and ED 71.

ED 70 Revenue with Performance Obligations	
<p><u>Previous Board discussion and outreach</u> 25 March (held 1 April): Agenda item 3.2</p> <ul style="list-style-type: none"> The memo gave an overview of ED 70 and sought feedback on the SMCs (apart from disclosures). <p>Outreach</p> <ul style="list-style-type: none"> So far we have heard positive support for an IPSAS based on IFRS 15 <i>Revenue from Contracts with Customers</i>. This feedback has come from the TRG, NZAuASB, and targeted outreach with constituents. A TRG member queried whether the IPSASB had considered AASB 1058 <i>Income of Not-for-Profit Entities</i> and the NFP guidance in Appendix F to AASB 15 <i>Revenue from Contracts with Customers</i>. The answer was yes, but the proposals in ED 71 go further than AASB 1058 in terms of deferring revenue. However, see ED 71 SMC 1 for our suggestion to use the phrase ‘sufficiently specific’, which comes from AASB 15. The NZAuASB expressed general support for the IPSASB’s proposal to develop a standard based on IFRS 15, both because of the benefits of having closer alignment with the for-profit standards and because of the difficulties experienced with the exchange/non-exchange distinction in current standards. 	
ED 70 SMC 1 Definition of binding arrangements and scope	<p>We have gone through most of the issues previously raised by the Board – see notes for the Board in the draft comment letter.</p> <p>We have not yet formed a view on scope. This is subject to discussion of:</p> <ul style="list-style-type: none"> Provisions ED 71 SMC 5 (about receivables).
ED 70 SMC 2 Transfer expense defined – but transfer revenue is not	<p>We agree.</p> <p>See draft response in comment letter.</p>
ED 70 SMC 3 Transactions with components	<p>We agree with the guidance but have additional comments.</p> <p>See draft response in comment letter.</p>
ED 70 SMC 4 Disclosures	<p>See agenda item 5.2</p> <p>We support the proposed disclosures.</p>
ED 70 SMC 5 Disclosure – compelled transactions	<p>See agenda item 5.2</p> <p>We support the proposed disclosures.</p>
ED 70 Other comments	<ul style="list-style-type: none"> Receivables and binding arrangement assets Paragraphs 32 and 33 – consistency

ED 71 Revenue without Performance Obligations	
<p><u>Previous Board discussion and outreach</u> 25 March (held 1 April): Agenda item 3.3</p> <ul style="list-style-type: none"> The memo sought feedback on SMC 1 (about present obligations for obligations to carry out specified activities or incur eligible expenditure). The Board was not convinced by the IPSASB’s rationale for the recognition of liabilities, although there was some discussion that the IPSASB could have used user needs as the basis for its proposals. 	

ED 71 Revenue without Performance Obligations
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7 May: Agenda item 5.1

- The first part of the memo identified points to raise about SMC 5 on receivables.
- The second part of the memo included examples to prompt discussion about the proposals in SMC 1. The NZASB did not form any views on proposals as a result of the examples, but expressed concerns that there did not seem to be a clear principle driving the outcomes.

Outreach

- TRG 26 May: Sought TRG feedback. Feedback was as follows.
 - Given the potential for scope debates about whether ED 70 or ED 71 is the appropriate standard, did the IPSASB consider having one revenue standard? Staff felt that this possibility may have been considered early on in the project but not pursued due to the desire to have an IPSAS aligned with IFRS 15.
 - In relation to enforceability, ED 71 refers to the possibility of being required to return resources or “incur another form of penalty.” A member noted that it wasn’t immediately obvious what that phrase meant. Staff suggested that the phrase was probably intended to cover the other enforcement mechanisms mentioned in the ED (such as specific performance, penalties and the possibility of losing future funding). Members suggested that if this was the intention, the wording should be clearer.
 - If the ED isn’t clear enough that multi-year operational grant funding should not be treated as eligible expenditure, have a look at IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* to see whether there is any useful guidance about specificity.
 - There was general discussion on the need for any new revenue standards to be an improvement over the current standards. There is little benefit to be gained from swapping one set of issues for another set of issues.
 - IPSAS are developed for public sector entities, many of which will have a reasonable knowledge of accounting standards and an ability to apply complex standards. In New Zealand we need to be aware of the types of entities that apply PBE Standards, particularly the limited resources of Tier 2 NFPs. Examples that illustrate the grey areas of the requirements in the ED would be helpful.
 - It will be necessary to clearly explain that constructive obligations do not generally give rise to deferral of revenue. Many NFPs are passionate about ensuring that funding is spent in accordance with the purpose for which it was raised or acquired and will need clear guidance on what can and cannot be deferred.
 - Accounting for revenue authorised by an appropriation has caused some issues in the past. It would be useful to check how the proposals in ED 71 would apply to various appropriations.
- NZAuASB 3 June: Sought feedback on scope, revenue recognition and deferral, enforceability, and monitoring).
 - The NZAuASB noted the staff view that there is some overlap between the proposed distinction between specified activities and eligible expenditure in ED 71 (both of which ED 71 suggests could give rise to present obligations that meet the definition of a liability) and suggested that only one concept, that of eligible expenditure, might be required. Alternatively, the IPSASB could seek to clarify the proposals about specified activities. This feedback relates to SMC 1.
- A constituent queried a few aspects of ED 71 (including how it would deal with development contributions and targeted rates, compulsory contributions and tax revenue with high collection uncertainty). We have addressed these matters via notes in the draft comment letter and, as a result, recommend some changes to the ED (see SMC 7 and other comments).

ED 71 Revenue without Performance Obligations	
ED 71 SMC 1 Present obligations – obligations to perform specified activities and incur eligible expenditure give rise to present obligations	Discussed 1 April and 7 May – concerns about proposals but no consensus yet on the way forward. Feedback from TRG and NZAuASB. See draft response in comment letter. We have drafted the response to elicit feedback – you may agree or disagree with the direction taken.
ED 71 SMC 2 Flowchart in ED 71 – is it clear?	We have not formed a view at this stage.
ED 71 SMC 3 Recognising revenue when, or as, the entity satisfies present obligations – is the guidance clear enough?	We have not formed a view at this stage. Once we have formed a view on SMC 1 we can consider whether to respond to this SMC.
ED 71 SMC 4 Allocating the transaction price to present obligations – is there sufficient guidance?	We have not formed a view at this stage. Once we have formed a view on SMC 1 we can consider whether to respond to this SMC.
ED 71 SMC 5 Subsequent measurement of receivables	Discussed 1 April See draft response in comment letter.
ED 71 SMC 6 Disclosures	See agenda item 5.2. We disagree with some proposals on cost-benefit grounds.
ED 71 SMC 7 General – approach, structure, broad principles and guidance – is it logically set out?	See draft responses in comment letter. <ul style="list-style-type: none"> • Substance over form (not enough guidance). • Compulsory contributions and levies (changes suggested).
ED 71 Other comments	See draft responses in comment letter <ul style="list-style-type: none"> • Use of the term ‘transfer recipient’ in ED 71 • Revenue with high collection uncertainty.

ED 72 Transfer Expenses
<p><u>Previous Board discussion and outreach</u></p> <p>17 June: Agenda item 3.1</p> <ul style="list-style-type: none"> • The memo summarised ED 72, noted that social benefits are not transfer expenses, and sought direction from the Board on issues for the comment letter. We were asked to follow up on the following (either doing more work or drafting points for the comment letter): <ul style="list-style-type: none"> ○ Provisions. Highlight the need for consistent guidance on liabilities across standards to avoid debates about which standard applies. ○ Monitoring satisfaction of performance obligations in order to apply the PSPOA – The Board asked us to do some outreach on whether entities, especially charities, will have sufficient information to apply the PSPOA. ○ Clearer guidance on present obligations, and the application of that guidance to multi-year grants is required. ○ Paragraphs 91–94 of the ED are difficult to follow. ○ Comments in memo about subsequent measurement should flow through to comment letter. In particular, we should look more closely at subsequent measurement of transfer expense liabilities that are not financial liabilities.

ED 72 Transfer Expenses	
<p>Outreach</p> <ul style="list-style-type: none"> • TRG 26 May: Sought feedback on the proposals for transfer expenses with, and without, performance obligations (mostly SMC 4 and SMC 6). Comments follow. <ul style="list-style-type: none"> ○ Previous attempts to develop guidance in New Zealand looked at the issues addressed in ED 72. It would be worth looking at this guidance and comparing it to ED 72. ○ Check whether the EDs explicitly discuss the possibility of entities acting as agents. Could there be an agency relationship under the performance obligation approach? [Staff note: ED 70 has some application guidance – in paragraphs AG77–AG85 – but this is not in the other EDs]. ○ Enforcing the arrangement and monitoring satisfaction of the performance obligations might be difficult. ○ Terminology – some of the terms, such as binding arrangement assets, are not particularly user friendly. • NZAuASB 3 June: Sought feedback about any concerns or comments on the proposal in the ED. • Post June NZASB meeting: We sought feedback from a number of funders about whether they would be able to apply ED 72’s proposals for transfer expenses <u>with</u> performance obligations, including the requirement to monitor satisfaction of obligations (which is the focus of SMC 3). One funder has responded that it considers it would have the information required to account for transfer expenses with performance obligations. • We will be discussing ED 72 with some constituents just before the Board meeting. 	
ED 72 SMC 1 Scope/ definition of transfer expense	Notes only – to be drafted for the next meeting.
ED 72 SMC 2 Distinction between transfer expenses <u>with</u> and <u>without</u> performance obligations	Notes only – to be drafted for the next meeting.
ED 72 SMC 3 Classification as <u>with</u> performance obligations is subject to transfer provider monitoring satisfaction of obligations	Notes only – to be drafted for the next meeting.
ED 72 SMC 4 Transfer expenses <u>with</u> performance obligations – recognition and measurement	Notes only – to be drafted for the next meeting.
ED 72 SMC 5 Transfer expenses <u>with</u> performance obligations – any difficulties anticipated?	Notes only – to be drafted for the next meeting.
ED 72 SMC 6 Transfer expenses <u>without</u> performance obligations – recognition and measurement	Notes only – to be drafted for the next meeting.
ED 72 SMC 7 Transfer expenses <u>without</u> performance obligations – lack of symmetry between ED 71 and ED 72 – appropriate?	Notes only – to be drafted for the next meeting.
ED 72 SMC 8 Appropriations	The Board does not plan to respond to SMC 8 (subject to any comments from constituents).
ED 72 SMC 9 Disclosures	See agenda item 5.2. We disagree with some proposals on cost-benefit grounds. See comment letter.
ED 72 Other comments	Notes only – to be drafted for the next meeting.

Editorial comments

12. We have been keeping a running list of editorial comments at the back of the comment letter. Once the comment letter is finalised we plan to remove them from the comment letter and send them directly to IPSASB staff. We have left them in the draft comment letter for now (i) to keep them together and (ii) in case the Board thinks that any of them should be mentioned in the comment letter.

GASB Preliminary Views document

13. Governmental Accounting Standards Board (GASB) recently issued *Revenue and Expense Recognition*, which presents the GASB's preliminary views on the development of a comprehensive revenue and expense recognition model.² Comments are due to the GASB by 26 February 2021. The GASB has monitored the work of the Financial Accounting Standards Board and the IPSASB and their activities have informed the development of the GASB's project.
14. We included some information on that project in a memo earlier this year (agenda item 3.2 discussed on 1 April). At that stage we did not have enough information to compare the proposals with the IPSASB's EDs and noted that the differences between the projects would make such a comparison difficult. For example, the GASB's proposals deal only with binding arrangements.
15. Given the differences between the projects and our lack of familiarity with the GASB proposals we do not plan on mentioning the GASB Preliminary Views (PVs) in the NZASB's comment letter to the IPSASB. We assume that the GASB will comment to the IPSASB.
16. For the Board's information we have summarised the GASB's PVs in Appendix A of this memo. The proposed Category A/B split is neither exchange/non-exchange nor performance obligation/no performance obligation. However Category A proposals look very similar to the performance obligations approach in ED 70.

Next steps

17. During this meeting we will seek feedback on the draft comment letter and seek direction on any changes or further work required.
18. Following this meeting we will revise the comment letter to reflect the Board's feedback and carry out any other work requested by the Board.

Attachments

Agenda item 5.2: Memo: Disclosures

Agenda item 5.3: Draft comment letter

Agenda item 5.4: IPSASB EDs (See separate file)

Agenda item 5.5: Comparison of disclosure requirements (in supporting papers)

² Available from staff or at https://www.gasb.org/cs/Satellite?c=GASBContent_C&cid=1176174821549&pagename=GASB%2FGASBContent_C%2FGASBNewsPage

Appendix A GASB PVs on Revenue and Expense Recognition

Summary GASB PV	
Scope Binding arrangement?	If no binding arrangement out of scope
Criteria for Category A Mutual assent of the parties Identifiable rights and obligations that are substantive Rights and obligations are interdependent	Otherwise Category B.
Examples Category A Fees for specific services (water, electricity, lottery, tuition) Expenditure-driven grants Research grants and revolving loans Medicaid fees for services Most expenses	Examples Category B Taxes (property tax, income tax, sales tax) Purpose-restricted grants (and donations) Donations (unrestricted donations, pledges, perpetual trusts) Punitive fees (fines, penalties, forfeitures) Special assessments (capital and service) Regulatory fees (driver’s licenses, building permits, marriage licenses, professional service licenses) Capital fees (passenger facility charges, impact fees)
Revenue recognition principles The Board’s preliminary view is that a receivable should be recognized when a legally enforceable claim arises in a revenue transaction. A legally enforceable claim arises at different points based on the terms and conditions specified in the binding arrangement. The Board’s preliminary view is that <i>advances</i> in revenue transactions are resources received before a legally enforceable claim arises and should result in a liability being recognized, regardless of whether those advances are refundable.	
Category A Revenue Recognition The Board’s preliminary view is that the performance obligation recognition approach should be used to recognize Category A revenue transactions. The Board’s preliminary view is that receivables from Category A revenue transactions should be recognized when (or as) a government satisfies its performance obligation(s)—that is, when a legally enforceable claim to consideration arises. The Board’s preliminary view is that in Category A revenue transactions, the satisfaction of a performance obligation in a reporting period establishes that an inflow of resources is applicable to that reporting period. The Board’s preliminary view is that revenue in Category A transactions should be recognized when (or as) a government satisfies its performance obligation(s) at a point in time or over time. The Board’s preliminary view is that the satisfaction of a performance obligation occurs when a government transfers control of a resource to its counterparty or a third party.	Category B Revenue Recognition The Board’s preliminary view is that in Category B revenue transactions, the attribute that establishes that an inflow of resources is applicable to a reporting period is compliance with time requirements in that period. The Board’s preliminary view is that revenue that arises from Category B transactions should be recognized based on compliance with time requirements. Absent time requirements, Category B revenue should be recognized when a legally enforceable claim arises. The PV documents sets out proposals with respect to: <ul style="list-style-type: none"> • Derived Category B • Imposed Category B • Contractual Binding Arrangement Revenue Transactions (such as donation agreements, pledges... and purpose-restricted grants evidenced by a grant agreement) • General aid to governments transactions <i>We have not shown all these proposals</i>

Summary GASB PV	
<p>Performance Obligations Are Distinct Goods or Services</p> <p>The Board’s preliminary view is that each distinct good or service identifiable in a Category A revenue binding arrangement represents a performance obligation.</p>	
<p>Revenue Recognition Over Time or at a Point in Time</p> <p>The Board’s preliminary view is that each performance obligation is satisfied either at a point in time or over time. The distinction between recognition at a point in time and recognition over time relies on the identification of when a government transfers control of a resource (a distinct good or service) to the counterparty.</p>	
<p>Expenditure-Driven Grant Revenue Recognition</p> <p>The Board’s preliminary view is that the assessment of <i>future</i> compliance with expenditure-driven grant requirements should not be taken into consideration for recognition purposes.</p>	
<p>Expense Recognition Principles</p> <p>The Board’s preliminary view is that a payable should be recognized when a present obligation to sacrifice resources arises in an expense transaction. A payable arises at different points based on the terms and conditions specified in the binding arrangement.</p> <p>The Board’s preliminary view is that advances in expense transactions are resources provided before a payable arises and should result in a prepaid asset being recognized, regardless of whether those advances are refundable.</p>	
<p>Category A Expense Recognition</p> <p>The Board’s preliminary view is that the performance obligation recognition approach should be used to recognize Category A expense transactions.</p> <p>The Board’s preliminary view is that payables from Category A expense transactions should be recognized when (or as) a government’s counterparty satisfies its performance obligation(s).</p> <p>The Board’s preliminary view is that in Category A expense transactions, the satisfaction of a performance obligation in a reporting period by a government’s counterparty establishes that an outflow of resources is applicable to that reporting period.</p> <p>The Board’s preliminary view is that expense in Category A transactions should be recognized when (or as) a government’s counterparty satisfies its performance obligation(s) at a point in time or over time.</p> <p>The Board’s preliminary view is that the satisfaction of a performance obligation occurs when a government receives control of a resource (a distinct good or service) from its counterparty.</p>	<p>Category B Expense Recognition</p> <p>The Board’s preliminary view is that in Category B expense transactions, the attribute that establishes that an outflow of resources is applicable to a reporting period is compliant with time requirements in that period.</p> <p><i>For that reason, the Board concluded that deferred outflows of resources should be recognized in Category B expense transactions in circumstances in which the government providing resources has established time requirements for the recipient of the resources and compliance with those time requirements has not been achieved.</i></p> <p>The Board’s preliminary view is that expenses that arise from Category B transactions should be recognized based on compliance with time requirements. Absent time requirements, Category B expense should be recognized when a payable arises.</p>

Summary GASB PV	
<p>Performance Obligations Are Distinct Goods or Services</p> <p>The Board’s preliminary view is that each distinct good or service identifiable in a Category A expense binding arrangement represents a performance obligation.</p>	<p>Contractual Binding Arrangement Expense Transactions</p> <p>The Board’s preliminary view is that Category B transactions include a subcategory identified as contractual binding arrangement transactions, in which two or more willing parties enter into an agreement evidenced by an explicit binding arrangement that provides for the transfer of resources between the parties.</p>
<p>Expense Recognition Over Time or at a Point in Time</p> <p>The Board’s preliminary view is that each performance obligation is satisfied either at a point in time or over time. The distinction between recognition at a point in time and recognition over time relies on the identification of when a government’s counterparty transfers control of a resource (the distinct good or service) to the government.</p>	<p>General Aid to Governments</p> <p>The Board’s preliminary view is that Category B transactions include a subcategory identified as general aid to governments transactions, in which legislation or similar law requires the provision of resources from one government to other governments to fund a specific activity or program.</p> <p>The Board’s preliminary view is that for general aid to governments transactions, the resource provider should recognize a payable when payments are due, if both of the following criteria are met:</p> <ol style="list-style-type: none"> a. The resource provider has appropriated funds for the provision of resources and the period applicable to the appropriation has begun. b. The resource provider has determined that it intends to provide the resources to the resource recipient. <p>Furthermore, the resource provider should recognize expenses simultaneously with the payable.</p>
<p>Expenditure-Driven Grant Expense Recognition</p> <p>The Board’s preliminary view is that the assessment of future compliance with expenditure-driven grant requirements should not be taken into consideration for recognition purposes.</p>	<p><i>We have not included all the expense proposals – for example</i></p> <ul style="list-style-type: none"> • <i>Cancellation of appropriations</i> • <i>Shared revenue</i> • <i>Portfolio recognition</i>
<p>Measurement</p> <p><i>We have not included the measurement proposals</i></p>	



NZ ACCOUNTING
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Memorandum

Date: 31 July 2020

To: NZASB Members

From: Joanne Scott and Vanessa Sealy-Fisher

Subject: **IPSASB Revenue and Transfer Expenses: Disclosures**

Purpose and introduction¹

1. The purpose of this agenda item is to seek the Board's feedback on our proposed approach to responding to the specific matters for comment (SMCs) on the disclosure requirements in ED 70 *Revenue with Performance Obligations*, ED 71 *Revenue without Performance Obligations* and ED 72 *Transfer Expenses*.
2. ED 70 has two SMCs on the disclosure requirements and ED 71 and ED 72 each have one. The SMCs are included later in the memo (as part of the discussion of each ED).
3. We propose to make high-level comments in response to the SMCs rather than the detail sought in the questions.
4. For our purposes we prepared a comparison of the presentation and disclosure requirements across all three EDs. We thought this comparison might also be of interest to Board members and have included it in the agenda papers (see agenda item 5.5 in the supporting papers). The disclosures in ED 70 are referenced to the equivalent disclosures in IFRS 15 *Revenue from Contracts with Customers*. The disclosures in ED 71 that have been carried over from IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* are referenced to the equivalent disclosures in IPSAS 23. ED 72 is a new standard, therefore none of the disclosure requirements are based on equivalent disclosures in IFRS Standards nor are any carried over from an existing International Public Sector Accounting Standard (IPSAS).

Recommendation

5. We recommend that the Board PROVIDES FEEDBACK on the proposed disclosure requirements in EDs 70–72 and our proposed comments on the relevant SMCs.

Background

6. ED 70 is based on IFRS 15. It deals with the recognition, measurement, presentation and disclosure of revenue and cash flows arising from binding arrangements with a purchaser that include performance obligations to transfer promised goods or services to the purchaser or a

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).

third-party beneficiary. The disclosure requirements in ED 70 are equivalent to the disclosure requirements in IFRS 15 with one additional disclosure.

7. ED 71 deals with the recognition, measurement, presentation and disclosure of revenue and cash flows arising from transactions without performance obligations (as defined in ED 70). This includes revenue from taxes (including other compulsory contributions and levies), revenue from transfers with present obligations, and revenue from transfers without present obligations. The resulting IPSAS based on ED 71 will replace IPSAS 23. Many of the disclosure requirements for revenue from taxes and transfers have been carried over from IPSAS 23. The disclosure requirements for revenue from transfers with present obligations are based on the equivalent disclosure requirements in ED 70.
8. ED 72 deals with the recognition, measurement, presentation and disclosure of transfer expenses.² It contains disclosure requirements for transfer expenses with performance obligations and transfer expenses without performance obligations. The disclosure requirements for transfer expenses with performance obligations mirror the equivalent disclosure requirements in ED 70.
9. Appendix A to this memo provides a high-level comparison of the disclosure requirements in the three EDs.

Structure of this memo

10. The remaining sections in this memo are:
 - (a) Objectives and users of financial reports;
 - (b) General comments on the disclosure requirements;
 - (c) ED 70 disclosure requirements;
 - (d) ED 71 disclosure requirements;
 - (e) ED 72 disclosure requirements; and
 - (f) Next steps.

Objectives and users of financial reports

11. The *Conceptual Framework for Financial Reporting* (IASB CF) and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (IPSASB CF) both describe the objective of, and concepts for, general purpose financial statements prepared on the accruals basis of accounting. They also identify the users of the financial statements and their information needs.
12. The IASB CF lists users of the financial statements and their information needs as “existing and potential investors, lenders and other creditors in making decisions relating to providing

² A transfer expense is defined as an expense, other than taxes, in which an entity provides a good, service or other asset to another entity without directly receiving any good, service or other asset in return. This includes expenses arising from a transaction where the transfer recipient is required to satisfy a performance obligation by transferring goods or services to a third-party beneficiary.

resources to the entity. Those decisions involve decisions about (a) buying, selling or holding equity and debt instruments, (b) providing or settling loans and other forms of credit, or (c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources." (paragraph 1.2)

13. The IPSASB CF identifies the primary users of general purpose financial reports (GPFR) as service recipients and resource providers and explains that entities are "accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services." (paragraph 2.3). The information needs of these users are, therefore, for accountability and decision-making purposes. Investment decisions might be relevant for a subset of users, but they are not the primary focus of the IPSASB CF.
14. These differences between the IASB CF and the IPSASB CF regarding users of financial statements and their information needs could result in different disclosure requirements in IFRS Standards and IPSAS for the same type of transaction, even though the recognition and measurement requirements are the same. For example, in the for-profit sector there is a greater emphasis on the generation of a profit for investors (so revenue is an important item), whereas in the public sector the emphasis is more on the management of the entity's resources to deliver goods and services for public benefit, rather than the generation of a profit.

General comments on the disclosure requirements

15. At a staff level we were involved in providing feedback on various versions of the draft EDs, including post the September 2019 IPSASB meeting, prior to and during the December 2019 IPSASB meeting and on near final versions. We observed that significant changes to disclosures occurred at a late stage of the IPSASB's deliberations.
16. We are concerned that insufficient consideration has been given to the disclosure requirements in ED 71 and ED 72. The original draft of ED 71 tabled at the December 2019 IPSASB meeting included only the disclosure requirements carried over from IPSAS 23. The equivalent disclosures from ED 70, amended as appropriate, were included in a revised ED, tabled later at that meeting for approval. However, these additional disclosures were not discussed by the IPSASB at that time. The EDs were approved for issue at the December 2019 IPSASB meeting and the IPSASB directed staff to make a number of changes before the EDs were issued.³ The EDs were then reviewed by a subset of IPSASB members post the December meeting, prior to being issued at the end of January 2020.
17. We note that the Basis for Conclusions (BC) on ED 71 has no discussion of the disclosure requirements, or the IPSASB's rationale for including them, in ED 71. The BC on ED 72 has limited discussion of the disclosure requirements and, in fact, is inconsistent with the disclosure requirements in ED 72 (see paragraph BC69 and further discussion later in the memo). Consequently, the onus is being put on constituents to push back on the proposed

³ The minutes from the December 2019 IPSASB meeting list the instructions to staff for updating ED 71 and ED 72. The minutes are available at https://www.ifac.org/system/files/meetings/files/Approved-Minutes-December_Master-Final.pdf

disclosures and identify disclosures that are relevant/not relevant/should be added. We therefore question whether sufficient consideration has been given to the relevance and appropriateness of the disclosure requirements in ED 71 and ED 72.

18. The following extracts from the minutes of the December IPSASB meeting are the instructions to IPSASB staff relating to the disclosure requirements in the three EDs. The extracts imply that the IPSASB expressed a view that the disclosure requirements should be consistent across all three EDs. We are highlighting this because it has led to a lot more disclosure paragraphs in ED 71 and ED 72.

ED 70	ED 72
<ul style="list-style-type: none"> • Update the disclosure and explain in the BC why all the IFRS 15 disclosures have been retained in ED 70 • Highlight in the BC that the disclosures in IFRS 15 are not consistent with the disclosures in IPSAS 23 • Add an SMC asking if all the IFRS 15 disclosures should be retained • Clarify paragraph 120 	<ul style="list-style-type: none"> • Include all relevant disclosure from ED 70 in the PSPOA section of the disclosure requirements • Include all relevant disclosures from ED 70 and ED 71 in the section of the disclosure requirements dealing with transfer expenses without performance obligations

19. We acknowledge the desire for consistency of the disclosure requirements across all three EDs, but we question whether this approach is the most appropriate way of deciding which disclosures are needed in each standard. The disclosure requirements should be considered on a standard-by-standard basis according to the scope of each standard, rather than aligning the disclosures across a group of related standards.
20. We also think the order of the disclosure requirements in ED 71 should be amended to be consistent with the order of the recognition and measurement requirements in the ED, that is, revenue from transfers with present obligations, followed by transfers without present obligations, and then taxes.
21. We propose to include the following general comments in the Board’s comment letter.
- (a) ED 70 –support for the disclosure requirements. ED 70 is aligned with IFRS 15 and we agree there are no public sector specific reasons to require different disclosures;
 - (b) ED 71 – suggest that (i) the disclosures be reorganised to reflect the structure of the recognition and measurement requirements in the ED, (ii) the IPSASB consider whether all the disclosures carried over from IPSAS 23 are still relevant, and express the view that overall, there are too many disclosures on account of seeking alignment of the disclosure requirements across all three EDs; and
 - (c) ED 72 – challenge whether all the disclosures are needed, as this level of detail is not normally required for expenses.
22. We have included our comments under the relevant SMCs in the draft comment letter at agenda item 5.3.

ED 70 disclosure requirements

23. ED 70 contains two SMCs relating to the disclosure requirements.

Specific Matter for Comment 4:

The IPSASB decided that this Exposure Draft should include the disclosure requirements that were in IFRS 15. However, the IPSASB acknowledged that those requirements are greater than existing revenue standards.

Do you agree that the disclosure requirements should be aligned with those in IFRS 15, and that no disclosure requirements should be removed? If not, why not?

Specific Matter for Comment 5:

In developing this Exposure Draft, the IPSASB noted that some public sector entities may be compelled to enter into binding arrangements to provide goods or services to parties who do not have the ability or intention to pay. As a result, the IPSASB decided to add a disclosure requirement about such transactions in paragraph 120. The rationale for this decision is set out in paragraphs BC38–BC47.

Do you agree with the decision to add the disclosure requirement in paragraph 120 for disclosure of information on transactions which an entity is compelled to enter into by legislation or other governmental policy decisions? If not, why not?

24. In light of the Board's support for an IPSAS based on IFRS 15, we propose to agree that the disclosure requirements should be aligned with those in IFRS 15 (SMC 4) and with the additional disclosures proposed in paragraph 120 of ED 70 (SMC 5).
25. ED 70 is based on IFRS 15 and includes all the disclosure requirements, amended as appropriate for the public sector, that are in IFRS 15. The Board supported the development of an IPSAS based on IFRS 15 in its response to the IPSASB's 2017 Consultation Paper *Accounting for Revenue and Non-Exchange Expenses* (the 2017 CP). For this reason, we think it would be difficult to disagree with most of the disclosure requirements in ED 70.
26. Paragraphs BC48–BC50 of the IPSASB Basis for Conclusions (BC) on ED 70 explain that:
- (a) the IPSASB decided that there was no public sector-specific reason to remove any of the disclosures requirements from IFRS 15, even though this will result in significantly more requirements than required in the existing IPSAS 23;
 - (b) explicit reference to the materiality and aggregation guidance from paragraphs 45–47 of IPSAS 1 would be helpful, so this has been included in ED 70 (see paragraph 112); and
 - (c) a disclosure was added where an entity is compelled to satisfy a performance obligation and where the collection of consideration is not probable (or only assessed as probable after accepting a price concession) (paragraph 120 of ED 70). This situation can occur where a public sector entity is compelled by legislation to deliver certain services to the public, regardless of their credit status. The proposed disclosure provides information to users about why an entity was compelled to enter into such transactions, as well as the level of goods and services that were provided by the entity for which revenue was not recognised.

27. We have tried, but have been unsuccessful in, seeking feedback from an entity that we think may be required to make the disclosures required under paragraph 120.

Question for the Board

1. Does the Board agree with our proposal to agree with the questions in SMC 4 and SMC 5 of ED 70?

ED 71 disclosure requirements

28. ED 71 contains one SMC relating to the disclosure requirements.

Specific Matter for Comment 6: (Paragraphs 126–154)

The disclosure requirements proposed by the IPSASB for revenue transactions without performance obligations are intended to provide users with information useful for decision making, and to demonstrate the accountability of the transfer recipient for the resources entrusted to it.

Do you agree the disclosure requirements in this [draft] Standard provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations? In particular, (i) what disclosures are relevant; (ii) what disclosures are not relevant; and (iii) what other disclosures, if any, should be required?

29. We do not propose to respond to this SMC in the detail outlined in the question.
30. The BC on ED 71 is silent regarding the IPSASB's rationale for the disclosure requirements in ED 71, which is not helpful in deciding whether or not we agree with the IPSASB's proposals.
31. Before we summarise the disclosure requirements we would like to highlight that we propose to suggest that the disclosures be reorganised to reflect the structure of the recognition and measurement requirements. As written, it is difficult to identify which disclosures relate to revenue with present obligations as some of the disclosures are general (with more detailed disclosures following) and some appear to be duplicated. (For example, paragraphs 131(b) and 143(a) both require an entity to disclose the amount of receivables recognised at the reporting date.) This means that the disclosures for revenue with present obligations occur in a number of paragraphs. We also note that the heading above paragraph 140 refers to binding arrangements which may exist in relation to both revenue with, and revenue without, present obligations. However, the disclosures required by paragraph 140 are relevant only for transactions with present obligations. We propose to comment on the structure of the disclosure section of ED 71 in the comment letter.
32. For revenue arising from transactions without performance obligations, ED 71 requires an entity to disclose:
- (a) all revenue arising from transactions without performance obligations and within the scope of ED 71 (paragraphs 131–139, which have been carried over from IPSAS 23 (except for paragraph 137 which is based on ED 70.120)); and
 - (b) more detailed disclosures about revenue transactions with present obligations. Because a binding arrangement is required for there to be a present obligation, these disclosures refer to binding arrangements. See paragraphs 140–154, which are based on the

equivalent disclosures in ED 70 (except for paragraph 147 for which there is no equivalent paragraph in ED 70).

33. The disclosure requirements in paragraphs 131–136 and 138–139 are carried over from paragraphs 106–108 and 111–115 of IPSAS 23 and amended as appropriate for the terminology used in ED 71. We think the IPSASB should take this opportunity to revisit the disclosures from IPSAS 23 that have been carried over into ED 71 to determine whether they are still relevant.
34. The draft comment letter raises concerns with the proposals regarding revenue arising from transactions with present obligations. Our response to SMC 1 on ED 71 states that the Board disagrees with “the IPSASB’s conceptual analysis of why, in the absence of a performance obligation, a liability exists”. If the IPSASB does not proceed with the proposals in ED 71, it will need to reconsider the disclosure requirements.
35. The draft comment letter notes our view that the use of the term transfer recipients throughout ED 71 is confusing for readers, especially in the disclosures section. The definition of a ‘transfer’ excludes taxes, but the definition of a transfer recipient does not exclude entities that collect taxes. Our comments on this are set out at the end of ED 71 under ‘other comments’.
36. Appendix B to this memo summarises the disclosure requirements for revenue arising from transactions without performance obligations, differentiating between revenue from (i) taxes, other compulsory contributions and levies, (ii) transfers without present obligations (there may or may not be a binding arrangement), and (iii) transfers with present obligations (there must be a binding arrangement).

Question for the Board

2. Does the Board agree with our proposals:
 - (a) not to comment on this SMC in detail;
 - (b) to recommend that the disclosure requirements be restructured to reflect the structure of the recognition and measurement requirements in the ED;
 - (c) to suggest that the IPSASB revisit the disclosures in IPSAS 23 that have been carried over into ED 71 to determine whether they are still relevant; and
 - (d) to suggest that the IPSASB reconsider whether all the disclosure requirements in ED 71 are relevant?

ED 72 disclosure requirements

37. ED 72 contains one SMC relating to the disclosure requirements.

Specific Matter for Comment 9:

This [draft] Standard proposes disclosure requirements that mirror the requirements in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*, to the extent that these are appropriate.

Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses? In particular,

- (a) Do you think there are any additional disclosure requirements that should be included?
- (b) Are any of the proposed disclosure requirements unnecessary?

38. A transfer provider is required to disclose information about all of the following (paragraph 127);
- (a) expenses from transfer expenses;
 - (b) binding arrangements for transfer expenses with performance obligations;
 - (c) the significant judgements, and changes in those judgements, made in applying the ED to those binding arrangements with performance obligations;
 - (d) binding arrangements for transfer expenses without performance obligations; and
 - (e) the significant judgements, and changes in those judgements, made in applying the ED to those binding arrangements without performance obligations.
39. As outlined earlier in this memo, the disclosure requirements in ED 72 mirror the equivalent disclosure requirements in ED 70 and ED 71. This results in a significant number of disclosures relating to transfer expenses, in particular, for transfer expenses with performance obligations. We are not aware of any other category of expenses that is required to be disclosed in this sort of detail and do not think that this level of detail is appropriate. We have thought about what users of general purpose financial statements might want to know about transfer expenses with performance obligations. We consider that they are most likely to be interested in the overall balance of accruals, not the detail. We note that the IPSASB also seems to have been of this view at an earlier stage of the process (see ED 72 paragraph BC69 below). However, paragraph BC69 is inconsistent with the final proposals in ED 72.
40. Paragraph BC69 of the BC on ED 72 explains that:
- BC69. In carrying out this review, the IPSASB sought to ensure that the presentation and disclosure requirements would provide useful information for users of the financial statements, while avoiding information overload or excessive costs for preparers. A key factor in the review was the context of [draft] IPSAS [X] (ED 72); the IPSASB considered that not all the information that was needed to assess the performance of a transfer recipient was necessary in assessing the performance of a transfer provider. For this reason, the IPSASB agreed not to include disclosure requirements for the disaggregation of expenses and the detailed information on binding arrangement balances.
41. However, ED 72 does require disclosures about disaggregation of expenses (paragraphs 133–134, 147–148 and AG109–AG111) and binding arrangement balances (paragraphs 135–137).
42. On balance we think that the disclosure proposals in ED 72 are excessive. We are interested in feedback about whether the Board agrees with our view, and if so, how strongly we express this view in the comment letter. Rather than commenting on this question in detail, we propose to express overall disagreement with the level of disclosures.
43. On a more detailed note, we agree with the IPSASB’s rationale for the decision not to include disclosure requirements for the disaggregation of expenses and the detailed information on binding arrangement balances in paragraph BC69.

Question for the Board

3. Does the Board agree with:
 - (a) our proposal not to comment on this SMC in detail but to rather express our overall disagreement with the level of disclosures in ED 72; and
 - (b) the IPSASB's decision and rationale in paragraph BC69 of ED 72 not to require the disclosures mentioned in paragraph BC69?

Next steps

44. The Board's feedback will be incorporated into the draft comment letter to the IPSASB which will be brought back to the September Board meeting.

Appendix A

High-level comparison of the disclosure requirements in EDs 70–72

Topic	ED 70 paras	ED 71 paras	ED 72 paras
Disclosures	109–130	126–154	127–153
Disclosure objective	109–112	126–130	127–130
Binding arrangements with purchasers/Binding arrangements/Transfer expenses	113–123	140–142	131–132
<i>Disaggregation of revenue/expenses</i>	114–115 AG137–AG139	141–142 AG55–AG57	133–134 & 147–148 AG109–AG111
<i>Binding arrangement balances</i>	116–118	143–145	135–137
<i>Performance obligations/Present obligations/Transfer recipient's performance obligations</i>	119–120	146–147 &137	138
<i>Transaction price allocated to the remaining performance obligations/Transaction consideration allocated to the transfer recipient's remaining performance obligations</i>	121–123	148–150	139–141
Significant judgements in the application of this [draft] Standard	124–127	151	142 & 152
<i>Determining the timing of satisfaction of performance obligations (by the transfer recipient)</i>	125–126	152–153	143–144
<i>Determining the transaction price and the amounts allocated to performance obligations/consideration and amounts allocated to the transfer recipient's performance obligations</i>	127	154	145
Assets recognised from the costs to obtain or fulfill a binding arrangement with a purchaser	128–129		
Practical expedients	130		153
Revenue from transactions without performance obligations		131–136 & 138–139	
Breach of the terms and conditions of a binding arrangement		AG59	
<i>Transfer expenses subject to appropriations</i>			150
<i>Transfer expenses where the transfer provider cannot monitor the transfer recipient's satisfaction of performance obligations</i>			151

Appendix B

ED 71 disclosure requirements depending on revenue stream

Disclosure	Taxes, other compulsory contributions and levies	Transfers without performance obligations	Transfers with present obligations (must be a binding arrangement)
To achieve objective of disclosure requirements, qualitative & quantitative information about: (a) binding arrangements with present obligations; and (b) significant judgments in applying standard to those binding arrangements			127(a) and 127(b)
Consider level of detail necessary to satisfy disclosure objective	128	128	128
No need to disclose information if information provided in accordance with another standard	129	129	129
Consider requirements in paras 45–47 of IPSAS 1 – guidance on materiality and aggregation	130	130	130
On face of, or in notes to, GPFS: Revenue by major classes	131(a)(i) and (ii)	131(a)(iii)	
Receivables at reporting date	131(b)	131(b)	131(b)
Liabilities at reporting date in respect of transferred assets subject to present obligations	131(c)	131(c)	131(b)
Liabilities at reporting date in respect of concessionary loans subject to requirements on transferred assets	131(d)	131(d)	
Existence and amounts of advance receipts	131(e), 135	131(e), 135	131(e)
Disclose in notes accounting policies for recognition of revenue without performance obligations	132(a)	132(a)	132(a)
For major classes of revenue without performance obligations, basis on which transaction price of inflowing resources was measured	132(b)	132(b)	132(a)

Disclosure	Taxes, other compulsory contributions and levies	Transfers without performance obligations	Transfers with present obligations (must be a binding arrangement)
For major classes of tax etc that transfer recipient cannot measure reliably during the period in which the taxable/equivalent event occurs, information about the nature of the tax etc	132(c), 136		
Nature and type of major classes of bequest, gifts and donations – goods in-kind separately		132(d), 138	
Qualitative and quantitative information about services in-kind recognised		132(e)	
Encouraged to disclose qualitative information about nature and type of major classes of services in-kind not recognised		133, 139	
Binding arrangements – revenue from transfers with present obligations and impairment losses on receivables or binding arrangements assets			140
Disaggregation of revenue			141–142 and AG55-AG57
Binding arrangement balances			143–145
Present obligations			146–147
Transaction price allocated to remaining present obligations			148–150
Judgments in applying the standard that significantly affect the determination of the amount and timing of revenue from transactions with present obligations			151–154



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[date]

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Submitted to: www.ifac.org

Dear Ross

Revenue and Transfer Expenses

Thank you for the opportunity to comment on the IPSASB's proposals in relation to revenue and transfer expenses. This letter sets out our comments on the following exposure drafts (EDs).

- ED 70 *Revenue with Performance Obligations*
- ED 71 *Revenue without Performance Obligations*
- ED 72 *Transfer Expenses*

As the EDs have been exposed for comment in New Zealand, some New Zealand constituents may comment directly to you.

[The main points from the Appendices will be summarised in the cover letter]

Our responses to the Specific Matters for Comment are set out in the Appendices to this letter. If you have any queries or require clarification of any matters in this letter, please contact Joanne Scott (joanne.scott@xrb.govt.nz) or me.

Yours sincerely

Michael Bradbury
Acting Chair – New Zealand Accounting Standards Board

APPENDIX 1

[DRAFT] Response to SMCs on ED 70 Revenue with Performance Obligations

In these Appendices, 'Notes for the Board' have a double outline.

Proposed responses

We have highlighted draft responses with a green shaded heading, as shown above.

ED 70 Specific Matter for Comment 1

This Exposure Draft is based on IFRS 15, *Revenue from Contracts with Customers*. Because in some jurisdictions public sector entities may not have the power to enter into legal contracts, the IPSASB decided that the scope of this Exposure Draft would be based around binding arrangements. Binding arrangements have been defined as conferring both enforceable rights and obligations on both parties to the arrangement.

Do you agree that the scope of this Exposure Draft is clear? If not, what changes to the scope of the Exposure Draft or the definition of binding arrangements would you make?

Notes for the Board on ED 70 SMC 1

The proposals in ED 70 were discussed at the March 2020 Board meeting.

Comments on this SMC

- The definition of a binding arrangement – an arrangement that confers both enforceable rights and obligation on both parties to the arrangement. A Board member questioned whether 'both' should be removed before 'parties'.

We have not raised this in the comment letter for the following reasons.

- This definition was requested by an IPSASB member.
- Both parties must have rights and obligations for the transaction to be in scope.
- All of the following must be present: (i) purchaser promises to pay entity, (ii) in return, purchaser has a right to receive the goods or services specified in the binding arrangement, (iii) the entity promises to deliver specified goods or services to the purchaser or third-party beneficiary, and (iv) in return, the entity has a right to receive payment.
- Removing 'both' before 'parties' might cause problems in some third-party arrangements.
- The same Board member questioned 'enforceable' should also be added before 'obligations'.
We have not raised this in the comment letter because the definition of a binding arrangement is consistent with the definition of a contract in IFRS 15.
- **Enforceability.** AASB 15.F12 gives examples of terms that result in enforceable agreements. Staff asked whether this was useful and, if so, whether we should suggest the IPSASB include something similar in ED 70. There were mixed views on this as outlined below.
 - They are mechanisms for enforcement, not necessarily assessments of substance of enforceability.
 - Need to be careful with the existence of clauses and who has the right to choose to include and enforce the clause – it's a question of substance. Is there a clause? Is it capable of being enforced?
 - This is still similar to the guidance in IPSAS 23. Need to get right balance between genuine substance and false substance.
 - Concern with just because you haven't enforced in the past, doesn't mean they can't enforce in the future (see paragraph AG24).

- Support for including in ED 70.

We have not raised this in the comment letter. We think that paragraph AG24 (shown below) is more in the line of guidance and does not give a definitive answer. The emphasis has been added by us.

AG24. In determining whether an arrangement is enforceable, it is necessary to consider any past history of enforcement. If past experience with a purchaser indicates that the purchaser never enforces the terms of the arrangement when breaches have occurred, then the entity may conclude that the terms of the arrangement are not substantive, and therefore the arrangement is not enforceable. However, if the entity has no experience with the purchaser, or has not previously breached any terms that would prompt the purchaser to enforce the arrangement, and it has no evidence to the contrary, the entity would assume that the purchaser would enforce the terms, and therefore the arrangement is considered enforceable.

We will draft the response to SMC 1 about scope once we have discussed provisions (see below) and the comments on ED 71 SMC 5 (about receivables and binding arrangement assets).

Further notes for the Board about ED 70 SMC 1 – links to provisions requirements

At a previous meeting (March 2020) a concern was raised regarding link between ED 70 and IPSAS 19 (see the scope exclusion in ED 70 paragraph 3(e)). A Board member noted that the scope of IFRS 15 does not specifically exclude IAS 37, and expressed the view that the scope of IFRS 15 is clearer.

We are seeking the Boards views about whether the scope of ED 70 should have been more closely aligned with how the IASB addressed provisions in IFRS 15 and IAS 37.

This note summarises the links between IFRS 15 and IAS 37.

IFRS 15 Revenue from Contracts with Customers

The scope of IFRS 15 does not mention transactions within the scope of IAS 37.

Nevertheless some obligations arising from transactions within the scope of IFRS 15 fall within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Accounted for in accordance with IFRS 15:

- **Service-type warranties.** These offer a service in addition to the product. They may be purchased separately or offered alongside assurance-type warranties. A portion of the transaction price is allocated to this performance obligation. If an entity promises both an assurance type warranty and a service-type warranty but cannot reasonably account for them separately it may account for them as a single performance obligation. (IFRS 15 paragraphs B29–B32).

Accounted for in accordance with IAS 37:

- **Assurance-type warranties.** These are assurances that the product will function as intended because it complies with agreed-upon specifications. (IFRS 15 paragraph B30)
- **Compensation for damages** (whether required by law or indemnities offered by the entity). (IFRS 15 paragraph B33)
- **Onerous contracts.** An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. An entity records a provision for the loss it expects to make on the contract in accordance with IAS 37. This is explained IAS 37 paragraph 5(g) (see below).

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

When IFRS 15 was issued it amended IAS 37 by adding paragraph 5(g).

5. When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are also addressed in Standards on:
 - (a) [deleted by IASB]
 - (b) income taxes (see IAS 12 *Income Taxes*);
 - (c) leases (see IFRS 16 *Leases*). ... ;
 - (d) employee benefits (see IAS 19 *Employee Benefits*);
 - (e) insurance contracts (see IFRS 4 *Insurance Contracts*). ... ;
 - (f) contingent consideration of an acquirer in a business combination (see IFRS 3 *Business Combinations*); and

- (g) revenue from contracts with customers (see IFRS 15 *Revenue from Contracts with Customers*). However, as IFRS 15 contains no specific requirements to address contracts with customers that are, or have become, onerous, this Standard applies to such cases.

ED 70 Revenue with Performance Obligations

In contrast to IFRS 15, the scope of ED 70 excludes rights or obligations within the scope of IPSAS 19.

ED 70 does include guidance about warranties which is equivalent to that in IFRS 15 paragraphs B28 to B33.

We have not formed a view on what the scope difference means for the interaction between these two standards but agree that it needs to be considered.

Extracts from ED 70

Scope

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for revenue arising from binding arrangements with a purchaser that include performance obligations as defined in this [draft] Standard to transfer promised goods or services to the purchaser or third-party beneficiary. This [draft] Standard does not apply to:

...

- (e) Rights or obligations arising from binding arrangements within the scope of, *IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets*, *IPSAS 32, Service Concession Arrangements: Grantor*, *IPSAS 34, Separate Financial Statements*, *IPSAS 35, Consolidated Financial Statements*, *IPSAS 36, Investments in Associates and Joint Ventures*, *IPSAS 37, Joint Arrangements*, *IPSAS 39, Employee Benefits* and *IPSAS 40, Public Sector Combinations*;

...

- AG23. A statement of intent or public announcement by a purchaser (e.g. government) to spend money or deliver goods and services in a certain way is not an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between a purchaser and an entity (resource recipient). An entity would need to consider whether such a public announcement gives rise to a non-legally binding (constructive obligation) under *IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets*.

ED 70 Specific Matter for Comment 2

This Exposure Draft has been developed along with [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*, and [draft] IPSAS [X] (ED 72), *Transfer Expenses*, because there is an interaction between them. Although there is an interaction between the three Exposure Drafts, the IPSASB decided that even though ED 72 defines transfer expense, ED 70 did not need to define “transfer revenue” or “transfer revenue with performance obligations” to clarify the mirroring relationship between the exposure drafts. The rationale for this decision is set out in paragraphs BC20–BC22.

Do you agree with the IPSASB’s decision not to define “transfer revenue” or “transfer revenue with performance obligations”? If not, why not?

Proposed response ED 70 SMC 2

We agree with the IPSASB’s decision not to define “transfer revenue” or “transfer revenue with performance obligations”.

ED 70 Specific Matter for Comment 3

Because the IPSASB decided to develop two revenue standards—this Exposure Draft on revenue with performance obligations and ED 71 on revenue without performance obligations—the IPSASB decided to provide guidance about accounting for transactions with components relating to both exposure drafts. The application guidance is set out in paragraphs AG69 and AG70.

Do you agree with the application guidance? If not, why not?

Notes for the Board on ED 70 SMC 3

Comments relating to this SMC

- Paragraph 9 of ED 71 deals with revenue transactions which include components with performance obligations and components without performance obligations. This paragraph refers to paragraphs AG69 and AG 70 of ED 70. A board member suggested that we recommend the IPSASB include a similar paragraph in ED 70 so the final standards ‘talk to each other’ on this matter. We were asked to look at the Australian paragraph in AASB 15.

Aus7.1 For not-for-profit entities, a contract may also be partially within the scope of this Standard and partially within the scope of AASB 1058.

We have proposed that the IPSASB include in ED 70 a paragraph similar to paragraph 9 of ED 71.

- Paragraph AG70 of ED 70 states “To demonstrate that this presumption is rebutted, the terms of the binding arrangement must clearly specify that only a portion of the consideration is to be returned to the purchaser in the event the entity does not deliver the promised goods or services, as this indicates that the remaining consideration is intended to help the entity achieve its objectives.” A Board member questioned whether the return of consideration should be pinned to the contractual form so clearly, or whether we should be assessing the substance of the agreement.

AASB 15.F29 states that the presumption [that the transaction price relates wholly to the transfer of promised goods or services] is rebutted where the transaction price is partially refundable in the event the entity does not deliver the promised goods or services.

Paragraph AG70 of ED 70 is consistent with paragraph F29 of AASB 15 except that there is no reference to the contract in paragraph F29.

The Board was generally supportive of the IPSASB’s approach, so we have not raised this in the comment letter.

- The Board noted that the disaggregation of the transaction price was a difficult issue for the AASB and they didn’t want to impose onerous requirements on smaller entities – they wanted to focus on the bigger transactions where it is obvious that there are components. See paragraph F30 below.

F30 Where the presumption is rebutted, the entity shall disaggregate the transaction price and account for the component that relates to the transfer of promised goods or services in accordance with this Standard. The remainder of the transaction price shall be accounted for in accordance with AASB 1058. Whether the element not related to the performance obligation is material, and therefore needs to be accounted for separately, shall be assessed in relation to the individual contract, without reassessment at an aggregate or portfolio level.

We think that paragraph F30 is helpful. We note that the IPSASB has included in all three EDs a paragraph referring to “...paragraphs 45–47 of IPSAS 1, which provide guidance on materiality and aggregation. A specific disclosure requirement in this [draft] Standard need not be satisfied if the information is not material” (paragraphs ED 70.112, ED 71.130 and ED 72.130). We have proposed that the IPSASB add to ED 70 guidance similar to that in AASB 15.F30.

Proposed response ED 70 SMC 3

We agree with the application guidance in paragraphs AG60 and AG70.

We note that paragraph 9 of ED 71 refers to ED 70 where transactions include components with performance obligations and components without performance obligations. We think that a similar

paragraph should be included in ED 70 to refer entities to ED 71 for transactions with components with performance obligations and components without performance obligations. At the moment there is no reference to such transactions in the body of ED 70. Rather, the reference is in the application guidance.

AASB 15 *Revenue from Contracts with Customers* contains an appendix, Australian implementation guidance for not-for-profit entities. Paragraph F30 requires an entity to assess whether the component of the transaction price not related to the performance obligation is material and needs to be accounted for separately. Paragraph F30 is shown below.

F30 Where the presumption is rebutted, the entity shall disaggregate the transaction price and account for the component that relates to the transfer of promised goods or services in accordance with this Standard. The remainder of the transaction price shall be accounted for in accordance with AASB 1058. Whether the element not related to the performance obligation is material, and therefore needs to be accounted for separately, shall be assessed in relation to the individual contract, without reassessment at an aggregate or portfolio level.

We think this paragraph is helpful. Entities would avoid unnecessary discussions and undue costs if they did not have to separate and account separately for the immaterial components of a transaction.

ED 70 Specific Matter for Comment 4

The IPSASB decided that this Exposure Draft should include the disclosure requirements that were in IFRS 15. However, the IPSASB acknowledged that those requirements are greater than existing revenue standards.

Do you agree that the disclosure requirements should be aligned with those in IFRS 15, and that no disclosure requirements should be removed? If not, why not?

Notes for the Board on ED 70 SMC 4 and 5

See discussion in agenda item 5.2.

Proposed response ED 70 SMC 4

We agree that the disclosure requirements should be aligned with those in IFRS 15.

ED 70 Specific Matter for Comment 5

In developing this Exposure Draft, the IPSASB noted that some public sector entities may be compelled to enter into binding arrangements to provide goods or services to parties who do not have the ability or intention to pay. As a result, the IPSASB decided to add a disclosure requirement about such transactions in paragraph 120. The rationale for this decision is set out in paragraphs BC38–BC47.

Do you agree with the decision to add the disclosure requirement in paragraph 120 for disclosure of information on transactions which an entity is compelled to enter into by legislation or other governmental policy decisions? If not, why not?

Proposed response ED 70 SMC 5

We agree with the additional disclosures proposed in paragraph 120 of ED 70.

ED 70 Other comments

Proposed response ED 70 Other comments

Receivables and binding arrangement assets

Please see our comments on ED 71 SMC 5 about the subsequent measurement of receivables and binding arrangement assets. Many of these comments also apply to the proposals in ED 70.

Paragraphs 32 and 33 – consistency

In comparing ED 70 with IFRS 15 we noticed a difference between the wording in paragraphs 32 and 33 respectively. The paragraphs relate to the sections of the standards dealing with the satisfaction of performance obligations. The words shaded in blue are not included ED 70.32.

Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly in many ways, such as by:

....

A similar paragraph is included in ED 72 (see paragraph 35).

ED 70 defines the term 'control of an asset' and we think it would be helpful to include the shaded wording in IFRS 15.33 in ED 70.32. As ED 70 is based on IFRS 15 we are not sure why the shaded wording in IFRS 15 was not included in ED 70.

APPENDIX 2

[DRAFT] Response to SMCs on ED 71 *Revenue without Performance Obligations***ED 71 Specific Matter for Comment 1 (Paragraphs 14–21)**

The ED proposes that a present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid and which results in an outflow of resources. The IPSASB decided that to help ascertain whether a transfer recipient has a present obligation, consideration is given to whether the transfer recipient has an obligation to perform a specified activity or incur eligible expenditure.

Do you agree with the IPSASB's proposals that for the purposes of this [draft] Standard, *Revenue without Performance Obligations*, a specified activity and eligible expenditure give rise to present obligations? Are there other examples of present obligations that would be useful to include in the [draft] Standard?

Notes for the Board on ED 71 SMC 1

1 April: Agenda item 3.3

- The memo sought the Board's views on SMC 1. Amongst other things it set out the ED 71 proposals; the IPSASB's rationale for revenue deferral; the NZASB's views on IPSASB 2017 CP; the requirements in Australian accounting standards. It also contrasted aspects of the IPSASB's Conceptual Framework with the IASB's Conceptual Framework.
- This memo suggested that for the purpose of commenting on ED 71 the Board should first form a view on the conceptual arguments. If the Board continues to disagree with the IPSASB's proposals on conceptual grounds it can consider how to present those arguments, whether it would support the same proposals with a different rationale, or whether it would prefer the IPSASB to address user needs via presentation options. It also noted that the Board could discuss the possible use of 'other obligations' to bring about the deferral of revenue.
- Overall, NZASB members were not convinced that there was a sufficiently strong conceptual rationale for the proposals. There was no decision reached on how to proceed.

7 May: Agenda item 5.1

- The Board considered examples illustrating the application of ED 71. The Board expressed concerns about whether the proposals were sufficiently clear and principled to lead to consistent application. In particular, the Board noted the difficulty of determining what qualifies as a 'specified activity' or 'eligible expenditure' and the distinction between the two.

NZAuASB 3 June

- The NZAuASB noted the staff view that there is some overlap between the proposed distinction between specified activities and eligible expenditure in ED 71 (both of which ED 71 suggests could give rise to present obligations that meet the definition of a liability) and suggested that only one concept, that of eligible expenditure, might be required. Alternatively, the IPSASB could seek to clarify the proposals about specified activities.

TRG 26 May

- General concerns about not wanting to swap one set of problems for another.

Our approach to drafting the response to SMC 1

The draft comments focus on those aspects of the proposals where we think there is some consensus amongst NZASB members.

Based on previous discussions, Board members have a range of views about the circumstances in which they might support revenue deferral in ED 71. The range of views (and possible rationales) include:

- limit deferrals to capital grants, as per the approach in the AASB's standards. This approach gives a clearer line between when deferral can and cannot occur.
- limit deferral to consumption-based grants.
- allow deferral for both enforceable consumption-based grants and enforceable capital grants.

It could be argued that both the second and third approaches give users more useful information about the entity's performance, although they reflect differing views about the best way of communicating information about capital grants in an entity's performance story.

In the absence of a consensus about whether the deferral of revenue should be limited to one type of grant, we have gone for the third option in the draft response and proposed that the IPSASB introduce requirements about specificity.

If it emerges that there is a consensus amongst Board members for one of the other options, we will also need feedback from the Board as to its rationale for that option.

Sufficiently specific in Australian standards

In the draft comment letter we suggest that, in order to give rise to a present obligation, the obligation should be *sufficiently specific* to demonstrate that enforceability exists. This term is used in Australian Accounting Standards, albeit in a different context. These notes explain how the term is used in Australian standards.

A not-for-profit entity in Australia must assess whether funds received meet the criteria to be recognised under AASB 15 *Revenue from Contracts with Customers* or AASB 1058 *Income of Not-for-Profits*. In order to apply AASB 15 an entity has to deliver sufficiently specific goods or services to the funder (or a third-party beneficiary). Sufficiently specific is therefore a key phrase in determining whether an entity has a performance obligation in the scope of AASB 15. Assessing whether a performance obligation is sufficiently specific involves considering whether the entity can determine, for each separately identified performance obligation:

- The specific type or nature of goods or services to be delivered
- The specific cost or value of the goods or services to be delivered
- The specific quantity of goods or services to be delivered
- The period of time over which the goods or services must be transferred

A performance obligation is only sufficiently specific if an entity can determine when it has met that obligation, which means that the performance obligation must refer to specifically identifiable goods or services, and ultimately, be measurable.

Australian standards also include guidance to help an entity determine whether or not a contract contains sufficiently specific performance obligations.

If the IPSASB were to use this term in ED 71 it would be in a different context. ED 71 deals with transactions that are outside the scope of ED 70 so the requirements about goods and services would not be appropriate.

However, some of the Australian guidance might be useful. For example AASB 15, paragraph F26 explains that the existence of an acquittal process is not on its own enough to say that a contract contains sufficiently specific performance obligations, though if the entity is required to demonstrate which performance obligations have been satisfied in each acquittal, then it may do.

Sufficiently specific – TRG comment

The TRG suggested that we look at IPSAS 23 to see if there is any useful guidance on specificity. We have followed up on this, but IPSAS 23 paragraph 23 (which is the most relevant paragraph) is quite general.

Other obligations

In March (agenda item 3.3) we asked whether the Board had a view on the possible use of 'other obligations' to bring about the deferral of revenue. To recap:

- The IPSASB Conceptual Framework does not define 'other resources' or 'other obligations' as elements. It states that in order to achieve the objectives of financial reporting, the IPSASB may determine that a resource or obligation that does not satisfy the definition of an element should be recognised in the financial statements. To date, this concept has not been used by the IPSASB.
- The IPSASB has previously considered and rejected the notion of OCI.
- Because the IPSASB decided that some transactions within the scope of ED 71 give rise to present obligations it did not deliberate on using 'other obligations' in this project.

The Board has previously suggested that the IPSASB consider enhanced disclosure or the use of OCI for certain transactions. The Board's recent comments on the use of other obligations suggest that there are mixed views on this.

We have included a prompt under SMC 1 to consider this again.

[Note for the Board: Relevant paragraphs from the IPSASB’s Conceptual Framework and ED 71 are shown below. We can decide later whether to retain these extracts in the comment letter]

IPSASB CF	ED 71 (and IPSAS 1)
<p>Definition</p> <p>5.14 A liability is: A present obligation of the entity for an outflow of resources that results from a past event.</p>	<p>Definitions, IPSAS 1</p> <p><u>Liabilities</u> are <i>present obligations</i> of the entity arising from <i>past events</i>, the settlement of which is expected to result in <i>an outflow</i> from the entity of resources embodying economic benefits or service potential.</p>
<p>A Present Obligation</p> <p>5.15 Public sector entities can have a number of obligations. A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.</p>	<p>Present Obligations</p> <p>14. A present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid and which results in an outflow of resources.</p> <p>15. Goods, services, or other assets may be transferred by a transfer provider with the expectation and/or understanding that they will be used in a particular way and, therefore, that the transfer recipient will act or perform in a particular way. Where binding arrangements with external parties impose terms on the use of transferred assets by the transfer recipient, a present obligation exists.</p> <p>16. A present obligation gives rise to a liability because the past event occurs when the transfer provider and transfer recipient enter into a binding arrangement creating enforceable rights and obligations on both parties. Further such an arrangement leads to an outflow of resources because the transfer recipient cannot avoid using those resources either to fulfill the requirements in the binding arrangement or in the event of a breach of a binding arrangement, repaying the resources to the transfer provider or incurring some other form of penalty.</p> <p>17. The transfer recipient considers whether an obligation to perform a specified activity or incur an eligible expenditure is a present obligation.</p>
<p>An Outflow of Resources from the Entity</p> <p>5.16 A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability.</p>	
	<p>Recognition of Liabilities</p> <p>45. When a transfer recipient recognizes an asset for an inflow of resources, it shall consider if there are present obligations related to the inflow which result in the recognition of a liability.</p>

IPSASB CF	ED 71 (and IPSAS 1)
	<p>46. A present obligation arising from a transaction without a performance obligation that meets the definition of a liability shall be recognized as a liability when, and only when:</p> <p>(a) It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and</p> <p>(b) A reliable estimate can be made of the amount of the obligation.</p>

Proposed response ED 71 SMC 1

We have both conceptual and practical concerns with the proposals in ED 71. We disagree with the IPSASB’s conceptual analysis of why, in the absence of a performance obligation, an entity may have a liability in relation to obligations to carry out specified activities or incur eligible expenditure. Our main concerns are centred around whether, in the absence of a performance obligation, an entity’s obligations arising from binding arrangements require an outflow of resources.

The Conceptual Framework (paragraph 5.15) states that obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources. ED 71 appears to consider these two aspects separately. We are concerned that focusing on particular phrases from the Conceptual Framework without considering statements in their entirety could inadvertently change the meaning. We encourage the IPSASB to reconsider whether the ideas in the Conceptual Framework have been applied consistently in the ED.

Although the Conceptual Framework does not elaborate on what it means by an outflow of resources, we are of the view that such outflows must be to parties external to the entity and result in a reduction in the entity’s net assets. We do not think that obligations to enter into subsequent transactions that result in an equivalent transfer of resources between the entity and another party (such as obligations to carry out specified activities) are liabilities.

Despite disagreeing with the IPSASB’s conceptual arguments for the proposals in ED 71, we think that the IPSASB could mount arguments based on user needs to support revenue deferral in some cases. These arguments would draw on users’ needs for information about an entity’s performance over time.

If the IPSASB were to do this there would need to be clear guidance as to when revenue is deferred. IPSAS 23 currently permits deferral of revenue in certain non-exchange transactions. As noted in the Basis for Conclusions on ED 71 (paragraph BC5) constituents experience difficulties in distinguishing between exchange and non-exchange transactions and between conditions and restrictions. We are concerned that the current boundary issues associated with IPSAS 23 might be replaced with a new set of boundary problems.

To illustrate this we have identified some boundary issues associated with ED 71.

- *To defer or not:* We have found it difficult to distinguish between situations in which revenue can and cannot be deferred under ED 71. This is partly because of a lack of clarity around what qualifies as a ‘specified activity’ or ‘eligible expenditure’. For example, we have considered

how the ED would apply to a binding arrangement two-year grant, paid up front (i) for operational expenses and (ii) for the salary of an employee and certain other expenses. Our understanding of ED 71 and the IPSASB's intentions is that the grant for the salary and certain other expenses could be eligible expenditure and recognised over time,¹ but that the grant for operational spending would be a transfer without a present obligation and would be recognised immediately. If one thinks of these two examples as being examples of grants that range from less specific to more specific, we do not think that ED 71 establishes a clear cut off point between what would qualify as eligible expenditure and what would not. In order to avoid unhelpful debates a standard has to be clear.

- *Specified activities versus eligible expenditure:* We have also found it difficult to distinguish between specified activities and eligible expenditure. For example, the ED 71 At-A-Glance document refers to the purchase of hospital beds as an example of a specified activity. We think that this could equally be used as an example of incurring eligible expenditure – the money must be spent on the beds. Similarly we were not sure whether some of the illustrative examples that accompany ED 71 were intended to illustrate specified activities or eligible expenditure. (If the distinction between the two is kept, we think the illustrative examples should state which type of present obligation exists.)

As the distinction between specified activities and eligible expenditure does not affect the proposed accounting, we would prefer that the IPSASB did not make this distinction.

As mentioned above, we think there needs to be clear guidance about the cut-off point between revenue that can and cannot be deferred. The clearest way to do this might be to require that there is an enforceable obligation to spend the resources in the manner specified by the transfer provider, with that obligation being *sufficiently specific* to demonstrate that enforceability exists.

Subsequently, the focus on sufficient specificity would help an entity demonstrate that it has satisfied the obligations. Obligations that relate solely to spending in a particular period (time requirements) would not be enforceable.

Presentation

Although we have put forward some ideas about how the IPSASB could refine its proposals, as noted at the beginning of this response, we continue to have concerns about presenting deferred revenue under ED 71 as liabilities.

- Would the use of 'other obligations' be more understandable to preparers and users of financial statements than the use of OCI or presentation options?

Enforceability – substance

Paragraphs 22 to 26 of ED 71 discuss enforceability and paragraph 24 states that "If past experience or knowledge indicates that the transfer provider never enforces an arrangement if a breach occurs, then the transfer recipient may conclude that the arrangement is not enforceable in substance."

¹ ED 71 paragraph AG25 gives the example of a salary for marketing manager, travel expenditure and promotional material when discussing eligible expenditure.

We think is appropriate for the ED to draw attention to the fact that it is necessary to consider whether an arrangement is enforceable in substance and support the use of the word ‘may’ in paragraph 24. However, we caution against implying that any agreement that has not previously been enforced is not enforceable in substance (as in illustrative example 24).

Enforceability – incurring some other form of penalty

ED 71 refers in a few places to an entity repaying or returning resources to the transfer provider or incurring *some other form of penalty*. We received feedback from constituents that they did not understand what this phrase was trying to convey. Our understanding is that it is intended to cover both the possibility of having to pay a penalty for a breach of an agreement or being required (via a legal process) to perform the agreed actions. As drafted, we do not think that this is sufficiently clear.

ED 71 Specific Matter for Comment 2 (Paragraph 31)

The flowchart that follows paragraph 31 of this [draft] Standard illustrates the process a transfer recipient undertakes to determine whether revenue arises and, if so, the relevant paragraphs to apply for such revenue recognition. Do you agree that the flowchart clearly illustrates the process? If not, what clarification is necessary?

Notes for the Board on ED 71 SMC 2

We have not formed a view at this stage.

ED 71 Specific Matter for Comment 3 (Paragraphs 57–58)

The IPSASB decided that a transfer recipient recognizes revenue without performance obligations but with present obligations when (or as) the transfer recipient satisfies the present obligation.

Do you agree that sufficient guidance exists in this [draft] Standard to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, what further guidance is necessary to enhance clarity of the principle?

Notes for the Board on ED 71 SMC 3

We have not formed a view at this stage.

Once we have formed a view on SMC 1 we can consider whether to respond to this SMC.

ED 71 Specific Matter for Comment 4 (Paragraphs 80–81)

The IPSASB decided that the objective when allocating the transaction price is for a transfer recipient to allocate the transaction price to each present obligation in the arrangement so that it depicts the amount to which the transfer recipient expects to be entitled in satisfying the present obligation. The amount of revenue recognized is a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total enforceable obligations satisfied.

Do you agree sufficient guidance exists in this [draft] Standard to identify and determine how to allocate the transaction price between different present obligations? If not, what further guidance is necessary to enhance clarity of the principle?

Notes for the Board on ED 71 SMC 4

We have not formed a view at this stage.

Once we have formed a view on SMC 1 we can consider whether to respond to this SMC.

ED 71 Specific Matter for Comment 5 (Paragraphs 84–85)

Do you agree with the IPSASB’s proposals that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, *Financial Instruments*? If not, how do you propose receivables be accounted for?

Notes for the Board on ED 71 SMC 5

Item 5.1 at the Board’s May meeting analysed the proposals for receivables and binding arrangement assets in ED 70 and ED 71, identified a number of issues with those proposals and put forward some points for the comment letter. *The draft response to SMC 5 reflects those views.*

Extracts from ED 71

Subsequent Measurement of Receivables

84. After initial recognition, a transfer recipient shall subsequently measure a receivable:
- (a) Within the scope of IPSAS 41 as a financial asset in accordance with IPSAS 41; or
 - (b) Not in the scope of IPSAS 41 on the same basis as a financial asset at amortized cost in accordance with IPSAS 41.
85. Where a receivable not in the scope of IPSAS 41 as described in paragraph 84(b) does not satisfy the requirements in paragraph 40 of IPSAS 41, it shall be subsequently measured at fair value. Changes in fair value are recognized in surplus or deficit.

Presentation

...

123. If a transfer recipient performs by satisfying a present obligation before the transfer is received or before the transfer is due, the transfer recipient shall present the binding arrangement as a transfer recipient’s binding arrangement asset, excluding any amounts presented as a receivable. A transfer recipient’s binding arrangement asset is a transfer recipient’s right to a transfer to satisfy a present obligation. A transfer recipient shall assess a transfer recipient’s binding arrangement asset for impairment in accordance with IPSAS 41. An impairment of a transfer recipient’s binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IPSAS 41 (see also paragraph 140(b)).
124. A receivable is a transfer recipient’s right to a transfer that is unconditional. A right to a transfer is unconditional if only the passage of time is required before a transfer is due. For example, a transfer recipient would recognize a receivable if it has a present right to a transfer even though that amount may be subject to refund in the future. A transfer recipient shall account for a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable from a binding arrangement, any difference between the measurement of the receivable in accordance with IPSAS 41 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss).

Proposed response ED 71 SMC 5

We support the intention to establish subsequent measurement requirements for all receivables and aspects of these proposals. However, we think that the proposals need to be refined, both in ED 70 and ED 71. Many of our comments on ED 71 would also apply to ED 70. We have also commented on the proposals for payables and binding arrangement balances in ED 72 (see ED 72 SMC 6).

Scope sections affect the drafting of subsequent measurement requirements

We agree that receivables that are financial instruments should be subsequently measured in accordance with IPSAS 41. However, we would prefer that the IPSASB set up the scope sections of ED 71 and IPSAS 41 in a manner similar to IFRS 15 and IFRS 9. This is because IFRS 15 and IFRS 9 distinguish between (i) rights that are financial instruments and to which all of IFRS 9 applies and (ii) rights that only some parts of IFRS 9 are applied to. We think this distinction is especially important for ED 70 and ED 71 because the IPSASB is contemplating a broader group of rights than the IASB, many of which are not financial instruments. Although this SMC is asking about subsequent measurement, we think the scope sections and initial measurement requirements need to be revised before the subsequent measurement requirements are finalised. For example, if the scope sections are revised in accordance with our suggestions, then paragraph 84(a) would not be required.

IFRS 15 and IFRS 9 distinguish between receivables and contract assets.

- Receivables (unconditional rights to consideration) *that are financial instruments* fall within the scope of IFRS 9. This is achieved via IFRS 15 paragraph 108 and IFRS 9 paragraph 2.1(j).
- Contract assets (rights to consideration that are conditioned on something other than the passage of time) are recognised and measured in accordance with IFRS 15 and are subsequently assessed for impairment in accordance with IFRS 9. This is achieved via IFRS 15 paragraphs 107, 108 and IFRS 9 paragraphs 2.1(j) and 2.2. Collectively these paragraphs scope contract assets out of IFRS 9 but specify that the impairment requirements in IFRS 9 shall be applied to contract assets.

This approach keeps the overall scope of IFRS 9 limited to financial instruments but it also allows certain requirements within IFRS 9 to be applied to rights and obligations that are not financial instruments or that have been excluded from the scope of IFRS 9 (such as contract assets). We think that the overall scope of IPSAS 41 should also be limited to financial instruments, but the IPSASB should then specify which parts of IPSAS 41 apply to receivables that are not financial instruments (such as receivables from binding arrangements that are not contracts and receivables from fines, penalties and taxes) or which have been scoped out of IPSAS 41 (such as binding arrangement assets).

Subsequent measurement of receivables that are financial instruments

If the scope sections of ED 71 and IPSAS 41 are revised in line with our suggestions above, then there would be no need to specify the subsequent measurement of such receivables in ED 71 (ie no need for ED 71 paragraph 84(a) as a requirement). There could be an explanatory comment in ED 71 noting that any receivables that fall within the scope of IPSAS 41 are subject to the subsequent measurement requirements in IPSAS 41.

Subsequent measurement of receivables that are not financial instruments

With respect to receivables that arise from a binding arrangement, we support the proposals in paragraphs 84(a) and 85. We think the application of the amortised cost requirements in IPSAS 41 to non-contractual receivables needs more explanation, as IPSAS 41 paragraph 40 refers to collecting contractual cash flows. This might be done by explaining that to be measured at amortised cost as per IPSAS 41, the non-contractual receivable must be solely payments of interest and principal and must be managed *similarly* to contractual receivables that are held to collect contractual cash flows.

With respect to receivables from taxes, fees and fines, we partially support the proposals. As per our comments on the 2017 CP, we consider that subsequent measurement of statutory receivables at fair value represents a workable approach. However, we do not agree that an entity with statutory receivables should first have to consider whether it meets the criteria for amortised cost. We would expect these receivables to fail the management model and SPPI test more often than other receivables and wonder whether an entity would be able to make the assessments in some cases. We think the proposals would introduce unnecessary compliance costs.

Subsequent measurement of binding arrangement assets

We support the proposal in ED 71 paragraph 123 that binding arrangement assets be assessed for impairment in accordance with IPSAS 41. However, if the scope sections of ED 71 and IPSAS 41 are revised in the way we suggest, then there is no need to limit IPSAS 41 paragraph 3 to rights that give rise to financial instruments.

Other comments on SMC 5

As a result of looking at the paragraphs relating to this SMC we have a few other comments.

- (a) The statement in ED 71 paragraph 124 (ED 70 paragraph 107) that an entity shall account for a receivable in accordance with IPSAS 41 is too broad, given that some receivables under ED 71 will be non-contractual.
- (b) If both ED 70 and ED 71 amend a paragraph in a standard, the combined amendments to that paragraph should be shown in both EDs, so that readers can see the combined effect of the proposals (for example both ED 70 and ED 71 propose to amend paragraph 3 of IPSAS 41).

ED 71 Specific Matter for Comment 6 (Paragraphs 126–154)

The disclosure requirements proposed by the IPSASB for revenue transactions without performance obligations are intended to provide users with information useful for decision making, and to demonstrate the accountability of the transfer recipient for the resources entrusted to it.

Do you agree the disclosure requirements in this [draft] Standard provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations? In particular, (i) what disclosures are relevant; (ii) what disclosures are not relevant; and (iii) what other disclosures, if any, should be required?

Notes for the Board on ED 71 SMC 6

See discussion in agenda item 5.2.

Proposed response ED 71 SMC 6

We recommend that the disclosures be reorganised to reflect the structure of the requirements. As the disclosures are currently organised, it is difficult to identify which disclosures relate to revenue with present obligations as some of the disclosures are general (with more detailed disclosures following) and some appear to be duplicated. (For example, paragraphs 131(b) and 143(a) both require an entity to disclose the amount of receivables recognised at the reporting date.) This means that the disclosures for revenue with present obligations occur in a number of paragraphs.

We also note that the heading above paragraph 140 refers to binding arrangements which may exist in relation to both revenue with, and revenue without, present obligations. However, the disclosures required by paragraph 140 are relevant only for transactions with present obligations.

The disclosure requirements in paragraphs 131–136 and 138–139 are carried over from paragraphs 106–108 and 111–115 respectively of IPSAS 23 and amended as appropriate for the terminology used in ED 71. We think the IPSASB should take this opportunity to revisit all the disclosures carried over from IPSAS 23 and consider whether they are still relevant.

We note that the Basis for Conclusions on ED 71 is silent regarding the IPSASB's rationale for the disclosure requirements in ED 71. This is not helpful for constituents in deciding whether or not they agree with the IPSASB's proposals. This approach puts the onus on constituents to decide which disclosures are relevant, not relevant and what, if any, should be required. This places an onus on constituents to undertake a detailed analysis of the disclosures without the benefit of the IPSASB's rationale for requiring the disclosures in the first place. This approach may give rise to a diverse range of views about the disclosure requirements, resulting in the IPSASB having to spend time considering and discussing those diverse views.

We think there are too many disclosures in ED 71 and recommend that the IPSASB reconsider the disclosure requirements to see if all of them provide information that is relevant for users of the financial statements.

ED 71 Specific Matter for Comment 7 (Paragraphs N/A)

Although much of the material in this [draft] Standard has been taken from IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, the IPSASB decided that the ED should establish broad principles for the recognition of revenue from transactions without performance obligations, and provide guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. The way in which these broad principles and guidance have been set out in the ED are consistent with that of [draft] IPSAS [X] (ED 72), *Transfer Expenses*.

Do you agree with the approach taken in the ED and that the structure and broad principles and guidance are logically set out? If not, what improvements can be made?

Notes for the Board on ED 71 SMC 7

A constituent queried:

- Whether ED 70 and ED 71 would require that an entity consider the substance of a transaction rather than the form when deciding how to account for it. More specifically, the question was whether ED 71 would force a transaction that is referred to as a tax or a rate, to be accounted for as a tax. We have considered two types of transactions: **voluntary targeted rates** related to home improvements and **development contributions**. *We do not think there is sufficient guidance to help entities decide which parts of ED 71 would apply and have drafted comments on this. See draft comments on 'Substance over form'.*
- Why ED 71 includes requirements for **compulsory contributions and levies** when IPSAS 23 did not. We can understand why the IPSASB wants to include guidance on them but do not think the ED, as drafted, works. See draft comments on 'Compulsory contributions and levies'.

Notes on each topic and draft comments follow.

Voluntary targeted rates

Some councils let ratepayers pay for various home improvements that improve energy efficiency (for example, home insulation, heat pumps, and solar panels) via their regular rates bill over a number of years. Ratepayers enter into agreements with agreed providers. The council pays the agreed providers and recoups the cost (plus interest and possibly administration costs) from the ratepayer via a targeted rate.

Staff thoughts on voluntary targeted rates

- In substance the transaction is a loan (possibly with a concessionary component). Both ED 70 and ED 71 exclude financial instruments within the scope of IPSAS 41 *Financial Instruments* from their scope. For argument's sake, we assume that the agreement between the ratepayer and the council gives rise to a financial instrument.
- Our concern is whether a transaction that meets the definition of a tax can be accounted for in a way that reflects the substance of the transaction, rather than as tax revenue. We do not think that there is enough about substance over form in ED 71 to help an entity decide which standard to apply. We also think an entity trying to apply ED 71 to such transactions would not be able to reach a conclusion about which part of ED 71 applied.
- ED 71 paragraph 8 talks about substance, but that is in the context of contributions from owners.
- ED 71 paragraph 22 also talks about substance, but that is in the context of deciding whether the transfer recipient (ie the council) has a present obligation.
- ED 71 paragraph 29 states that rights and obligations established in tax laws do not give rise to binding arrangements.
- We cannot find any guidance in ED 71 which would help an entity decide whether a transaction without present obligations is (i) a transfer without present obligations or (ii) a tax (or a compulsory levy).

Extracts from ED 71**Contributions from Owners**

7. Contributions from owners are defined in IPSAS 1, *Presentation of Financial Statements*. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition. In determining whether a transaction satisfies the definition of a contribution from owners, the

substance rather than the form of the transaction is considered. Paragraph 8 indicates the form that contributions from owners may take. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognizes it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material. For example, if a transaction purports to be a contribution from owners, but specifies that the transfer recipient will pay fixed distributions to the transfer provider, with a return of the transfer provider's investment at a specified future time, the transaction is more characteristic of a loan. For contractual arrangements, an entity also considers the guidance in IPSAS 28, *Financial Instruments: Presentation* when distinguishing liabilities from contributions from owners.

Definitions (paragraph 10)

Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of laws and/or regulations.

Enforceability of binding arrangements – Substance over form

22. A transfer recipient considers the substance rather than the form of a binding arrangement in determining whether it has a present obligation.

Taxes

...

29. The rights (of a government to calculate the tax receivable and ensure payment is received) and obligations (on the taxpayer to submit returns and monies when due) established in tax laws and/or regulations do not create binding arrangements between the government and the taxpayer. A binding arrangement, as defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, creates both enforceable rights and obligations on both parties to the arrangement and not a single right and obligation on each party.

Development contributions

New subdivisions and other developments can impose significant costs on ratepayers. Councils can decide that developers and their clients should bear the costs of new infrastructure for developments, such as reserves, footpaths and roads, water and wastewater infrastructure, and community facilities. Some contributions must be used within a certain period or returned.

Over the years there have been discussions about when and how revenue from development contributions should be recognised.

Under PBE Standards some councils have classified development contributions as exchange transactions and some as non-exchange transactions other than taxes. An example of an accounting policy which treats them as non-exchange follows.

Development contributions are recognised as revenue when the Council provides, or is able to provide, the service for which the contribution was charged. In the event that the Council is unable to provide the service immediately, or the development contribution is refundable, the Council will recognise an asset and a liability and only recognise revenue when the Council has met the obligation for which the development contribution was charged.

How would the revenue EDs apply to development contributions?

Could ED 70 apply?

Possibly. If there is a binding arrangement that imposes rights and obligations on both parties some components might fall within the scope of ED 70. The question is whether those rights and obligations come from tax laws or agreements between the parties. ED 71 paragraph 29 states that taxes do not create binding arrangements.

Could ED 71 apply, and if so, which part?

Given that some councils currently account for development contributions as non-exchange transactions then it is likely that some would seek to apply ED 71. We think that it could be hard to decide which part(s) of ED 71 to apply to development contributions.

- Transfers with present obligations (paragraphs 45 to 85)? Possibly. Paragraph 22 requires that an entity consider the substance over form of a binding arrangement in determining whether it has a present obligation. However paragraph 29 states that rights and obligations established in tax laws do not create binding arrangements (which are necessary for there to be a present obligation).
- Transfers without present obligations (paragraphs 86 to 88)? Possibly. A council might have obligations that do not meet all the requirements to be accounted for as present obligations.

- Taxes (paragraphs 89 to 106)? Possibly.

Compulsory contributions and levies

Relevant extracts from ED 71 and IPSAS 23 are shown below. We have highlighted the bit in paragraph 29 about taxes not creating binding arrangements as we think that some targeted rates in New Zealand might constitute binding arrangements.

If the IPSASB keeps this guidance on compulsory contributions and levies we will have to consider the implications for New Zealand. New Zealand does not have specific social security taxes, but accident compensation cover is primarily funded by way of levies. In addition, local authorities sometimes use targeted rates to allow individual taxpayers to pay for goods and services (such as home insulation) via their rates.

Extracts from ED 71

Definitions

Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of laws and/or regulations.

Other compulsory contributions and levies is cash or another asset, paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue that is to be used in the provision of specified government programs.

...

Taxes

27. Taxes, which include compulsory contributions and levies, are the major source of revenue for many governments and other public sector entities. Taxes are defined in paragraph 10 as economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws and/or regulations. Non-compulsory transfers to the government or public sector entities such as donations and the payment of fees are not taxes, although they may be the result of transactions without performance obligations. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.
28. Tax laws and/or regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and/or regulations (a) establish a government's right to collect the tax, (b) identify the basis on which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and/or regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, and the amount of tax receivable by the government is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax laws and/or regulations are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.
29. The rights (of a government to calculate the tax receivable and ensure payment is received) and obligations (on the taxpayer to submit returns and monies when due) established in tax laws and/or regulations do not create binding arrangements between the government and the taxpayer. A binding arrangement, as defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, creates both enforceable rights and obligations on both parties to the arrangement and not a single right and obligation on each party.
30. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

Taxes

89. **A transfer recipient shall recognize an asset in respect of taxes, which include other compulsory contributions and levies, when the taxable event, or other event giving rise to other compulsory contributions and levies, occurs and the asset recognition criteria are met. Disclosures**

...

Disclosures

...

131. A transfer recipient shall disclose either on the face of, or in the notes to, the general purpose financial statements:

- (a) The amount of revenue from transactions without performance obligations recognized during the period by major classes showing separately:
 - (i) Taxes, showing separately major classes of taxes;
 - (ii) Other compulsory contributions and levies, showing separately major classes of other compulsory contributions and levies; and
 - (iii) Transfers, showing separately major classes of transfer revenue.

...

Compulsory Contributions and Levies to Social Security and Other Schemes

BC38 There is a variety of different arrangements for funding social security schemes across jurisdictions. Constituents had commented to the IPSASB that IPSAS 23 did not address the accounting for these funding arrangements.

BC39 The IPSASB considered the issue in developing IPSAS 42, *Social Benefits*. The IPSASB concluded that such contributions are transactions without performance obligations, and should be accounted for in accordance with this [draft] Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach in IPSAS 42. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit scheme accounted for under the insurance approach are not accounted for as revenue under this [draft] Standard.

BC40 In developing IPSAS 42, the IPSASB also noted that some government programs that do not meet the definition of a social benefit in that Standard (for example, healthcare benefits in some jurisdictions) may also involve compulsory contributions or levies. The IPSASB concluded that the same principles of revenue recognition applied to these transactions as applied to contributions for social benefits and to taxation. The IPSASB agreed to extend the requirement for recognizing taxation revenue to cover other compulsory contributions and levies, whether arising from social benefits or other government programs. The amended requirements were incorporated into this [draft] Standard.

Extracts from IPSAS 23 BC**Compulsory Contributions to Social Security Schemes**

BC26. This Standard does not exclude from its scope compulsory contributions to social security schemes that are non-exchange transactions. There are a variety of different arrangements for funding social security schemes in different jurisdictions. Whether or not compulsory contributions to social security schemes give rise to exchange or non-exchange transactions depends on the particular arrangements of a given scheme, and professional judgment is exercised to determine whether the contributions to a social security scheme are recognized in accordance with the principles established in this Standard, or in accordance with principles established in international or national standards addressing such schemes.

Proposed response ED 71 SMC 7*Substance over form*

In our view ED 71 does not contain enough guidance on substance over form to help an entity decide (i) which standard to apply when accounting for certain taxes or (ii) whether a transaction that falls within the scope of ED 71 is a transfer without present obligations, or a tax (or a compulsory levy).

We formed this view after considering the application of ED 71 to some transactions that occur in New Zealand (being targeted rates and development contributions).

- Some councils let ratepayers pay for various home improvements that improve energy efficiency (for example, home insulation, heat pumps, and solar panels) via their regular rates bill over a number of years. Ratepayers enter into agreements with agreed providers. The council pays the agreed providers and recoups the cost (plus interest and possibly administration costs) from the ratepayer via a targeted rate. In this case a rate (which would normally be classified as a tax) is used as the mechanism to recover the cost of items purchased on behalf of ratepayers.
- Councils can decide that developers and their clients (rather than ratepayers as a whole) should bear the costs of new infrastructure for developments, such as reserves, footpaths and roads, water and wastewater infrastructure, and community facilities. Some contributions must be used within a certain period or returned to the developer.

In both cases we think there could be debates about classification (which affect measurement) and that there would be fewer such debates if ED 71 had a requirement to consider the substance of a transaction.

We think that ED 71 should:

- make it clear that an entity considers the substance of a transaction when deciding whether the transaction is (i) a loan repayment; (ii) a transfer; or (iii) a tax;
- acknowledge that in some circumstances there might be binding arrangements as well as an authority to collect revenue which comes from tax law; and
- require that transactions referred to as taxes are accounted for as taxes only if they do not have present obligations and their substance is that of a tax.

Compulsory contributions and levies

IPSAS 23 refers to taxes as the major source of revenue for governments. It does not refer to compulsory contributions, apart from in the Basis for Conclusions (which explains that some compulsory contributions to social security schemes might fall within the scope of IPSAS 23).

In contrast, ED 71 refers to taxes, including compulsory contributions and levies, as the major source of revenue for governments. ED 71 defines 'taxes' and 'other compulsory contributions and levies' and requires separate disclosure of revenue from taxes, other compulsory contributions and levies, and transfers.

We acknowledge that the IPSASB included guidance on compulsory contributions and levies in response to feedback from some constituents. However, we are not sure that the guidance in paragraphs 27–31 is sufficient to lead to consistent classification of transactions as taxes or other compulsory contributions and levies and there could be unhelpful debates about classification. Paragraph 27 says that compulsory contributions and levies are a subset of taxes. Given that the proposed recognition and measurement requirements are the same for both taxes and compulsory contributions and levies, we think it would be better if compulsory contributions and levies were explicitly included in the definition of taxes or included in the discussion of taxes.

We recommend that:

- ‘compulsory contributions and levies’ not be a defined term. Instead, we recommend that compulsory contributions and levies be mentioned in the definition of taxes or the discussion of taxes in paragraphs 27–30;
- the proposed disclosures for taxes and compulsory contributions and levies (in paragraph 131(a)(i) and (ii)) be combined, with separate disclosure of major classes of such revenue; and
- paragraph 29 be reworded to require that entities consider the substance of the transaction when deciding whether revenue is tax revenue as, in some circumstances, taxes may be used as a means of collecting amounts owed under a binding arrangement.

ED 71 Other Comments

Notes for the Board

The use of the term ‘transfer recipient’

We propose to comment on the fact that ED 71 imposes requirements on the ‘transfer recipient’. We think this is confusing for readers because the definition of a transfer in ED 71 excludes taxes. The definitions are shown below. We acknowledge that the definition of a transfer recipient has been worded generally and covers an entity receiving taxes. We still think it is confusing for readers (especially in the disclosures section) if the term transfers excludes taxes, but the term transfer recipients includes taxation recipients.

A transfer is a transaction, other than taxes, in which an entity receives a good, service, or other asset [footnote omitted] from another entity (which may be an individual) without directly providing any good, service, or other asset in return.

A transfer recipient is an entity that receives a good, service, or other asset from another entity without directly providing any good, service, or other asset to that entity.

Revenue with high collection uncertainty

We have been asked why paragraph 101, which deals with the measurement of revenue with high collection uncertainty, was included in ED 71. There is no equivalent guidance in IPSAS 23.

The IPSASB included paragraph 101 in response to constituents’ concerns about the uncertainty of the amount of taxes that will be collected. It drew upon the requirements in IFRS 15 about the extent to which variable consideration should be included in the transaction price (see IFRS 15 paragraphs 56 and 57). The IPSASB also included requirements about variable consideration in ED 70 and the section of ED 71 that deals with transfers with present obligations (see paragraphs 69 and 70).

We have summarised these requirements below and indicated which aspects we propose to comment on.

Transfers with present obligations

- ED 71 paragraphs 69–70 are drafted consistently with IFRS 15. Recognise revenue only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.
- We have wondered how often an entity receiving transfers would encounter high collection uncertainty and whether this justifies aligning the requirements with IFRS 15/ED 70. Because many of the requirements for transfers with present obligations mirror requirements in IFRS 15/ED 70 we do not plan to challenge the proposals in paragraphs 69–70.
- More specifically, paragraph 70 lists four factors that could increase the likelihood or the magnitude of a revenue reversal. Although we are not sure how often paragraph 70(a) about factors outside an entity’s control would be relevant for transfers, we accept that it could be relevant. We do not plan to comment on this.

Transfers without present obligations

- ED 71 paragraphs 86 and 87 require immediate recognition of revenue from transactions without present obligations, measured at the amount of the increase in net assets recognised by the transfer recipient. There is no discussion of the possibility of revenue reversal. This makes sense, because once an entity controls resources and does not have any further obligations. One would not expect any reversal of revenue.

Taxes

- Paragraph 101: Recognise revenue only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur....
- The rationale for this requirement is set out in ED 71 paragraphs BC16–BC18. We accept this rationale.
- There is a drafting issue with paragraph 101. The words “in accordance with paragraphs 69–70” could be misread and we think that it would be better to draft complete requirements in paragraph 101. We have drafted comments to this effect.

Relevant extracts from ED 71 and IFRS 15 follow.**Extracts from ED 71****Transfers with Present Obligations**

...

Constraining Estimates of Variable Inflows

69. A transfer recipient shall measure the asset in a revenue transaction without performance obligations in accordance with paragraph 67 **only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur** when the uncertainty associated with the variable inflow is subsequently resolved.
70. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable inflow is subsequently resolved, a transfer recipient shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:
- (a) The amount of inflow is highly susceptible to factors outside the transfer recipient’s influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the inflow when it is non-cash.
 - (b) The uncertainty about the amount of inflow is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.
 - (c) The transfer recipient’s experience (or other evidence) with similar types of transactions is limited, or that experience (or other evidence) has limited predictive value.
 - (d) The transaction has a large number and broad range of possible inflow amounts.

Taxes

...

Measurement of Taxes with Collection Uncertainty

101. The measurement of assets arising from taxation transactions is limited **to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognized will not occur** in accordance with paragraphs 69-70.

...

Determining the Transaction Price

- BC16. In responding to constituent’s concerns relating to the fair value measurement of receivables where the amount collectible is uncertain, the IPSASB incorporated a constraint requiring measurement of revenue and the associated receivable only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

- BC17. Constituents noted that there are a number of revenue transactions within the scope of draft IPSAS [X] ED (71) that are difficult to measure at fair value because of the uncertainty in timing and amount of cash

flows. In general, this uncertainty is associated with long dated transactions where the amounts will be determined at a later date. For example, the time taken after a death (the tax point) to identify all assets liable to an inheritance tax can be considerable where the deceased's estate is complex. As a result, the amount of inheritance tax to which the tax authority is entitled is uncertain at the reporting date, even though there is certainty in collection.

BC18. The IPSASB agreed these transactions presented measurement challenges. Incorporating a constraint limiting measurement to when it is highly probably a significant reversal in the amount of revenue recognized will not occur satisfied the IPSASB's objectives by limiting the onerous task of estimating uncertain future cash flows until they become certain, which addressed concerns raised by constituents.

Extracts from IFRS 15

Constraining estimates of variable consideration

- 56 An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 53 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
- 57 In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:
- (a) the amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgement or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.
 - (b) the uncertainty about the amount of consideration is not expected to be resolved for a long period of time.
 - (c) the entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value.
 - (d) the entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.
 - (e) the contract has a large number and broad range of possible consideration amounts.

Extracts from IFRS 15 Basis for Conclusions

The objective of constraining estimates of variable consideration and specifying a level of confidence

- BC206 In their redeliberations, the boards decided that it would be helpful to clarify the objective for constraining estimates of variable consideration. In making their decision, the boards considered the feedback received from users of financial statements. The majority of users of financial statements that were consulted indicated that the most relevant measure for revenue in a reporting period would be one that will not result in a significant reversal in a subsequent period. This is because an amount that would not reverse in the future would help users of financial statements better predict future revenues of an entity. Therefore, the boards decided that the focus for constraining revenue should be on possible downward adjustments (ie revenue reversals), rather than on all revenue adjustments (ie both downward and upward adjustments). Specifically, the boards decided that an entity should include some or all of an estimate of variable consideration in the transaction price only to the extent it is highly probable that a significant revenue reversal will not occur.
- BC207 The boards acknowledge that the requirement to constrain estimates of variable consideration and the objective they have defined creates a tension with the notion of neutrality in the boards' respective conceptual frameworks. This is because the boards' decision introduces a downward bias into estimates that will be included in the transaction price. However, the boards decided that this bias was reasonable because users of financial statements indicated that revenue is more relevant if it is not expected to be subject to significant future reversals.
- BC208 In the redeliberations, preparers and auditors indicated that meeting the objective of constraining estimates of variable consideration would be difficult if no level of confidence was specified, for instance, if the boards merely specified that an entity should include variable consideration to the extent that it expects

that doing so would not result in a significant revenue reversal. Many also observed that omitting a level of confidence from the objective could result in diversity in practice if entities interpreted the implicit confidence level in different ways (for example, some might interpret the implicit confidence level as virtually certain while others might presume it to mean more likely than not).

BC209 Consequently, the boards decided that specifying a level of confidence would provide clarity and thus ensure more consistent application of the requirements to constrain estimates of variable consideration. ...

Issue still to consider

- Revenue and receivables from donated assets. We plan to check how the EDs deal with initial recognition and measurement of revenue and receivables from donated assets. ED 71 deals with the initial recognition of assets acquired as part of a revenue transaction without performance obligations and requires that such assets be initially measured at fair value. IPSAS 41 prescribes that financial assets are initially measured at fair value and, depending on their classification, transaction costs may or may not be included. It looks as if the IPSASB is proposing to carry forward the current requirements whereby an entity looks first to the revenue standard and then considers initial recognition requirements in the financial instrument standards.

Proposed response ED 71 – Other comments

The use of the term ‘transfer recipient’

ED 71 imposes requirements on the ‘transfer recipient’. We acknowledge that the definition of a transfer recipient has been worded generally and covers an entity receiving taxes. However, we think it is confusing for readers (especially in the disclosures section) if the term ‘transfers’ excludes taxes, but the term ‘transfer recipients’ includes taxation recipients.

Revenue with high collection uncertainty

Paragraph 101 (shown below) establishes requirements for the measurement of tax revenue with high collection uncertainty. The meaning of the words “in accordance with paragraphs 69–70” is unclear, given their location at the end of the sentence. We think it would be better to establish separate requirements in paragraph 101.

101. The measurement of assets arising from taxation transactions is limited to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognized will not occur in accordance with paragraphs 69–70.

APPENDIX 3**[DRAFT] Response to SMCs on ED 72 *Transfer Expenses*****Notes for the Board on ED 72**

The Board considered ED 72 at its meeting in June (agenda item 3.1 at that meeting). The Board asked us to do outreach with funders about the feasibility of monitoring satisfaction of performance obligations. We will also be discussing ED 72 with some entities that make grants before the next meeting.

General points

Once we have drafted the responses to these SMCs we will consider any general points to be made. Possible points include:

- Some parts of the ED need more work
- Stress need for clear requirements
- Concerns about the size and complexity of the ED
- Would it benefit from an introduction or a flowchart?

ED 72 Specific Matter for Comment 1

The scope of this [draft] Standard is limited to transfer expenses, as defined in paragraph 8. The rationale for this decision is set out in paragraphs BC4–BC15.

Do you agree that the scope of this [draft] Standard is clear? If not, what changes to the scope or definition of transfer expense would you make?

Notes for the Board on ED 72 SMC 1

The Board has previously raised concerns about the IPSASB's approach to establishing separate requirements for social benefits, collective and individual services and transfer expenses.

The June agenda papers included an initial look at the links between ED 72 and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. The Board has requested that we do further work on this. The Board's general concern, as expressed in its comment letter on the 2017 CP, is that the liability requirements in the EDs should be consistent with IPSAS 19 (because it contains general guidance on liabilities and is the standard that people look to in the absence of specific guidance). Consistency helps avoid scope debates.

Alignment of requirements could be achieved by replicating or cross-referencing the requirements in IPSAS 19 and adding any additional requirements needed for transfer expenses. The Board noted that entities need clear requirements about the requirements in relation to:

- transfer agreement with variable payments (eg matching fundraising);
- transactions that give rise to constructive obligations; and
- onerous contracts (for example, that entities applying ED 72 do not need to apply the onerous contract requirements in IPSAS 19).

We need to do further work on this and plan to discuss it with the Board in September.

Proposed points for response:

- reiterate concerns about establishing separate requirements for social benefits, collective and individual services and transfer expenses
- views on provisions (subject to discussion in September)

ED 72 Specific Matter for Comment 2

Do you agree with the proposals in this [draft] Standard to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction for revenue transactions proposed in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*?

If not, what distinction, if any, would you make?

Notes for the Board on ED 72 SMC 2

We propose to agree with this distinction.

ED 72 Specific Matter for Comment 3

Do you agree with the proposal in this [draft] Standard that, unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transaction should be accounted for as a transfer expense without performance obligations?

Notes for the Board on ED 72 SMC 3

At the June meeting the Board noted comments from the TRG and the NZAuASB. The Board expressed some concerns about compliance costs. The Board also wondered if there might be implementation difficulties if funders and recipients have differing balance dates.

We reached out to five funders of varying sizes for feedback about aspects of ED 72. We posed the following questions.

- Will the proposed requirements in ED 72 (about monitoring satisfaction of obligations by the recipient) impose additional costs on funding organisations wanting to apply the public sector performance obligation approach (PSPOA) or would you already have information about the extent to which the recipient has satisfied its obligations?
- Would you have sufficient information (about satisfaction of obligations by the recipient) *at your balance date* (even if this differs from the recipient's balance date or the project completion date)?
- Should there be a requirement to *monitor satisfaction* or would a requirement to *periodically assess* the degree of satisfaction be more appropriate?
- Do you think there is likely to be any difference in the ability of Tier 1 and Tier 2 PBEs to apply the proposed requirements?

One funder has responded and confirmed that it would expect to have the information required to monitor satisfaction of performance obligations. The others have not responded or have indicated that they do not have time to engage with the EDs.

We will update the Board on any additional feedback received.

Proposed points for response:

- 'monitors' might not be appropriate word. It implies continuous assessment, but an entity may be able to satisfy the proposed requirements in ED 72 by periodic assessment.

ED 72 Specific Matter for Comment 4

This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses with performance obligations:

- (a) A transfer provider should initially recognize an asset for the right to have a transfer recipient transfer goods and services to third-party beneficiaries; and
- (b) A transfer provider should subsequently recognize and measure the expense as the transfer recipient transfers goods and services to third-party beneficiaries, using the public sector performance obligation approach.

The rationale for this decision is set out in paragraphs BC16–BC34.

Do you agree with the recognition and measurement requirements for transfer expenses with performance obligations? If not, how would you recognize and measure transfer expenses with performance obligations?

Notes for the Board on ED 72 SMC 4

These points were identified in agenda item 3.1 in June.

Proposed points for the response

- The discussion of subsequent measurement might be better located somewhere in the section on transfer expenses with performance obligations (somewhere following the discussion of initial measurement in paragraph 47).
- The ED does not appear to discuss the subsequent measurement of binding arrangement liabilities (other than payables).
- Not all payables will be financial liabilities. The statement that they shall be accounted for as a payable in accordance with IPSAS 41 does not acknowledge this point. [The Board has asked that we also think about this point in relation to provisions. The guidance on this point should be consistent with the requirements for provisions, because that is where people look for guidance in the absence of requirements in a standard.]

ED 72 Specific Matter for Comment 5

If you consider that there will be practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations, please provide details of any anticipated difficulties, and any suggestions you have for addressing these difficulties.

Notes for the Board on ED 72 SMC 5

We may not be able to form a view on this SMC until we receive feedback from constituents. So far the Board has expressed concerns about potential compliance costs.

ED 72 Specific Matter for Comment 6

This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses without performance obligations:

- (a) A transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources (this proposal is based on the IPSASB’s view that any future benefits expected by the transfer provider as a result of the transaction do not meet the definition of an asset); and

- (b) A transfer provider should measure transfer expenses without performance obligations at the carrying amount of the resources given up?

Do you agree with the recognition and measurement requirements for transfer expenses without performance obligations?

If not, how would you recognize and measure transfer expenses without performance obligations?

Notes for the Board on ED 72 SMC 6

Proposed points for the response

- There is not enough guidance to lead to consistent treatment of multi-year grants. Example 34 is not enough on its own.
- This ED must focus on the present obligations of the *transfer provider* rather than the recipient. Paragraphs 91–94 appear to be focusing on the present obligations of the recipient and are confusing.
- ED 72 paragraph 120 also specifies the subsequent measurement of other non-contractual payables arising out of the operation of legislation or regulation that are not transfer expenses. These requirements should be set out in a separate section. At the moment they are located at the end of the section on measurement of transfer expenses without performance obligations.

ED 72 Specific Matter for Comment 7

As explained in SMC 6, this [draft] Standard proposes that a transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources. ED 71, *Revenue without Performance Obligations*, proposes that where a transfer recipient has present obligations that are not performance obligations, it should recognize revenue as it satisfies those present obligations. Consequently, a transfer provider may recognize an expense earlier than a transfer recipient recognizes revenue.

Do you agree that this lack of symmetry is appropriate? If not, why not?

Notes for the Board on ED 72 SMC 7

Proposed points for response:

- Agree. Reiterate comments from the NZASB’s response to the 2017 CP about assessing assets and liabilities/loss of control from the transfer provider’s perspective.
- Acknowledge that this could create issues for consolidation, but such issues exists at present. Consolidation issues are relevant to the extent that they affect compliance costs but they should not drive accounting requirements.

ED 72 Specific Matter for Comment 8

This [draft] Standard proposes that, when a binding arrangement is subject to appropriations, the transfer provider needs to consider whether it has a present obligation to transfer resources, and should therefore recognize a liability, prior to the appropriation being authorized. Do you agree with this proposal?

If not, why not? What alternative treatment would you propose?

Proposed (non) response to ED 72 SMC 8

We have not answered this question.

ED 72 Specific Matter for Comment 9

This [draft] Standard proposes disclosure requirements that mirror the requirements in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*, to the extent that these are appropriate.

Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses? In particular,

- (a) Do you think there are any additional disclosure requirements that should be included?
- (b) Are any of the proposed disclosure requirements unnecessary?

Proposed response ED 72 SMC 9

The disclosure requirements in ED 72 mirror the equivalent disclosure requirements in ED 70 and ED 71. This results in a significant number of disclosures relating to transfer expenses, in particular, for transfer expenses with performance obligations. We are not aware of any other category of expenses that is required to be disclosed in this sort of detail and do not think that this level of detail is appropriate.

We have thought about what users of general purpose financial statements might want to know about transfer expenses with performance obligations. We consider that they are most likely to be interested in the overall balance of accruals, not the detail. We note that the IPSASB also seems to have been of this view at an earlier stage of the process (see ED 72 paragraph BC69) and subsequently decided to require more disclosures. We agree with the IPSASB's rationale (in paragraph BC69) for its earlier view not to include disclosure requirements for the disaggregation of expenses and the detailed information on binding arrangement balances.

Appendix 4 Editorial comments

This appendix is a work-in-progress. We have identified the following matters for consideration in the next stage of the projects.

Check for consistency in all three EDs.

- Use of en-dashes rather than hyphens for a range of paragraphs (that is, paragraphs x–x). This includes no spaces on either side of the dashes.
- Heading styles.
- Appendix A : Effective date paragraphs – check for consistent use of “this + the amendment” and “these + the amendments”
- ED 70 – third-party beneficiary needs to be included in more paragraphs (see table below)
 - the definition of a performance obligation includes “transfer to the purchaser or third-party beneficiary”. Where a paragraph refers to the transfer of goods or services, the transfer should be to both the purchaser or third-party beneficiary
 - paragraph 30 refers to the purchaser or third-party beneficiary obtaining control of that asset. Some paragraphs refer to only the purchaser obtaining control of an asset. Can be confusing when some paras refer to purchasers or third-party beneficiaries and some paragraphs refer to only the purchaser (see AG134 as example).

ED 70 Editorial comments

Paragraph	ED 70 Comment
Body of ED 70 and integral Appendix	
3(e)	Rights and obligations arising from binding arrangements within the scope of, IPSAS 19, ...
7 – binding arrangement	Paragraphs AG7–AG12 – should be an en-dash rather than a hyphen
7 – purchaser	... A <u>customer</u> is a type of a <u>purchaser</u> .
8(b) (and ED 72.13(b))	... can identify each party’s rights <u>and obligations</u> regarding the goods or services to be transferred; and
16(a)	This paragraph is equivalent to ED 72.19(a). The underlined word is in ED 72.19(a) but not in ED 70. The binding arrangements are negotiated as a package with a single <u>economic</u> objective. (IFRS 15 refers to commercial objective)
25	(b) Goods purchased by an entity <u>and</u> provided to citizens ... (c) ... (for example, an emission allowances ...) (d) ... (for example, <u>a</u> vaccination ...) (g) (for example, <u>a</u> the Post Office ...) (h) (for example, <u>a</u> the health department ... [Plus, the example was hard to read because it was quite long]
28(a)	“...for which the purchaser has entered into <u>the</u> binding arrangements. In other words...”
30	...

Paragraph	ED 70 Comment
	Paragraphs AG43-AG60 provides additional guidance on the satisfaction of <u>on</u> performance obligations.
37(a)	...—if a purchaser is presently obligated to pay for an asset, then that may indicate that the purchaser <u>or third-party beneficiary</u> has obtained the ability (paragraph 37(b) refers to the purchaser or third-party beneficiary obtaining control of an asset)
37(e)	The purchaser <u>or third-party beneficiary</u> has accepted the asset—the purchaser’s <u>or third-party beneficiary’s</u> acceptance of an asset (paragraph 30 states that an asset is transferred when (or as) the purchaser or third-party beneficiary obtains control of that asset)
99	This isn’t the first reference to IPSAS 3. Full title already given in para 42.
106	Title of IPSAS 41 not needed – first reference to IPSAS 41 is in para 3(d)
120(d) and (d)(ii)	... from the application of <u>paragraph</u> AG31, an entity shall disclose
126	... in evaluating when a purchaser <u>or third-party beneficiary</u> obtains control of promised goods or services.
AG1(d)	Identifying the Binding Arrangement (paragraphs AG26–AG3 <u>1</u>) (not AG32)
AG11	Identical paragraphs ED 71.AG15 and ED 72.AG13 have the following sentence at the end of the paragraph: <u>Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.</u>
AG13	A key characteristic of a binding arrangement is the ability or both parties <u>to</u> have and are <u>be</u> able to enforce both the rights and obligations conferred on them by the arrangement. <i>Why switch from referring to consideration to referring to funding? Think it would be more consistent to say that the entity receiving the consideration can enforce the promise to pay the consideration. Could put funding in brackets. Although the consideration might be referred to more generally as funding in some circumstances, in this standard it is consideration.</i>
AG15	While it is important that the entity receiving the funding can enforce payment of those funds, when they have a right to the funds, for the purposes of this [draft] Standard [space added between [draft] and Standard... the basis for the five-step revenue recognition model provided for in this [draft] Standard. [could say “outlined” if you wanted to].
AG16	...Compliance with a binding arrangement is determined based on the principles set out in the laws of a jurisdiction, which includes legislation, executive authority, cabinet or ministerial directives, as well as judicial rulings and case law precedence. <i>Would it be more accurate to say “determined in accordance with the laws of a jurisdiction...” Might be a question for someone with a legal background. (see also ED 71.AG17 and ED 72.AG16)</i>
AG18	Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, <u>sovereign rights do</u> this authority does not establish enforceable rights and obligations for the purposes of applying this [draft] Standard. ...
AG19	...The key determining factor is that the purchaser must be able to enforce the promises made in the entity’s binding arrangement. ... “the binding arrangement” in ED 71.AG20 and ED 72.AG19 [if you want to refer to the entity, would need to refer to the binding arrangement “between the entity and the purchaser”]

Paragraph	ED 70 Comment
	Spelling: fulfil
AG20	Identical paragraphs ED 71.AG21 and ED 72.AG20 include the underlined word: ...then the <u>potential</u> reduction in funding could be considered a valid enforcement mechanism.
AG22	Suggest having a close look at this para and rewriting. Ideas for consideration follow. Three-party arrangements are common in the public sector. – <u>The three parties are the purchaser, the resource recipient (reporting entity in this [draft] Standard) and the third-party beneficiaries.</u> It is important to recognize that in these three-party arrangements, the third <u>Third-party beneficiaries do not have any rights to force the entity to deliver goods and services because they are not a party to the binding arrangement. Some such arrangements in which the purchaser has the ability to enforce the delivery of goods and services to third-party beneficiaries fall within the scope of this [draft] Standard.</u> However, for these three-party arrangements to be within the scope of this [draft] Standard the purchaser must have the ability to force the entity to deliver goods and services to third-party beneficiaries. In these three-party arrangements the resource recipient (reporting entity) is not an agent of the purchaser because the resource recipient gains control of the consideration from the purchaser and is responsible for providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram. (Also need to consider ED 72.AG22)
AG23	... gives rise to a non-legally binding (constructive) <u>obligation</u> under IPSAS 19,... (for consistency with ED 71.AG23)
AG25	<i>Suggested the following change because although IPSAS are applied by public sector entities the purchaser may not be a public sector entity. Not sure why the para refers the reader to three party arrangements below because they have already been discussed in para AG22.</i> AG25. For public sector specific transactions, Although the purchaser is the party that pays consideration for the goods and services set out in a binding arrangement <u>the purchaser</u> but is not necessarily the party that receives those goods and services. In the case of a three-party arrangement (discussed below), the purchaser has a binding arrangement with, and pays consideration to, the entity to deliver goods and services to a third-party beneficiary. ...
AG29	...the criterion for identifying a binding revenue arrangement in paragraph 8(e) is not met. [look at terminology: AG29 and AG30 – citizens; 8(e) – third-party beneficiaries; 120 – purchaser’s ability to pay]
AG31	<i>Not sure that this is the best solution but think some change needed to first sentence.</i> This [draft] Standard typically <u>requires that the measurement of measures</u> revenue <u>be</u> based on the transaction price to which an entity expects to be entitled rather than the amount that it expects to ultimately collect. ...
AG33(b)	...have the same pattern of transfer to the purchaser <u>or third-party beneficiary</u> . (underlined words are in the definition of a performance obligation, and in paragraph 21 which is referred to in paragraph AG33)
AG34	If goods or services (or a bundle of goods or services) are not transferred <u>and/or are not distinct</u> , the transaction is outside the scope... (the underlined words are in ED 72.AG30)
AG36	...the existence of a performance obligation as defined in the [draft] <u>this</u> Standard.
AG38(b)	The entity’s promise to transfer the good or service to the purchaser <u>or third-party beneficiary</u> is separately identifiable ...

Paragraph	ED 70 Comment
AG39	<p>When identifying a performance obligation, not only does the promised transfer of the goods and services in a promise need to be separately identifiable but the promises in a binding arrangement must also be sufficiently specific from other promises in the same binding arrangement to allow for the purchaser to be able to determine when that performance obligation is fulfilled. Therefore, it is possible to have several performance obligations in one binding arrangement.</p> <p>[Shaded the word <i>Therefore</i> because I don't think it flows from the preceding sentence.]</p>
AG43	<p><i>Prefer the original wording in in IFRS 15 B2. Not sure why it was changed.</i></p> <p>In accordance with paragraph 34, provides that a performance obligation is satisfied over time if one of the following criteria is met:</p>
AG43(b)	<p>The entity's performance ... that the purchaser <u>or third-party beneficiary</u> controls as the asset (for consistency with paragraph 34(b))</p>
AG44	<p>... the assessment of whether a purchaser <u>or third-party beneficiary</u> receives the economic benefit ... (for consistency with paragraph 34(a))</p>
AG45	<p>... readily identify whether a purchaser <u>or third-party beneficiary</u> simultaneously ...</p>
Heading above AG46	<p>The heading should either refer to both the purchaser or third-party beneficiary, or it could be amended to read 'Control of an Asset as it is Created or Enhanced'</p>
AG46	<p>In determining whether a purchaser <u>or third-party beneficiary</u> controls an asset ...</p>
AG50	<p>The shaded sentence doesn't work. I think it needs to be split into two and start along the following lines. Not sure that "transferred for a price" is best wording but need to distinguish the two situations somehow. "In the case of goods and services that are transferred for no charge or for a nominal amount,.....". In the case of goods and services transferred for a price..."</p> <p>In accordance with paragraphs 34(c) and 36, an entity has a right to payment for performance completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance completed to date in the event that the purchaser or another party terminates the binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for performance completed to date would be an amount that approximates the total cost of the goods or services transferred to date for no charge or for a nominal charge, or the price of the goods or services transferred to date (for example, recovery of the costs incurred by an entity in satisfying the performance obligation plus a reasonable margin) rather than compensation for only the entity's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was fulfilled as promised, but an entity should be entitled to compensation for either of the following amounts:</p> <p>...</p>
AG52	<p>... the binding arrangement (or other laws) might entitle the entity to continue to transfer to the purchaser <u>or third-party beneficiary</u> the goods or services promised ...</p>
AG55	<p>Preceding heading: ...(see paragraphs 34-36 38-39) (En dash and para numbers)</p>
AG60	<p>A shortcoming of input methods is that there may not be a direct relationship between an entity's inputs and the transfer of control of goods or services to a purchaser <u>or third-party beneficiary</u>. Therefore, an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 38, do not depict the entity's performance in transferring control of goods or services to the purchaser <u>or third-party beneficiary</u>. ...</p> <p>(b)(ii) The purchaser <u>or third-party beneficiary</u> is expected to obtain control ...</p>

Paragraph	ED 70 Comment
AG61	In some binding arrangements, an entity transfers control of a product to a purchaser <u>or third-party beneficiary</u> and also grants the purchaser <u>or third-party beneficiary</u> the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following: ...
AG62(c)	An asset (and corresponding adjustment to cost of sales) for its right to recover products from purchasers on settling the refund liability. [What if a third-party beneficiary refunds a product?]
AG66	An asset recognized for an entity’s right to recover products from a purchaser <u>or third-party beneficiary</u> on settling a refund liability ...
AG67	Exchanges by purchasers <u>or third-party beneficiaries</u> of one product for another of the same type, quality, condition and price (for example, one color or size for another) ...
AG68	Binding arrangements in which a purchaser <u>or third-party beneficiary</u> may return a defective product in exchange for a functioning product ...
AG71 & AG77	Check whether third-party beneficiary needed
AG91	... where an entity (being the resource <u>transfer</u> recipient) is providing ... The EDs usually refer to the ‘transfer’ recipient. ‘resource’ recipient is referred to only four times: ED 70.AG91, ED 71.BC10, ED 72.32 and ED 72.139. In addition, ED 71 defines a transfer recipient but not a resource recipient.
AG97	...In many casesat or near the inception of the binding arrangement, to fulfill the binding arrangement, that activity does not result in (the commas are not in the same place as the commas in IFRS 15.B49)
AG101	Check first sentence – third-party beneficiary [Section on licensing – Is it only the purchaser that has rights to intellectual property? Both purchaser and third-party beneficiary have access? AG101, AG105, AG106, AG107, AG109]
AG105(a)	... the intellectual property to which the purchaser <u>or third-party beneficiary</u> has rights ... For consistency with paragraph AG105(b) “The rights granted by the license directly expose the purchaser or third-party beneficiary ...”
AG106	... to which the purchaser <u>or third-party beneficiary</u> has rights ...”
AG130	... by evaluating when a purchaser <u>or third-party beneficiary</u> obtains control of that product (see paragraph 37). (paragraph 37 refers to the purchaser or third-party beneficiary)
AG134	Check for third-party beneficiary – discussing control by the purchaser – and AG135
ED 70 Appendix B: Amendments to Other IPSAS	
IPSAS 12	Instruction paragraph: Paragraphs 2, 11, 28 , 39 and 48 are amended, Paragraph 28 is deleted not amended
IPSAS 17.84	In the final sentence, the space between IPSAS 13 and the word “applies” shouldn’t be underlined. The sentence was displayed correctly in the 2019 Handbook.
IPSAS 19.111J	<i>These</i> amendments (not this amendment) The amendments (not the amendment)
IPSAS 21.2	Spelling: fulfil
IPSAS 26.2	Spelling: fulfil
IPSAS 28.60F	The amendments (not the amendment) An entity shall apply this amendment Paragraph 60F should be 60H – 60F was added by IPSAS 41 and 60G by IPSAS 42

Paragraph	ED 70 Comment
IPSAS 31	New effective date paragraphs 132K should be shown before the amended paragraph AG6
IPSAS 32.36E	36E. Paragraphs <u>26, 30 and AG56</u> were as amended by [draft] IPSAS [X] (ED 70), <i>Revenue with Performance Obligations</i> , issued in [Month] [Year]. An entity shall apply these this amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.
IPSAS 32.BC35	New text: In developing [draft] IPSAS [X] (ED 70), the IPSASB noted that that principles in ...
IPSAS 32.BC37	New text: ... the consideration is measured indirectly by reference to the stand-alone price of the goods or services promised to the purchaser
IPSAS 41	Instructions and new effective date paragraph 156B: Paragraphs 3, 45, <u>60</u> , 87, ...
IPSAS 41.3	See agenda item 5.1 May 2020 and comment letter
IPSAS 41. 3 and AG33	Reference to IPSAS 23 should be changed to [draft] IPSAS [X] (ED 71)
IPSAS 41.60	New text: that do not have a significant financing component (determined in accordance with [draft] IPSAS [X] (ED70)) ... [IPSAS 41.60 says ‘may measure short-term receivables’ but IFRS 9 para 5.1.3 says ‘shall measure’]
IPSAS 41.AG5	(a) Although a financial guarantee contract meets the definition of an insurance contract in IFRS 4 <u>the scope relevant international or national accounting standard dealing with insurance contracts</u> if the risk transferred is significant, the issuer applies this Standard. (usual reference is to relevant international or national standard)
IPSAS 41.AG34	New text: ... in accordance with the principles of [draft] IPSAS [X] (ED 70)) and
IPSAS 41.AG132	Heading above paragraph Valuing Financial Guarantees Issued Through a Non-Exchange Transaction
IPSAS 41.AG133	In the public sector, guarantees are frequently provided by way of non-exchange transactions, i.e., at no or nominal consideration. ...
ED 70 Basis for Conclusions	
BC3	... In addition, respondents noted, and the IPSASB agreed, that the concepts of restrictions or conditions in the exchange/nonexchange approach in IPSAS 23 were was difficult to apply in practice. ... [the concepts are the subject in the clause]
BC4	At the time of the CP the proposed ED didn’t have a title so reference should probably be to an ED to be developed.
BC12(e)	..as well as the addition of public sector-specific examples (hyphenated for consistency with paragraph BC12(b)
BC20	This paragraph doesn’t work as a lead in to (a) and (b)
BC24	...For clarity, the IPSASB also decided to explicitly specify in the definition that a binding arrangement confers both enforceable rights and obligations on to both parties to in the arrangement. ...

Paragraph	ED 70 Comment
	...As the concept of a contract may still be applicable in the public sector, the IPSASB also retained the definition of <u>a</u> contract but specified that a contract is a type of binding arrangement
BC48	Why are the disclosure requirements from IFRS 15 (revenue from contracts) being compared with the disclosure requirements from IPSAS 23 (revenue from non-exchange transactions)? This might be a valid comparison for ED 71.
BC59	...e.g., allocating the consideration to performance obligations based on their stand-alone prices, then ...
ED 70 Illustrative Examples	
There's a page with the heading Implementation Guidance but the next page is headed Illustrative Examples. Which one is correct?	
IE2	...paragraphs 7 and AG7-AG24 of draft(space needed between 24 and of) Examples 2-3 also illustrate ...
IE2	The 2 nd sentence may not be entirely correct. It says refers to the requirement in para 3(a) but that paragraph merely directs readers to ED 71. Would it be easier for the reader to say that Examples 2 and 3 also illustrate the need to consider the application of ED 71 to transactions or components that fall outside the scope of ED 70. Maybe the 2 nd and 3 rd sentences could be combined.
IE17	Example includes both Resident in the singular and Residents in the plural. The remaining paragraphs in this example refer to Resident in the singular. First sentence should read "rented below market prices" or "rented <u>at</u> below-market prices". 4th sentence should read "20 years".
IE24	... before the government hospital can <u>could</u> determine ...
Examples 5 and 6	Why does example 5 focus on the deposit but not the rest of the payments? Why do you have to do the implicit price concession assessment for drugs but not for the houses?
IE39	There are two distinct used military products – light-armored vehicles and spare parts. However, the remainder of the example refers to one light-armored vehicle (for example, see paragraphs IE40 and IE41). ...and spare parts transfers on March 31, 20X1.
IE43	...The transaction price for the modified binding arrangement is CU900,000 and ...
IE40 and IE45	...the criteria in paragraph 84 that <u>requires</u> allocation ofthe criteria in paragraph 84 that <u>require</u> allocation of ... Criteria (plural) require allocation of
IE47	...is reduced <u>to CU8 million</u> due to budget cuts at the Department to CU8 million .
IE51	Amounts for the transaction price and expected costs (and then expected surplus) are not lined up. [Should we make this a general comment?]
IE53	Amount for Surplus not lined up with Revenue and Costs.
IE113	Preceding heading Case A etc should be italics for consistency with headings for Case B and Case C of Example 21.
IE131	Amount for Profit not lined up with Revenue and Cost of goods sold.
IE140(c)	p Paragraphs 83–85 ...

Paragraph	ED 70 Comment
IE149	The hospital considers the requirements in paragraphs 55–57 of binding arrangements on constraining estimates of variable consideration,
IE213	...the funding was provided to the health <u>clinic</u> for the purposes of ...
IE215	Spelling: fulfil
Example 42 IE228–IE231	Paragraph IE228 – CU150 per examination for 10,000 examinations. Paragraph IE230 Journal entry is based on 100 examinations not 10,000 examinations
IE232	... paragraphs 121–123 ... for the disclosure of <u>the</u> transaction price ...
IE235	Segment reporting by major product lines – table 3. There is no breakdown for emergency services but there is a total amount (CU1,990). This carries through to the Total column.
IE240	...with quantitative time bands that illustrates when the Agency Revenue expected to be recogniz <u>ed</u> on this Binding Arrangement as of December 31, 20X7
IE242	... Revenue expected to be recogniz <u>ed</u> on this Binding Arrangement as of December 31, 20X7
IE255	... When applicable, The Agency does not control (IFRS 15 does not include the struck through text)
IE298	The heading “Allocation of consideration expected” doesn’t line up with the CU column
IE332	The Facility entity applies ...
IE354	... Furthermore, the Mint stores the second batch of coins in a separate section of its warehouse and the coins <u>are</u> ready for immediate shipment ...

ED 71 Editorial comments

Paragraph	ED 71 Comments
TOC	ED 70 and ED 72 have a breakdown of the disclosure requirements in the Table of Contents. ED 71 has only one heading – Disclosures.
Body of ED 71 and integral Appendix	
3(g)	..within the scope of, <u>IPSAS 41</u> [comma not needed]
4(b)	‘Capital transfers’ are given as an example of transfers. Should (c) read ‘other transfers...’? Or should (b) and (c) be combined?
10	<u>Capital transfer</u> The definition of capital transfer refers to an inflow of cash or another asset. This suggests that the definition of a capital transfer encompasses donated assets. However, the rest of the definition doesn’t deal with that possibility. It refers to specifications to acquire or construct an asset.
10	<u>Other compulsory contributions and levies</u> Other compulsory contributions and levies is cash ...[reword to avoid use of ‘is’] [check use of commas]
10	<u>A transfer</u> ... Footnote 2: The definition of a transfer includes references to other assets (such as non-current assets) ...

Paragraph	ED 71 Comments
12	Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity ... [the definition of revenue in ED 70 is ‘the gross inflow of economic benefits or service potential <u>during the reporting period</u> when those inflows result an increase in net assets/equity ...’]
14	A present obligation is a binding obligation (<u>imposed</u> legally or by equivalent means), which an entity has little or no realistic alternative to avoid and which results in an outflow of resources. [Can we improve this?]
16	... enter into a binding arrangement creating <u>both</u> enforceable rights and obligations on both parties. [per definition of a binding arrangement in ED 70.7]
59	... by the transfer recipient at its transaction price as at the date <u>on</u> in which the...
63	Identical paragraphs ED 70.48 and ED 72.50. have the following words at the end of the paragraph: <u>and that the binding arrangement will not be cancelled, renewed or modified.</u>
64	...the amount of the inflow to which the transfer recipient expects to collect ...
65	Identical paragraphs ED 70.48 and ED 72.50 have the following sentence at the end of the paragraph: <u>For example, an amount of consideration would be variable if either a product was provided with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.</u> [Check whether additional words needed]
67	...predict the amount of inflows to which it expects to receive:
72–77	Practical expedient when significant financing component: ED 70.130 and ED 72.153 require disclosure when the entity applies the practical expedient in ED 70 and ED 72. ED 71 includes the equivalent practical expedient (ED 70.59–64, ED 71.72–77, ED 72.60–65) but doesn’t require an entity to disclose that it has applied the practical expedient.
78	... when the criteria for revenue recognition <u>are</u> is satisfied.
86	... for a transaction with no present obligations as set out in ...
94	Heading above para 94 <i>The Taxable Event for Other Compulsory Contributions and Levies</i> Reason: The section discusses the taxable event for both taxes <u>and</u> other compulsory contributions and levies.
97	...which is consistent with <u>the</u> most likely amount in paragraph 87.
Structure of disclosures	For ease of reading, the order of the disclosure requirements should follow the order of the requirements in the ED: (i) objectives of disclosures, (ii) transfers with present obligations, (iii) transfers without present obligations, and (iv) taxes.
126 & 127	These are one paragraph in ED 70 and ED 71 (paras ED 70.109 and ED 72.127 respectively)
130	... consider the requirements of paragraphs 45 to 47 <u>45–47</u> of IPSAS 1, ... (for consistency with ED 70.112 and ED 72.130)
131	I think a heading is needed above this paragraph because they are not part of the objective of the disclosure requirements. Paragraphs 131–139 require disclosures about revenue from transactions without performance obligations and are mostly carried over from IPSAS 23. Do we need “major classes” in (a)(i)–(iii)? Paragraph 132(a) requires “the amount of revenue ... by major classes showing separately:” (i), (ii) and (iii).
137	This paragraph is based on ED 70.120, which specifies disclosures where an entity is compelled to satisfy a performance obligation and where the collection of consideration is

Paragraph	ED 71 Comments
	not probable (or only assessed as probable after accepting a price concession). The disclosure provides information to users about why an entity was compelled to enter into such transactions, as well as the level of goods and services that were provided by the entity for which revenue was not recognised. Paragraph 137 as worded is not clear and we don't think that the wording changes made to ED 70.120 work properly.
144	The references to paragraphs 1(a) and 1(b) should be to paragraphs 146(a) and 146(b) respectively.
147	The paragraph refers to a transfer recipient that is entitled to revenue from taxation or fines but is included in the section of the disclosure requirements about binding arrangements. Should it be moved?
151 – preceding heading	The heading “Significant Judgments in the Application of this [draft] Standard” is misleading as the disclosures relate to the significant judgments in applying the standard that significantly affect the determination of the amount and timing of revenue from transfers with present obligations – ie it only applies to the transactions with binding arrangements with present obligations, not judgements in applying all of the standard (see paragraph 127(b), which is much clearer).
AG11	Paragraphs ED 70.AG7 and ED 72.AG9 have the following wording: In the public sector ... are able to enforce their <u>respective</u> rights and obligations through legal or equivalent means.
AG13	... a mechanism outside the legal systems is required
AG16	... That is the transfer recipient receiving the consideration (the transfer recipient) must be able to enforce the promise to receive funding (consideration). ...[align with ED 72.AG15 and also look at ED 70.AG13]
AG19	Sovereign rights is an <u>are the</u> authority to make, amend and repeal legal provisions. ... (for consistency with ED 70.AG18 and ED 72.AG18)
AG20	Spelling: fulfil
AG49	AG49. The transaction price of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG52. [Check reference. Think it should refer to AG54.]
AG54	AG54. On initial recognition, gifts and donations including goods in-kind are measured at their transaction price, being <u>their</u> its fair value, as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the transaction price will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.
AG59	F the breach ..., the transfer recipient <u>shall</u> will recognise a liability ...
AG60	Spelling “judgement” [will be determined??]
ED 71 Appendix B: Amendments to Other IPSAS	
IPSAS 1.88(g)	Needs a semi colon at the end of the paragraph
ED 71 Basis for Conclusions	
BC6	... Consequently, the IPSASB issued the CP in August 2017 which outlined its proposals for developing and IPSAS ...

Paragraph	ED 71 Comments
	In the list need another line for “Revenue transactions from binding arrangements without performance obligations and without present obligations.”
BC9	... the approach for classification of revenue transactions from an exchange/... While these transactions may not arise from binding arrangements, they may be ...
BC10	... so the implied requirements will not give rise to present obligations of the resource transfer recipient. The EDs usually refer to the transfer recipient, a defined term in ED 71.
BC13	...the present obligations in enforceable transactions would either be either a:
BC16	In responding to constituent's concerns relating to ...
BC19	...would be recognized by the transfer recipient when it controlled of or had a right ...
BC22	Spelling: fulfil x 2
BC25	... one that includes a performance obligation and one that does not <u>include</u> have a performance obligation.
BC32	First mention of IPSAS 1 so title of IPSAS 1 is needed.
BC33	... conceptual principles underpinning the IPSASs and the IPSAS 1 requirement ...
BC36	... recognition of services in-kind. [For consistency with rest of the paragraph]
Heading above BC41	Should be in title case not sentence case.
ED 71 Illustrative Examples	
IE32	... 40 percent for new railroad or tramway systems, and 20 percent for to purchase ...
IE43	... The company is in a sound financial position
IE45	...The agreement specifies the details of the development assistance receivable by National Government A and the types of of items of expense
Example 21	Example 21—Goods in In-kind Received as Revenue ...
Example 25	Note to the Financial Statements <i>Paragraph 10</i> Liabilities Recognized in Respect of Transfers: As at December 31, the Government had received a cash payment, h However, construction <i>Paragraph 12</i> : Plant and equipment includes controlled by the Government, z and The painting is subject to the requirement that it not be sold for a period of 40 years. Heading above <i>paragraph 13</i> : ... Donations, and Goods In-kind Received (for consistency with other headings containing In-kind, for example see heading above paragraph 15) <i>Paragraph 16</i> : ... These volunteers provide valuable support to these entities in achieving their objectives, however, the services provided ... [This should be two sentences and check for clarity. Could be read as volunteers achieving their objectives as it is written but it should be the entities achieving their objectives.]
IE60	A transfer recipient ...
Example 26	Analysis: ... (Note: A The transfer recipient ...; assume for the purposes of this example ...) Note to Journal entry 2: ... Comprehensive examples for the repayment of interest and capital and interest accruals are included in the Illustrative Examples to IPSAS 41).
IE65	There last journal entries are blank – delete these cells
Example 28	Transaction with One Component which is Within the Scope of [draft] IPSAS (ED 70) Revenue with Performance Obligations, and Another Component which is Within the

Paragraph	ED 71 Comments
	s Scope of [draft] IPSAS [X] (ED 71), <i>Revenue without Performance Obligations</i> (Paragraph 9) (for consistency with ED 70 Illustrative Example 3)
IE71	As <u>At</u> each stage of completion ...
IE73	Using the same facts as Example 27 <u>29</u> above ...
IE74	...similar to Example 27 (should this be Example 29?)
IE83	The facts are the same as in Case A of Example 30 <u>31</u> .

ED 72 Editorial comments

Paragraph	ED 72 Comments
Contents	<u>Appendix A</u> : Application Guidance <u>Appendix B</u> : Amendments to Other IPSAS (for consistency with Contents for ED 70 and ED 71)
Body of ED 72 and integral Appendix	
7	The second sentence isn't working for me – part (or parts) ...that <i>are</i> initially measured
8	Definition of transaction consideration – ... is the amount of consideration to which the transfer provider expects to be obligated
13	A transfer provider shall account for a transfer expense which imposes performance obligations Isn't it the binding arrangement which imposes performance obligations rather than the transfer expense?
15	Identical paragraph ED 70.9 has the following underlined text as the second sentence (not in ED 72): <u>Enforceability of the rights and obligations in a binding arrangement is created through legal or equivalent means.</u>
23(a)	... and the creation of a new binding arrangement, <u>if</u> the remaining goods or services ... (for consistency with ED 70.20(a))
23(b)	... at the date of the modification to a <u>the</u> binding arrangement. ...
27	Spelling: fulfil
28(d)	A transfer recipient performing a task for a third-party beneficiary that is agreed upon in the binding arrangement (for example, a supplier <u>transfer recipient</u> providing computer maintenance services to schools) Look at 28(e) also paramedics
31	Spelling: fulfil
31(a)	... for which the transfer provider has entered into <u>the</u> binding arrangements, <u>...</u>
32	... as a single performance obligation of the resource <u>transfer</u> recipient. For consistent use of terminology – resource recipient not usually used, and transfer recipient is a defined term in ED 71 but resource recipient isn't.
37	An asset created by a transfer recipient's performance does not have an alternative use for <u>to</u> the transfer recipient is ... (for consistency with ED 70.35, the last sentence in paragraph 37 and paragraph AG43)
48	... in exchange for <u>the</u> transfer recipient transferring the promised goods or services ...

Paragraph	ED 72 Comments
75	... underlying each of the transfer recipient's performance obligations in the binding arrangement ...
84(a)	... to a third-party beneficiary beneficiary ; and
92(c)	The transfer provider can identify the payment terms for the contribution-consideration to be transferred.
111	... when adjusting the promised transfer of resources for a significant financing component ...
114	Why is this paragraph not similar to para 66 [some of the measurement paragraphs are similar to the measurement paragraphs for BAs with performance obligations]
115	Similar to comment above, why is this para not similar to paras 95 and 96. [Did some content get moved around? Debt forgiveness is dealt with under recognition and also under measurement – hence my Q re whether content was moved around. Or maybe it should be in both places?]
139	A transfer provider shall disclose the following information about a transfer recipient's performance obligations: (b)(i) ... duration of the resource <u>transfer</u> recipient's remaining performance obligations. For consistency with the lead in for the disclosure.
147	... how the nature, amount, timing and uncertainty of expenses and cash flows ...
152 and preceding heading	Significant Judgments in the Application of this [draft] Standard to Binding Arrangements for Transfer Expenses without Performance Obligations. ... affect the determination of the amount and timing of expenses from binding arrangements for transfer expenses without performance obligations ...
161	... Under this transition method, a transfer provider may elect to apply tis [draft] Standard retrospectively only to binding arrangements for transfer expenses with performance obligations that are not completed binding arrangements for transfer expenses with performance obligations at the date of initial application ...
AG1	(c) Definitions (paragraphs AG6–AG 23 25); (d) Public Sector Performance Obligation Approach (AG24): (i) ... (ii) Measurement (paragraphs AG53–AG89); and (e) Transfer Expenses without Performance Obligations (AG90): (i) Recognition (paragraphs AG91–AG 103 102); and (ii) Measurement (paragraphs AG104–AG108); and (f) <u>Disclosures (paragraphs AG109–AG111).</u>
AG7	...Paragraph AG22 explains that a transfer recipient in a three-party transaction is not an agent, because it gains control of the goods or services transferred by the transfer provider, and are <u>is</u> responsible for satisfying
AG9	A binding arrangement is defined in [draft] IPSAS [X] (ED 70), <i>Revenue with Performance Obligations</i> . The <u>This</u> [draft] Standard relies on
AG11	For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal systems <u>s</u> is required.
AG19	Spelling: fulfil
AG20	... However, if the transfer recipient is <u>was</u> presently entitled to funding in the future ... (was in ED 70.AG20 and ED 71.AG21)

Paragraph	ED 72 Comments
AG21	Identical paragraphs ED 70.AG21 and ED 71.AG22 have the following sentence at the end of the paragraph: <u>Key factors that may indicate the purchaser (transfer provider) would reduce future funding in the event of a breach of promises made in another binding arrangement are the purchaser's ability to reduce future finding and its past history of doing so.</u>
AG23	... gives rise to a <u>non-legally binding</u> (constructive) obligation under IPSAS 19,... (for consistency with ED 71.AG23)
AG36	The second requirement of a performance obligation is that there must be a transfer of goods and or services to the third-party beneficiary. ... (references in all three EDs are to goods or services)
AG40	For some types of performance obligations, the assessment of whether a third-party beneficiary receives the economic benefits <u>or</u> service potential (EDs refer to economic benefits or service potential)
AG54	... Where the presumption is rebuttedin the transition <u>transition transaction</u> consideration in accordance with paragraphs 48–71. ...
AG68	The commas are in the same place as they are in ED 70.AG97 but I think they're in the wrong place: ...In many casesat or near the inception of the binding arrangement, to fulfill the binding arrangement, that activity does not result in (the commas are not in the same place as the commas in IFRS 15.B49)
AG86(d)	The transfer recipient cannot have the ability to use the product or to direct it to another purchaser <u>third-party</u> beneficiary.
ED 72 Appendix B: Amendments to Other IPSAS	
ED 72 Basis for Conclusions	
BC27	If the goods or services were to be transferred to the transfer provider, it would <u>be</u> clear that there is a right ...
BC31	... The IPSASB agreed that this means that the transfer provider presently controls the resource.
BC40	... The IPSASB decided to adopt the same approach to other guidance in [draft] IPSAS [X] (ED 70) where it considered it unlikely that the transfer provider would have sufficient information to be able to apply the guidance, for example, the estimated cost approach for determining the stand-alone purchase price. The option (to apply the additional guidance in [draft] IPSAS [X] (ED 70) on the rare occasions when the transfer provider has sufficient information to do so) is explained in paragraph AG24 <u>AG25</u> of [draft] IPSAS [X] (ED 72).
BC53	Furthermore, the IPSASB <u>considered</u> ...
BC63	The IPSASB noted that some binding arrangements may require a transfer provider to make a series of transfers, for example, one transfer per year over a three-year period.
ED 72 Illustrative Examples	
IE2	Examples 1–Example-3 illustrate(for consistency with ED 70 IE2. Same comment applies to paragraphs IE22, IE23, IE79, IE146 and IE168.)

Paragraph	ED 72 Comments
IE35	... The Department concludes ..., because it is probable that a significant reversal in cumulative revenue <u>expenses</u> recognized will not occur when the uncertainty is resolved. ... Consequently, the Department recognizes an expense of CU20,000 for the light-armored vehicles in the period
IE45	... including the bonus in the transaction price will not result in a significant reversal in the amount of cumulative revenue <u>expenses</u> recognized
IE46	52.9 per cent <u>percent</u> - twice in the paragraph

Comparison of disclosure requirements IPSASB EDs 70–72

ED 70	ED 71	ED 72
<p>Presentation</p> <p>104. When either party to a binding arrangement has performed, an entity shall present the binding arrangement in the statement of financial position as a binding arrangement asset or a binding arrangement liability, depending on the relationship between the entity’s performance and the purchaser’s payment. An entity shall present any unconditional rights to consideration separately as a receivable. [IFRS 15.105]</p>	<p>Presentation</p> <p>121. When either party to a binding arrangement has performed, a transfer recipient shall present the binding arrangement in the statement of financial position as a transfer recipient’s binding arrangement asset or a transfer recipient’s binding arrangement liability, depending on the relationship between the transfer recipient’s performance and the transfer provider’s transfer. A transfer recipient shall present any unconditional rights to a transfer separately as a receivable.</p>	<p>Presentation</p> <p>Transfer Expenses with Performance Obligations</p> <p>121. When either party to a binding arrangement has performed, a transfer provider shall present the binding arrangement in the statement of financial position as a transfer provider’s binding arrangement asset or a transfer provider’s binding arrangement liability, depending on the relationship between the transfer recipient’s performance and the transfer provider’s payment. A transfer provider shall present any unconditional obligations to pay consideration separately as a payable.</p>
<p>105. If a purchaser pays consideration, or an entity has a right to an amount of consideration that is unconditional (i.e., a receivable), before the entity transfers a good or service to the purchaser or third-party beneficiary, the entity shall present the binding arrangement as a binding arrangement liability when the payment is made or the payment is due (whichever is earlier). A binding arrangement liability is an entity’s obligation to transfer goods or services to a purchaser or third-party beneficiary for which the entity has received consideration (or an amount of consideration is due) from the purchaser. [IFRS 15.106]</p>	<p>122. If a transfer provider transfers cash or another asset, or a transfer recipient has a right to a transfer that is unconditional (i.e., a receivable), before the transfer recipient satisfies its present obligation, the transfer recipient shall present the binding arrangement as a transfer recipient’s binding arrangement liability when the transfer is made or the transfer is due (whichever is earlier). A transfer recipient’s binding arrangement liability is a transfer recipient’s obligation to satisfy a present obligation for which the transfer recipient has received a transfer (or an amount of a transfer is due) from the transfer provider.</p>	<p>122. If a transfer provider pays consideration, or has an obligation to pay an amount of consideration that is unconditional (i.e., a payable), before the transfer recipient transfers a good or service to the third-party beneficiary, the transfer provider shall present the binding arrangement as a transfer provider’s binding arrangement asset when the payment is made or the payment is due (whichever is earlier). A transfer provider’s binding arrangement asset is a transfer provider’s right to have the goods or services transferred to a third-party beneficiary for which the transfer recipient has received consideration (or an amount of consideration is due) from the transfer provider. A transfer provider shall assess a transfer provider’s binding arrangement asset for impairment in accordance with IPSAS 21 <i>Impairment of Non-Cash-Generating Assets</i>.</p>

ED 70	ED 71	ED 72
<p>106. If an entity performs by transferring goods or services to a purchaser or third-party beneficiary before the purchaser pays consideration or before payment is due, the entity shall present the binding arrangement as a binding arrangement asset, excluding any amounts presented as a receivable. A binding arrangement asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a purchaser or third-party beneficiary. An entity shall assess a binding arrangement asset for impairment in accordance with IPSAS 41, <i>Financial Instruments</i>. An impairment of a binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IPSAS 41 (see also paragraph 113(b)).</p> <p>[IFRS 15.107]</p>	<p>123. If a transfer recipient performs by satisfying a present obligation before the transfer is received or before the transfer is due, the transfer recipient shall present the binding arrangement as a transfer recipient's binding arrangement asset, excluding any amounts presented as a receivable. A transfer recipient's binding arrangement asset is a transfer recipient's right to a transfer to satisfy a present obligation. A transfer recipient shall assess a transfer recipient's binding arrangement asset for impairment in accordance with IPSAS 41. An impairment of a transfer recipient's binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IPSAS 41 (see also paragraph 140(b)).</p>	<p>123. If a transfer recipient performs by transferring goods or services to a third-party beneficiary before the transfer provider pays consideration or before payment is due, the transfer provider shall present the binding arrangement as a transfer provider's binding arrangement liability, excluding any amounts presented as a payable. A transfer provider's binding arrangement liability is a transfer provider's obligation to pay consideration in exchange for goods or services that the transfer recipient has transferred to a third-party beneficiary.</p>
<p>107. A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognize a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable from a binding arrangement with a purchaser, any difference between the measurement of the receivable in accordance with IPSAS 41 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss). [IFRS 15.108]</p>	<p>124. A receivable is a transfer recipient's right to a transfer that is unconditional. A right to a transfer is unconditional if only the passage of time is required before a transfer is due. For example, a transfer recipient would recognize a receivable if it has a present right to a transfer even though that amount may be subject to refund in the future. A transfer recipient shall account for a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable from a binding arrangement, any difference between the measurement of the receivable in accordance with IPSAS 41 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss).</p>	<p>124. A payable is a transfer provider's obligation to pay consideration that is unconditional. An obligation to pay consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, a transfer provider would recognize a payable if it has a present obligation to make payment even though that amount may be subject to refund in the future. A transfer provider shall account for a payable in accordance with IPSAS 41.</p>

ED 70	ED 71	ED 72
<p>108. This [draft] Standard uses the terms ‘binding arrangement asset’ and ‘binding arrangement liability’ but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a binding arrangement asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and binding arrangement assets. [IFRS 15.109]</p>	<p>125. This [draft] Standard uses the terms ‘transfer recipient’s binding arrangement asset’ and ‘transfer recipient’s binding arrangement liability’ but does not prohibit a transfer recipient from using alternative descriptions in the statement of financial position for those items. If a transfer recipient uses an alternative description for a transfer recipient’s binding arrangement asset, the transfer recipient shall provide sufficient information for a user of the financial statements to distinguish between receivables and transfer recipient’s binding arrangement assets.</p>	<p>125. This [draft] Standard uses the terms ‘transfer provider’s binding arrangement asset’ and ‘transfer provider’s binding arrangement liability’ but does not prohibit a transfer provider from using alternative descriptions in the statement of financial position for those items. If a transfer provider uses an alternative description for a transfer provider’s binding arrangement liability, the transfer provider shall provide sufficient information for a user of the financial statements to distinguish between payables and transfer provider’s binding arrangement liabilities.</p>
		<p>Transfer Expenses without Performance Obligations</p> <p>126. A transfer provider shall present payables from transfer expenses without performance obligations separately from other payables, either in the statement of financial position or in the notes.</p>
<p>Disclosure</p> <p>109. The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from binding arrangements with purchasers that include performance obligations to transfer promised goods or services to purchasers or third-party beneficiaries. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:</p>	<p>Disclosures</p> <p>126. The objective of the disclosure requirements is for a transfer recipient to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions without performance obligations.</p> <p>127. To achieve that objective, a transfer recipient shall disclose qualitative and quantitative information about all of the following:</p>	<p>Disclosure</p> <p>127. The objective of the disclosure requirements is for a transfer provider to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of expenses and cash flows arising from transfer expenses. To achieve that objective, a transfer provider shall disclose qualitative and quantitative information about all of the following:</p> <p>(a) Expenses from transfer expenses (see paragraph 131);</p>

ED 70	ED 71	ED 72
<p>(a) Its binding arrangements with purchasers (see paragraphs 113–123);</p> <p>(b) The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements (see paragraphs 124–127); and</p> <p>(c) Any assets recognized from the costs to obtain or fulfill a binding arrangement with a purchaser in accordance with paragraph 90 or 94 (see paragraphs 128–129).</p> <p>[IFRS 15.110 – (b)=(a), (c)=(b)]</p>	<p>(a) Its binding arrangements with present obligations (see paragraphs 140–150); and</p> <p>(b) The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements (see paragraphs 151–154).</p>	<p>(b) Binding arrangements for transfer expenses with performance obligations (see paragraphs 132–141);</p> <p>(c) The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements for transfer expenses with performance obligations (see paragraphs 142–145);</p> <p>(d) Binding arrangements for transfer expenses without performance obligations (see paragraph 146); and</p> <p>(e) The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements for transfer expenses without performance obligations (see paragraph 152).</p>
<p>110. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.</p> <p>[IFRS 15.111]</p>	<p>128. A transfer recipient shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A transfer recipient shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.</p>	<p>128. A transfer provider shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A transfer provider shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.</p>
<p>111. An entity need not disclose information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard. [IFRS 15.112]</p>	<p>129. A transfer recipient need not disclose information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.</p>	<p>129. A transfer provider need not disclose information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.</p>

ED 70	ED 71	ED 72
<p>112. In making the disclosures required by this [draft] Standard, an entity shall consider the requirements of paragraphs 45–47 of IPSAS 1, <i>Presentation of Financial Statements</i>, which provide guidance on materiality and aggregation. A specific disclosure requirement in this [draft] Standard need not be satisfied if the information is not material.</p>	<p>130. In making the disclosures required by this [draft] Standard, a transfer recipient shall consider the requirements of paragraphs 45 to 47 of IPSAS 1, which provide guidance on materiality and aggregation. A specific disclosure requirement in this [draft] Standard need not be satisfied if the information is not material.</p>	<p>130 In making the disclosures required by this [draft] Standard, a transfer provider shall consider the requirements of paragraphs 45–47 of IPSAS 1 which provide guidance on materiality and aggregation. A specific disclosure requirement in this [draft] Standard need not be satisfied if the information is not material.</p>
<p>Binding Arrangements with Purchasers</p> <p>113. An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of financial performance in accordance with other Standards:</p> <ul style="list-style-type: none"> (a) Revenue recognized from binding arrangements with purchasers that include performance obligations, which the entity shall disclose separately from its other sources of revenue; and (b) Any impairment losses recognized (in accordance with IPSAS 41) on any receivables or binding arrangement assets arising from an entity’s binding arrangements with purchasers that include performance obligations, which the entity shall disclose separately from impairment losses from other binding arrangements. [IFRS 15.113] 	<p>Binding Arrangements</p> <p>140. A transfer recipient shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of financial performance in accordance with other Standards:</p> <ul style="list-style-type: none"> (a) Revenue recognized from transfers with present obligations, which the transfer recipient shall disclose separately from its other sources of revenue; and (b) Any impairment losses recognized (in accordance with IPSAS 41) on any receivables or transfer recipient’s binding arrangement assets arising from a transfer recipient’s transfers with present obligations, which the transfer recipient shall disclose separately from impairment losses from other arrangements. 	<p>Transfer Expenses</p> <p>131. A transfer provider shall disclose all of the following amounts for the reporting period, unless those amounts are presented in the statement of financial performance separately from its other expenses:</p> <ul style="list-style-type: none"> (a) Expenses recognized from binding arrangements for transfer expenses with performance obligations by major classes; (b) Expenses recognized from binding arrangements for transfer expenses without performance obligations by major classes; and (c) Expenses recognized from transfer expenses without binding arrangements by major classes. <p>Transfer Expenses with Performance Obligations</p> <p>132. A transfer provider shall disclose any impairment losses recognized in accordance with IPSAS 21 on any transfer provider’s binding arrangement assets (i.e., rights to have goods or services transferred to a third-party beneficiary), which the transfer provider shall disclose separately from other impairment losses from other binding arrangements.</p>

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<p><i>Disaggregation of Revenue</i></p> <p>114. An entity shall disaggregate revenue recognized from binding arrangements with purchasers that include performance obligations into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs AG317–AG319 when selecting the categories to use to disaggregate revenue. [IFRS 15.114]</p>	<p><i>Disaggregation of Revenue</i></p> <p>141. A transfer recipient shall disaggregate revenue recognized from binding arrangements with present obligations into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. A transfer recipient shall apply the guidance in paragraphs AG55–AG57 when selecting the categories to use to disaggregate revenue.</p>	<p><i>Disaggregation of Expenses</i></p> <p>133. A transfer provider shall disaggregate expenses recognized from binding arrangements for transfer expenses with performance obligations into categories that depict how the nature, amount, timing and uncertainty of expense and cash flows are affected by economic factors. A transfer provider shall apply the guidance in paragraphs AG109–AG111 when selecting the categories to use to disaggregate expenses.</p> <p>Transfer Expenses without Performance Obligations</p> <p><i>Disaggregation of Expenses</i></p> <p>147. A transfer provider shall disaggregate expenses recognized from binding arrangements for transfer expenses without performance obligations into categories that depict how the nature, amount, timing and uncertainty of expense and cash flows are affected by economic factors.</p>
<p>115. In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 114) and revenue information that is disclosed for each segment, if the entity applies IPSAS 18, <i>Segment Reporting</i>. [IFRS 15.115]</p>	<p>142. In addition, a transfer recipient shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 141) and revenue information that is disclosed for each reportable segment, if the transfer recipient applies IPSAS 18, <i>Segment Reporting</i>.</p>	<p>134. In addition, a transfer provider shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated expenses (in accordance with paragraph 133) and expense information that is disclosed for each reportable segment, if the transfer provider applies IPSAS 18, <i>Segment Reporting</i>.</p> <p>148. In addition, a transfer provider shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated expenses (in accordance with paragraph 147) and expense information that is</p>

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		disclosed for each reportable segment, if the transfer provider applies IPSAS 18, <i>Segment Reporting</i> .
<p><i>Binding Arrangement Balances</i></p> <p>116. An entity shall disclose all of the following:</p> <ul style="list-style-type: none"> (a) The opening and closing balances of receivables, binding arrangement assets and binding arrangement liabilities from binding arrangements with purchasers that include performance obligations, if not otherwise separately presented or disclosed; (b) Revenue recognized in the reporting period that was included in the binding arrangement liability balance at the beginning of the period; and (c) Revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price). [IFRS 15.116] 	<p>Binding Arrangement Balances</p> <p>143. A transfer recipient shall disclose all of the following:</p> <ul style="list-style-type: none"> (a) The opening and closing balances of receivables, transfer recipient’s binding arrangement assets and transfer liabilities from transfers with present obligations, if not otherwise separately presented or disclosed; (b) Revenue recognized in the reporting period that was included in the transfer recipient’s binding arrangement liability balance at the beginning of the period; and (c) Revenue recognized in the reporting period from present obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price). 	<p><i>Binding Arrangement Balances</i></p> <p>135. A transfer provider shall disclose all of the following:</p> <ul style="list-style-type: none"> (a) The opening and closing balances of transfer provider’s binding arrangement assets, payables and transfer provider’s binding arrangement liabilities from binding arrangements for transfer expenses with performance obligations, if not otherwise separately presented or disclosed; (b) Expenses recognized in the reporting period that were included in the transfer provider’s binding arrangement asset balance at the beginning of the period; and (c) Expenses recognized in the reporting period from performance obligations satisfied (or partially satisfied) by the transfer recipient in previous periods (for example, changes in transaction consideration).
		<p>Transfer Expenses without Performance Obligations</p> <p>...</p> <p><i>Payables Balances</i></p> <p>149. A transfer provider shall disclose all of the following:</p> <ul style="list-style-type: none"> (a) The opening and closing balances of payables arising from transfer expenses without performance obligations, if not

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		<p>otherwise separately presented or disclosed; and</p> <p>(b) Expenses recognized in the reporting period that were included in the payables arising from transfer expenses without performance obligations at the beginning of the period.</p>
<p>117. An entity shall explain how the timing of satisfaction of its performance obligations (see paragraph 119(a)) relates to the typical timing of payment (see paragraph 119(b)) and the effect that those factors have on the binding arrangement asset and the binding arrangement liability balances. The explanation provided may use qualitative information. [IFRS 15.117]</p>	<p>144. A transfer recipient shall explain how the timing of satisfaction of its present obligations (see paragraph 1(a)) relates to the typical timing of payment (see paragraph 1(b)) and the effect that those factors have on the transfer recipient’s binding arrangement asset and the transfer recipient’s binding arrangement liability balances. The explanation provided may use qualitative information.</p>	<p>136. A transfer provider shall explain how the timing of satisfaction of performance obligations by the transfer recipient (see paragraph 138(a)) relates to the typical timing of payment (see paragraph 138(b)) and the effect that those factors have on the transfer provider’s binding arrangement asset and the transfer provider’s binding arrangement liability balances. The explanation provided may use qualitative information.</p>
<p>118. An entity shall provide an explanation of the significant changes in the binding arrangement asset and the binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity’s balances of binding arrangement assets and binding arrangement liabilities include any of the following:</p> <ul style="list-style-type: none"> (a) Changes due to public sector combinations; (b) Cumulative catch-up adjustments to revenue that affect the corresponding binding arrangement asset or binding arrangement liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price 	<p>145. A transfer recipient shall provide an explanation of the significant changes in the transfer recipient’s binding arrangement asset and the transfer recipient’s binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the transfer recipient’s balances of transfer recipient’s binding arrangement assets and transfer recipient’s binding arrangement liabilities include any of the following:</p> <ul style="list-style-type: none"> (a) Changes due to public sector combinations; (b) Cumulative catch-up adjustments to revenue that affect the corresponding transfer recipient’s binding arrangement asset or transfer recipient’s binding arrangement liability, including 	<p>137. A transfer provider shall provide an explanation of the significant changes in the transfer provider’s binding arrangement asset and the transfer provider’s binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the transfer provider’s balances of transfer provider’s binding arrangement assets and transfer provider’s binding arrangement liabilities include any of the following:</p> <ul style="list-style-type: none"> (a) Changes due to public sector combinations; (b) Cumulative catch-up adjustments to expense that affect the corresponding transfer provider’s binding arrangement asset or transfer provider’s binding arrangement liability, including

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<p>(including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;</p> <p>(c) Impairment of a binding arrangement asset;</p> <p>(d) A change in the time frame for a right to consideration to become unconditional (i.e., for a binding arrangement asset to be reclassified to a receivable); and</p> <p>(e) A change in the time frame for a performance obligation to be satisfied (i.e., for the recognition of revenue arising from a binding arrangement liability). [IFRS 15.118]</p>	<p>adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;</p> <p>(c) Impairment of a transfer recipient’s binding arrangement asset;</p> <p>(d) A change in the time frame for a right to consideration to become unconditional (i.e., for a transfer recipient’s binding arrangement asset to be reclassified to a receivable); and</p> <p>(e) A change in the time frame for a present obligation to be satisfied (i.e., for the recognition of revenue arising from a transfer recipient’s binding arrangement liability).</p>	<p>adjustments arising from a change in the measure of progress, a change in an estimate of the transaction consideration (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;</p> <p>(c) Impairment of a transfer provider’s binding arrangement asset;</p> <p>(d) A change in the time frame for an obligation to pay consideration to become unconditional (i.e., for a transfer provider’s binding arrangement liability to be reclassified to a payable); and</p> <p>(e) A change in the time frame for a performance obligation of the transfer recipient to be satisfied (i.e., for the recognition of an expense arising from a transfer provider’s binding arrangement asset).</p>
<p><i>Performance Obligations</i></p> <p>119. An entity shall disclose information about its performance obligations in binding arrangements with purchasers, including a description of all of the following:</p> <p>(a) When the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement;</p> <p>(b) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a</p>	<p><i>Present Obligations</i></p> <p>146. A transfer recipient shall disclose information about its present obligations in transfers with present obligations, including a description of all of the following:</p> <p>(a) When the transfer recipient typically satisfies its present obligations;</p> <p>(b) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 67–70);</p>	<p><i>Transfer Recipient’s Performance Obligations</i></p> <p>138. A transfer provider shall disclose information about the transfer recipient’s performance obligations in its binding arrangements for transfer expenses with performance obligations, including a description of all of the following:</p> <p>(a) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56–58); and</p>

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<p>significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 55–57);</p> <p>(c) The nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (i.e., if the entity is acting as an agent);</p> <p>(d) Obligations for returns, refunds and other similar obligations; and</p> <p>(e) Types of warranties and related obligations. [IFRS 15.119]</p>	<p>(c) The nature of the present obligations the transfer recipient has promised to satisfy, highlighting any present obligations to arrange for another party to incur present obligations (i.e., if the transfer recipient is acting as an agent); and</p> <p>(d) Obligations for returns, refunds and other similar obligations.</p>	<p>(b) The nature of the goods or services that have been or will be transferred to the third-party beneficiary.</p>
<p>120. In the public sector, an entity may be compelled by legislation or other governmental policy decisions to satisfy a performance obligation regardless of a purchaser’s ability or intention to pay for the goods or services (see paragraph AG29). In addition to the information in paragraph 119, an entity shall disclose the following:</p> <p>(a) A description of the legislation or policy decision which compels the entity to satisfy the performance obligation;</p> <p>(b) The amount of revenue from these transactions that was recognized after application of paragraphs 13–15 of this [draft] Standard;</p> <p>(c) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable; and</p>	<p>137. In the public sector, a transfer recipient may impose a cost on another party by way of constitutional authority, legally sanctioned process, or other mechanism, where the face value of the revenue without a performance obligation transaction may not always be collectible. This is common in transactions to collect taxes or fines, where the transfer recipient is aware it may not collect face value. The transfer recipient shall disclose the following:</p> <p>(a) A description of the legislation or policy decision which compels the other party to satisfy the present obligation;</p> <p>(b) The amount of revenue from these transactions that was recognized after application of paragraphs 41–43 of this [draft] Standard, or the amount of</p>	

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<p>(d) If the transaction price has been reduced after consideration of an implicit price concession from the application of AG31, an entity shall disclose the following:</p> <ul style="list-style-type: none"> (i) The amount from these transactions that was recognized as revenue after identification of the implicit price concession; and (ii) The amount from these transactions that was not recognized as revenue, as it was considered an implicit price concession as described in AG31 Error! Reference source not found. 	<p>revenue recognized after consideration of an implicit negotiated concession; and</p> <p>(c) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable in accordance with paragraph 69, or as the amount from these transactions that was not recognized as revenue, as it was considered to be an implicit negotiated concession.</p>	
<p><i>Transaction Price Allocated to the Remaining Performance Obligations</i></p> <p>121. An entity shall disclose the following information about its remaining performance obligations:</p> <ul style="list-style-type: none"> (a) The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and (b) An explanation of when the entity expects to recognize as revenue the amount disclosed in accordance with paragraph 121(a), which the entity shall disclose in either of the following ways: <ul style="list-style-type: none"> (i) On a quantitative basis using the time bands that would be most appropriate for the duration of the 	<p><i>Transaction Price Allocated to the Remaining Performance Obligations</i></p> <p>148. A transfer recipient shall disclose the following information about its remaining present obligations:</p> <ul style="list-style-type: none"> (a) The aggregate amount of the transaction price allocated to the present obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and (b) An explanation of when the transfer recipient expects to recognize as revenue the amount disclosed in accordance with paragraph 148(a), which the transfer recipient shall disclose in either of the following ways: <ul style="list-style-type: none"> (i) On a quantitative basis using the time bands that would be most 	<p><i>Transaction Consideration Allocated to the Transfer Recipient's Remaining Performance Obligations</i></p> <p>139. A transfer provider shall disclose the following information about a transfer recipient's remaining performance obligations:</p> <ul style="list-style-type: none"> (a) The aggregate amount of the transaction consideration allocated to the transfer recipient's performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and (b) An explanation of when the transfer provider expects to recognize as an expense the amount disclosed in accordance with paragraph 139(a), which the transfer provider shall disclose in either of the following ways: <ul style="list-style-type: none"> (i) On a quantitative basis using the time bands that would be most appropriate for the duration of the

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<p>remaining performance obligations; or</p> <p>(ii) By using qualitative information. [IFRS 15.120]</p>	<p>appropriate for the duration of the remaining present obligations; or</p> <p>(ii) By using qualitative information.</p>	<p>resource recipient’s remaining performance obligations; or</p> <p>(ii) By using qualitative information.</p>
<p>122. As a practical expedient, an entity need not disclose the information in paragraph 121 for a performance obligation if either of the following conditions is met:</p> <p>(a) The performance obligation is part of a binding arrangement that has an original expected duration of one year or less; or</p> <p>(b) The entity recognizes revenue from the satisfaction of the performance obligation in accordance with paragraph AG57. [IFRS 15.121]</p>	<p>149. As a practical expedient, a transfer recipient need not disclose the information in paragraph 148 for a present obligation if the present obligation is part of a binding arrangement that has an original expected duration of one year or less.</p>	<p>140. As a practical expedient, a transfer provider need not disclose the information in paragraph 139 for a transfer recipient’s performance obligation if the transfer recipient’s performance obligation is part of a binding arrangement that has an original expected duration of one year or less.</p>
<p>123. An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 122 and whether any consideration from binding arrangements with purchasers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 121. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 55–57). [IFRS 15.122]</p>	<p>150. A transfer recipient shall explain qualitatively whether it is applying the practical expedient in paragraph 149 and whether any consideration from binding arrangements with present obligations is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 148. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 69–70).</p>	<p>141. A transfer provider shall explain qualitatively whether it is applying the practical expedient in paragraph 140 and whether any consideration from binding arrangements for transfer expenses with performance obligations is not included in the transaction consideration and, therefore, not included in the information disclosed in accordance with paragraph 139. For example, an estimate of the transaction consideration would not include any estimated amounts of variable consideration that are constrained (see paragraphs 56–58).</p>
<p>Significant Judgments in the Application of this [draft] Standard</p> <p>124. An entity shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of revenue from binding arrangements with</p>	<p>Significant Judgments in the Application of this [draft] Standard</p> <p>151. A transfer recipient shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of revenue from transfers</p>	<p>Significant Judgments in the Application of this [draft] Standard to Binding Arrangements for Transfer Expenses with Performance Obligations</p> <p>142. A transfer provider shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the</p>

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<p>purchasers. In particular, an entity shall explain the judgments, and changes in the judgments, used in determining both of the following:</p> <ul style="list-style-type: none"> (a) The timing of satisfaction of performance obligations (see paragraphs 125–126); and (b) The transaction price and the amounts allocated to performance obligations (see paragraph 127). [IFRS 15.123] 	<p>with present obligations. In particular, a transfer recipient shall explain the judgments, and changes in the judgments, used in determining both of the following:</p> <ul style="list-style-type: none"> (a) The timing of satisfaction of present obligations (see paragraphs 152–153); and (b) The transaction price and the amounts allocated to present obligations (see paragraph 154). 	<p>amount and timing of expenses from binding arrangements for transfer expenses with performance obligations. In particular, a transfer provider shall explain the judgments, and changes in the judgments, used in determining both of the following:</p> <ul style="list-style-type: none"> (a) The timing of satisfaction of performance obligations by the transfer recipient (see paragraphs 143–144); and (b) The transaction consideration and the amounts allocated to the transfer recipient’s performance obligations (see paragraph 145). <p>Significant Judgments in the Application of this [draft] Standard to Binding Arrangements for Transfer Expenses without Performance Obligations.</p> <p>152. A transfer provider shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of expenses from binding arrangements for transfer expenses without performance obligations. In particular, a transfer provider shall explain the judgments, and changes in the judgments, used in determining both of the following:</p> <ul style="list-style-type: none"> (a) The determination of whether a promised transfer meets the criteria to be a present obligation; and (b) The estimation of liabilities that include variable costs.

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<p><i>Determining the Timing of Satisfaction of Performance Obligations</i></p> <p>125. For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:</p> <ul style="list-style-type: none"> (a) The methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied); and (b) An explanation of why the methods used provide a faithful depiction of the transfer of goods or services. <p>[IFRS 15.120]</p>	<p>Determining the Timing of Satisfaction of Present Obligations</p> <p>152. For present obligations that a transfer recipient satisfies over time, a transfer recipient shall disclose both of the following:</p> <ul style="list-style-type: none"> (a) The methods used to recognize revenue; and (b) An explanation of why the methods used provide a faithful depiction of the transfer of goods or services. 	<p><i>Determining the Timing of Satisfaction of Performance Obligations by the Transfer Recipient</i></p> <p>143. For performance obligations that a transfer recipient satisfies over time, a transfer provider shall disclose both of the following:</p> <ul style="list-style-type: none"> (a) The methods used to recognize an expense (for example, a description of the output methods or input methods used and how those methods are applied); and (b) An explanation of why the methods used provide a faithful depiction of the transfer of goods or services by the transfer recipient to third-party beneficiaries.
<p>126. For performance obligations satisfied at a point in time, an entity shall disclose the significant judgments made in evaluating when a purchaser obtains control of promised goods or services.</p> <p>[IFRS 15.125]</p>	<p>153. For present obligations satisfied at a point in time, a transfer recipient shall disclose the significant judgments made in evaluating when a present obligation is satisfied.</p>	<p>144. For performance obligations satisfied at a point in time, a transfer provider shall disclose the significant judgments made in evaluating when a third-party beneficiary obtains control of promised goods or services.</p>
<p><i>Determining the Transaction Price and the Amounts Allocated to Performance Obligations</i></p> <p>127. An entity shall disclose information about the methods, inputs and assumptions used for all of the following:</p> <ul style="list-style-type: none"> (a) Determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration; (b) Assessing whether an estimate of variable consideration is constrained; 	<p>Determining the Transaction Price and the Amounts Allocated to Present Obligations</p> <p>154. A transfer recipient shall disclose information about the methods, inputs and assumptions used for all of the following:</p> <ul style="list-style-type: none"> (a) Determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration; (b) Assessing whether an estimate of variable consideration is constrained; 	<p><i>Determining the Transaction Consideration and the Amounts Allocated to the Transfer Recipient's Performance Obligations</i></p> <p>145. A transfer provider shall disclose information about the methods, inputs and assumptions used for all of the following:</p> <ul style="list-style-type: none"> (a) Determining the transaction consideration, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;

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<p>(c) Allocating the transaction price, including estimating stand-alone prices of promised goods or services and allocating discounts and variable consideration to a specific part of the binding arrangement (if applicable); and</p> <p>(d) Measuring obligations for returns, refunds and other similar obligations.</p> <p>[IFRS 15.126]</p>	<p>(c) Allocating the transaction price, including allocating discounts and variable consideration to a specific part of the binding arrangement (if applicable); and</p> <p>(d) Measuring obligations for returns, refunds and other similar obligations.</p>	<p>(b) Assessing whether an estimate of variable consideration is constrained; and</p> <p>(c) Allocating the transaction consideration, including estimating stand-alone purchase prices of promised goods or services and allocating discounts and variable consideration to a specific part of the binding arrangement (if applicable).</p>
<p>Assets Recognized from the Costs to Obtain or Fulfill a Binding Arrangement with a Purchaser</p> <p>128. An entity shall describe both of the following:</p> <p>(a) The judgments made in determining the amount of the costs incurred to obtain or fulfill a binding arrangement with a purchaser that includes performance obligations (in accordance with paragraph 90 or 94); and</p> <p>(b) The method it uses to determine the amortization for each reporting period.</p> <p>[IFRS 15.127]</p>		
<p>129. An entity shall disclose all of the following:</p> <p>(a) The closing balances of assets recognized from the costs incurred to obtain or fulfill a binding arrangement with a purchaser (in accordance with paragraph 90 or 94), by main category of asset (for example, costs to obtain binding arrangements with purchasers, pre-binding arrangement costs and setup costs); and</p>		

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<p>(b) The amount of amortization and any impairment losses recognized in the reporting period. [IFRS 15.128]</p>		
<p>Practical Expedients</p> <p>130. If an entity elects to use the practical expedient in either paragraph 62 (about the existence of a significant financing component) or paragraph 93 (about the incremental costs of obtaining a binding arrangement), the entity shall disclose that fact. [IFRS 15.129]</p>		<p>Practical Expedients</p> <p>153. If a transfer provider elects to use the practical expedient about the existence of a significant financing component in paragraph 63 (transfer expenses with performance obligations) or paragraph 113 (transfer expenses without performance obligations) the transfer provider shall disclose that fact.</p>
<p>Disclosure (see paragraphs 109–130) <i>Disclosure of Disaggregated Revenue</i></p> <p>AG137. Paragraph 114 requires an entity to disaggregate revenue from binding arrangements with purchasers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity’s revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity’s binding arrangements with purchasers. Some entities may need to use more than one type of category to meet the objective in paragraph 114 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue. [IFRS 15.B87]</p>	<p>Disclosure (see paragraphs 126–154) <i>Disclosure of Disaggregated Revenue</i></p> <p>AG55. Paragraph 141 requires a transfer recipient to disaggregate revenue from binding arrangements with present obligations into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which a transfer recipient’s revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the transfer recipient’s binding arrangements with present obligations. Some entities may need to use more than one type of category to meet the objective in paragraph 141 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.</p>	<p>Disclosure (see paragraphs 127–153) <i>Disclosure of Disaggregated Expenses</i></p> <p>AG109. Paragraph 133 requires a transfer provider to disaggregate expenses from binding arrangements for transfer expenses with performance obligations into categories that depict how the nature, amount, timing and uncertainty of expenses and cash flows are affected by economic factors. Consequently, the extent to which a transfer provider’s expenses are disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the transfer provider’s binding arrangements for transfer expenses with performance obligations. Some transfer providers may need to use more than one type of category to meet the objective in paragraph 133 for disaggregating expenses. Other transfer providers may meet the objective by using only one type of category to disaggregate expenses.</p>
<p>AG138. When selecting the type of category (or categories) to use to disaggregate revenue, an entity shall consider how information about</p>	<p>AG56. When selecting the type of category (or categories) to use to disaggregate revenue, a transfer recipient shall consider how</p>	<p>AG110. When selecting the type of category (or categories) to use to disaggregate expenses, a transfer provider shall consider how</p>

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<p>the entity’s revenue has been presented for other purposes, including all of the following:</p> <ul style="list-style-type: none"> (a) Disclosures presented outside the financial statements (for example, in press releases, annual reports or stakeholder presentations); (b) Information regularly reviewed for evaluating the financial performance of segments; and (c) Other information that is similar to the types of information identified in paragraphs AG1(a) and (b) and that is used by the entity or users of the entity’s financial statements to evaluate the entity’s financial performance or make resource allocation decisions. [IFRS 15.B88] 	<p>information about the transfer recipient’s revenue has been presented for other purposes, including all of the following:</p> <ul style="list-style-type: none"> (a) Disclosures presented outside the financial statements (for example, in press releases, annual reports or stakeholder presentations); (b) Information regularly reviewed for evaluating the financial performance of segments; and (c) Other information that is similar to the types of information identified in paragraph AG56(a) and (b) and that is used by the transfer recipient or users of the transfer recipient’s financial statements to evaluate the transfer recipient’s financial performance or make resource allocation decisions. 	<p>information about the transfer provider’s expenses has been presented for other purposes, including all of the following:</p> <ul style="list-style-type: none"> (a) Disclosures presented outside the financial statements (for example, in press releases, annual reports or stakeholder presentations); (b) Information regularly reviewed for evaluating the financial performance of segments; and (c) Other information that is similar to the types of information identified in paragraph AG110(a) and (b) and that is used by the transfer provider or users of the transfer provider’s financial statements to evaluate the transfer provider’s financial performance or make resource allocation decisions.
<p>AG139. Examples of categories that might be appropriate include, but are not limited to, all of the following:</p> <ul style="list-style-type: none"> (a) Type of good or service (for example, major product lines); (b) Geographical region (for example, country or region); (c) Market or type of purchaser (for example, government and non-government purchasers); (d) Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements); (e) Duration of the binding arrangement (for example, short-term and long-term binding arrangements); 	<p>AG57. Examples of categories that might be appropriate include, but are not limited to, all of the following:</p> <ul style="list-style-type: none"> (a) Type of present obligations (for example, incurring eligible expenditure or undertaking specified activities); (b) Geographical region (for example, country or region); (c) Market or type of transfer providers (for example, government and non-government transfer provider); (d) Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements); and 	<p>AG111. Examples of categories that might be appropriate include, but are not limited to, all of the following:</p> <ul style="list-style-type: none"> (a) Type of good or service (for example, major product lines); (b) Geographical region (for example, country or region); (c) Market or type of transfer recipient (for example, government and non-government transfer recipients); (d) Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements); (e) Duration of the binding arrangement (for example, short-term and long-term binding arrangements); and

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<p>(f) Timing of transfer of goods or services (for example, revenue from goods or services transferred to purchasers or third-party beneficiaries at a point in time and revenue from goods or services transferred over time);</p> <p>(g) Sales channels (for example, goods provided directly to purchasers or third-party beneficiaries and goods provided through intermediaries); and</p> <p>(h) Revenue earned from the provision of goods or services to third-party beneficiaries.</p> <p>[IFRS 15.B89 except (h)]</p>	<p>(e) Duration of the binding arrangement (for example, short-term and long-term binding arrangements).</p>	<p>(f) Timing of transfer of goods or services (for example, transfer expenses for goods or services transferred to third-party beneficiaries at a point in time and transfer expenses for goods or services transferred over time).</p>
		<p>Transfer Expenses without Performance Obligations</p> <p>146. A transfer provider shall disclose all of the following:</p> <ul style="list-style-type: none"> (a) A reconciliation of the opening and closing balances of payables from binding arrangements for transfer expenses without performance obligations, if not otherwise separately presented or disclosed; (b) Where a transfer of resources is conditional on a transfer recipient undertaking specified activities, a description of those activities undertaken or to be undertaken; (c) The amount of any liabilities forgiven by the transfer provider; (d) Where a transfer provider cannot reliably measure a liability for a transfer expense without performance

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		<p>obligations, an explanation of the nature of the transfer expense and why a reliable measure is not possible; and</p> <p>(e) The accounting policies adopted for the recognition of transfer expenses without performance obligations.</p>
	<p>131. A transfer recipient shall disclose either on the face of, or in the notes to, the general purpose financial statements:</p> <p>(a) The amount of revenue from transactions without performance obligations recognized during the period by major classes showing separately:</p> <p>(i) Taxes, showing separately major classes of taxes; [PBE IPSAS 23.106(a)(i)]</p> <p>(ii) Other compulsory contributions and levies, showing separately major classes of other compulsory contributions and levies; and</p> <p>(iii) Transfers, showing separately major classes of transfer revenue. [PBE IPSAS 23.106(a)(ii)]</p> <p>(b) The amount of receivables recognized at reporting date in respect of revenue without performance obligations; [PBE IPSAS 23.106(b)]</p> <p>(c) The amount of liabilities recognized at reporting date in respect of transferred assets subject to present obligations; [PBE IPSAS 23.106(c)]</p>	

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	<ul style="list-style-type: none"> (d) The amount of liabilities recognized at reporting date in respect of concessionary loans that are subject to requirements on transferred assets; [PBE IPSAS 23.106(d)] (e) The existence and amounts of any advance receipts in respect of transactions without performance obligations [PBE IPSAS 23.106(e)]; and (f) The amount of any liabilities forgiven. [PBE IPSAS 23.106(f)] 	
	<p>132. A transfer recipient shall disclose in the notes to the general purpose financial statements:</p> <ul style="list-style-type: none"> (a) The accounting policies adopted for the recognition of revenue from transactions without performance obligations; [PBE IPSAS 23.107(a)] (b) For major classes of revenue from transactions without performance obligations, the basis on which the transaction price of inflowing resources was measured; [PBE IPSAS 23.107(b)] (c) For major classes of taxation revenue and revenue from other compulsory contributions and levies that the transfer recipient cannot measure reliably during the period in which the taxable event or equivalent event for other compulsory contributions and levies occurs, information about the nature of the tax, or other 	

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	<p>compulsory contribution or levy; [PBE IPSAS 23.107(c)]</p> <p>(d) The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received [PBE IPSAS 23.107(d)]; and</p> <p>(e) Qualitative and quantitative information about services in-kind that have been recognized.</p>	
	<p>133. Transfer recipients that do not recognize service in-kind on the face of the general purpose financial statements are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received, particularly if those services in-kind received are integral to the operations of the transfer recipient. The extent to which a transfer recipient is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class. [PBE IPSAS 23.108 (RDR)]</p>	
	<p>134. Present obligations impose limits on the use of assets, which impacts the operations of the transfer recipient. Disclosure of the amount of liabilities recognized in respect of present obligations assists users in making judgments about the ability of the transfer recipient to use its assets at its own discretion. Transfer recipients are encouraged to disaggregate by class the information required to be disclosed by paragraph 131(c). [PBE IPSAS 23.111]</p>	
	<p>135. Paragraph 131(e) requires transfer recipients to disclose the existence of advance receipts in respect of transactions without performance</p>	

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	<p>obligations. These liabilities carry the risk that the transfer recipient will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding. [PBE IPSAS 23.112]</p>	
	<p>136. As noted in paragraph 98, in many cases a transfer recipient will be able to reliably measure assets and revenue arising from taxation and other compulsory contributions and levies transactions, using, for example, statistical models. However, there may be exceptional circumstances where a transfer recipient is unable to reliably measure the assets and revenue arising until one or more reporting periods has elapsed since the taxable event or equivalent event for other compulsory contributions and levies occurred. In these cases, the transfer recipient makes disclosures about the nature of major classes of taxation or other compulsory contributions and levies that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event or equivalent event for other compulsory contributions and levies occurs. [PBE IPSAS 23.113]</p>	
	<p>138. Paragraph 132(d) requires transfer recipients to make disclosures about the nature and type of major classes of gifts, donations, and bequests it has received. These inflows of resources are received at the discretion of the transfer provider, which exposes the transfer recipient to the risk that, in future periods, such sources of resources may change significantly. [PBE IPSAS 23.114]</p>	

ED 70	ED 71	ED 72
	<p>139. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, transfer recipients may elect to recognize these services in-kind and measure them at their fair value. Paragraph 133 strongly encourages a transfer recipient to make qualitative disclosures about the nature and type of all services in-kind received, whether they are recognized or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the transfer recipient’s objectives during the reporting period, and (b) the transfer recipient’s dependence on such services for the achievement of its objectives in the future. [PBE IPSAS 23.115]</p>	
	<p>147. Where a transfer recipient is entitled to revenue from taxation or fines, the counterparty may not have the ability or intention to pay. In addition to the information in paragraph 146, a transfer recipient shall disclose the following:</p> <ul style="list-style-type: none"> (a) The amount of revenue from these transactions that was recognized after application of paragraphs 41–43 of this [draft] Standard, or the amount of revenue recognized after consideration of an implicit price concession from the application of paragraph 66; and (b) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable, or as the amount from these transactions that was not recognized as revenue, as it was considered to be an implicit price concession from the application of paragraph 66. 	

ED 70	ED 71	ED 72
		<p>Transfer Expenses without Performance Obligations</p> <p>...</p> <p><i>Transfer Expenses Subject to Appropriations</i></p> <p>150. Where a transfer provider has agreed to provide a transfer of resources subject to appropriations being authorized, and has not recognized a liability or expense as the appropriation has not yet been authorized, the transfer provider shall consider whether to disclose a contingent liability by applying the requirements of IPSAS 19.</p>
		<p><i>Transfer Expenses Where the Transfer Provider Cannot Monitor the Transfer Recipient's Satisfaction of Performance Obligations</i></p> <p>151. Where a transfer provider has accounted for a binding arrangement as a transfer expense without performance obligations (in accordance with paragraph 13) because it does not monitor the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transfer provider shall disclose that fact along with an explanation of why it is unable to monitor the satisfaction of the transfer recipient's performance obligations.</p>



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 31 July 2020

To: NZASB Members

From: Anthony Heffernan and Gali Slyuzberg

Subject: **Targeted Review of the New Zealand Accounting Standards Framework**

Recommendations¹

1. The Board is asked to NOTE:
 - (a) the update provided in this memo on the Targeted Review of the New Zealand Accounting Standards Framework (ASF), which is now at the stage of finalisation; and
 - (b) the attached Feedback Statement on the results of the Targeted Review of the ASF (see agenda item 6.2).

Background: Update on the second phase of the Targeted Review

2. At the Board's February 2020 meeting, we presented our analysis of the submissions received on the XRB Discussion Paper *Targeted Review of the New Zealand Accounting Standards Framework* (the DP). We also presented this analysis to the XRB Board in March 2020.
3. A key outcome from analysing the submissions on the DP was that in general, respondents did not identify any unintended consequences that required significant amendments to the ASF, and most respondents were not aware of any new developments that would require refinements to the ASF (other than the developments highlighted in the DP and subject to separate NZASB and XRB Board projects).
4. However, some respondents had recommended considering refinements to the ASF and related documents. At its March 2020 meeting, the XRB Board agreed that the three matters listed in Table 1 below should be considered further as part of the Targeted Review project.
5. The XRB Board instructed staff to develop proposals for advancing the resolution of the matters listed in Table 1, and bring these proposals to the XRB Board for consideration. Consequently, work on the second phase of the Targeted Review project was conducted largely outside of NZASB meetings.
6. The XRB Board considered staff's proposals at its meetings in May and July 2020. The outcomes of these considerations are summarised in Table 1 below. Further information is included in the Feedback Statement (agenda item 6.2) and [Appendix 1](#) of this memo.

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).

Table 1: Matters identified for further consideration as part of the Targeted Review

	Relevant DP section	Matter for further consideration	Resolution
1	SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS	Consider the extent to which refinements are required to the PBE Policy Approach (being the approach for operationalising the development of PBE Standards), in response to feedback received	No changes to the ASF. However, the XRB Board agreed to make relatively minor amendments to the text of the PBE Policy Approach – to clarify the existing approach, including the existing level of flexibility when developing PBE Standards based on IPSAS. See pages 5–6 of the Feedback Statement, and Appendix 1 of this memo.
2	SMC 3: Do the PBE tier size criteria need to be revisited?	Consider whether an asset-based tier threshold(s) should be added to the ASF	No changes to the ASF. However, staff will discuss feedback on this matter with MBIE and will consider other actions to encourage good disclosures on significant assets in Tiers 3 and 4. See p.10 of the Feedback Statement, under <i>Recommendation to consider adding an asset-based threshold</i> , and Appendix 1 of this memo.
3	General comments on the ASF	Consider the date of a future comprehensive review of the ASF and related communication to constituents	No change to the ASF. The need for a comprehensive review of the ASF will be assessed at a future date. See page 13 of the Feedback Statement, under <i>Timing of the comprehensive review of the ASF</i> , and in the closing comments, and Appendix 1 of this memo.

Feedback Statement

7. Staff have developed a Feedback Statement to communicate to constituents the results of the Targeted Review – including feedback received on the DP and the XRB’s response to matters raised by respondents. The key message in the Feedback Statement is that respondents did not identify significant unintended consequences or new developments that would require changes to the ASF at this stage – therefore, the XRB is not proposing any changes to the ASF.
8. At its July 2020 meeting, the XRB Board approved the feedback statement, subject to certain amendments identified at the meeting. The attached draft Feedback Statement has been updated for these changes, and is subject to finalisation with the XRB Board Chair.

Next steps

9. Staff are currently finalising the Feedback Statements and amended PBE Policy Approach, which were approved by the XRB Board, subject to certain changes. Once these documents are finalised they will be published on the XRB website, which will bring the Targeted Review project to a formal close.

Attachments

Agenda item 6.2: Draft Feedback Statement on the Targeted Review of the ASF

Appendix 1: Matters identified for further consideration as part of the Targeted Review – additional information

Relevant DP section	Matter for further consideration	Resolution
SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS	Consider the extent to which refinements are required to the PBE Policy Approach (being the approach for operationalising the development of PBE Standards), in response to feedback received	<p>In response to the mixed feedback received on SMC 1, staff proposed relatively minor refinements to the text of the PBE Policy Approach – to clarify the existing level of flexibility to prioritise local considerations over close alignment with IPSAS when appropriate.</p> <p>For example, the amendments clarify that the factors of the development principle and the rebuttable presumptions should be considered on a case-by-case basis, and the meaning of ‘rebuttable presumption’. Staff have also taken the opportunity to generally clarify the wording in certain areas of the PBE Policy Approach, where we thought clarification could be beneficial.</p> <p>At its May 2020 meeting, the XRB Board approved the amended PBE Policy Approach, subject to additional amendments identified at the meeting and subject to checking in with certain key stakeholders as requested. Staff are currently finalising the amendments to the PBE Policy Approach.</p>
SMC 3: Do the PBE tier size criteria need to be revisited?	Consider whether an asset-based tier threshold(s) should be added to the ASF	<p>Three respondents recommended considering an asset-based tier-size threshold for PBEs. However, Charities Services did not recommend introducing such a threshold.</p> <p>Staff considered the arguments for and against introducing an asset-based threshold into the ASF. Staff also analysed data from the Charities Register to understand how many charities that are eligible for Tier 4 and Tier 3 control high asset balances, and what assets they hold.</p> <p>Based on this analysis, staff recommended not to introduce an asset-based threshold into the ASF at this time. However, staff recommended considering other actions to encourage useful reporting on significant assets held by PBEs in Tiers 3 and 4 – which could be done as part of the NZASB’s Tier 3 and Tier 4 PIR.</p> <p>There were mixed views among XRB Board members on this matter. Ultimately, at its July 2020 meeting the XRB Board agreed with staff’s recommendation above. However, the XRB Board also noted the need to discuss the feedback that we received on this matter with the Ministry for Business, Innovation and Employment (MBIE) – particularly regarding charities in Tier 4, as the Tier 4 threshold is defined in legislation. We will discuss this with MBIE in due course.</p>
General comments on the ASF	Consider the date of a future comprehensive review of the ASF and related communication to constituents	<p>At its July 2020 meeting, the XRB Board agreed that it is not appropriate to specify a date for the future comprehensive review of the ASF. The XRB Board also agreed to assess the need for a comprehensive review of the ASF once the ASF has been effective for 10–15 years. This message will be communicated to constituents through the Feedback Statement.</p>

Targeted Review of the New Zealand Accounting Standards Framework

FEEDBACK STATEMENT

July 2020



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Introduction

In July 2019, the External Reporting Board (XRB) issued for public consultation the [Discussion Paper Targeted Review of the New Zealand Accounting Standards Framework](#) (the DP).

The main purpose of the DP was to “check-in” with constituents on whether the New Zealand Accounting Standards Framework (ASF) is functioning as anticipated and is achieving its original objectives, and whether any refinements to the ASF are required. The DP also sought feedback on certain specific matters relating to the ASF.

This Feedback Statement outlines the main matters raised by respondents in submissions on the DP, and the main decisions made by the XRB Board in response to those submissions.

Summary of key findings and next steps

Respondents did not identify significant unintended consequences or new developments that would require changes to the ASF at this stage. Therefore, the XRB is not proposing any changes to the ASF.

What is the New Zealand Accounting Standards Framework?

In New Zealand, some entities (including public sector entities, registered charities and some companies) are required by law to prepare financial statements in accordance with accounting standards issued by the XRB. The [New Zealand Accounting Standards Framework \(ASF\)](#) sets out the XRB’s strategy for developing and issuing accounting standards that are appropriate for such entities. The current ASF was first introduced in 2012 and last updated in 2015.

The objectives of the ASF are to:

- **meet users’ needs**, by recognising the different information needs of users in the for-profit and public benefit entity (PBE) sectors; and
- **balance the costs and benefits of reporting**, by establishing appropriate accounting requirements based on the nature and size of the entity.



The ASF is built around a **multi-sector, multi-tiered, multi-standards approach**. This means that accounting standards are developed and applied as follows.

Sectors	Tiers and applicable standards	Standards based on
For-profit entities	Tier 1: NZ IFRS Tier 2: NZ IFRS RDR (Reduced Disclosure Regime)	IFRS Standards (International Financial Reporting Standards)
PBEs in the public and not-for-profit (NFP) sectors	Tier 1: PBE Standards Tier 2: PBE Standards RDR	IPSAS (International Public Sector Accounting Standards)
	Tier 3: PBE Simple Format Reporting – Accrual Tier 4: PBE Simple Format Reporting – Cash	XRB’s Simple Format Reporting Requirements

Purpose of the Discussion Paper

For many entities, the ASF has been effective for four or five years. This is too soon for a comprehensive first-principles review of the ASF.

However, the XRB considered it timely and important to **“check-in” with constituents on whether the ASF is functioning as anticipated and is achieving its original objectives**. This is the main purpose of the Targeted Review of the ASF.

The DP sought general feedback on the application of the ASF. Respondents were asked **whether they are aware of any unintended consequences of recent developments in the financial reporting environment that would require refinements to the ASF**.

The DP also sought feedback on the following three specific matters for comment (SMCs).

- (a) SMC 1: The importance of maintaining close alignment between PBE Standards and IPSAS
- (b) SMC 2: The importance of harmonisation with Australia for Tier 2 for-profit disclosures
- (c) SMC 3: Do the PBE tier size criteria need to be revisited?

Background information on each of the SMCs, including why the DP sought feedback on these matters, is provided under each of the relevant SMCs in the section [Summary of Feedback Received and XRB Responses](#).

Public consultation

The DP was issued in July 2019, accompanied by a [Summary Document](#). Respondents had the option of providing a written submission or completing an online submission (answering any or all of the DP questions).

The DP was open for comment for three and a half months. During that time, XRB staff conducted various outreach activities including: [webinar](#) and in-person presentations, discussions with the XRB’s consultative advisory groups, roundtable meetings with key stakeholder groups, publishing articles and postings on social media.

The DP comment period closed on 15 November 2019. Nineteen submissions were received. Non-confidential submissions can be accessed on the [XRB website](#).

Summary of feedback received and the XRB’s response

This section summarises the feedback received from respondents on the DP questions, and the XRB’s response to this feedback.

General feedback on the ASF

<p>DP Questions:</p> <p>(a) Are you aware of any developments in the financial reporting environment (in addition to the ones described in this DP) or any unintended consequences that would require refinements to the ASF?</p> <p>(b) Do you have any other comments about the ASF?</p>
--

What we heard	Our response
<p>Overall, the ASF appears to be operating as intended</p> <p>No significant unintended consequences identified. Some respondents specifically noted that the ASF is working well/as intended.</p> <p>Most respondents did not identify new developments (other than those noted in the DP) that would require refinements to the ASF.</p>	<p>No amendments to the ASF are required at this time</p> <p>The responses indicate that in general, application of the ASF has not resulted in significant unintended consequences, and that the ASF is operating as intended.</p> <p>Therefore, based on the responses received, the XRB concluded no changes to the ASF are required at this time.</p>
<p>New development — Increased focus on wellbeing and integrated reporting</p> <p>One respondent wondered whether the recent amendments to the Public Finance Act 1989 to focus on wellbeing would affect the future development of accounting standards for PBEs.</p> <p>On a somewhat related note, another respondent recommended referring to integrated reporting in the ASF, to future proof financial reporting.</p>	<p>No amendments to the ASF are required at this time</p> <p>The XRB acknowledges the recent increased focus on environmental, social, and governance accountability reporting, both in the private and public sectors. These matters are closely linked to the XRB’s ongoing project on Extended External Reporting (EER).</p> <p>Matter will be considered further under a separate project</p>
<p>New development — Legislative reforms for incorporated societies</p> <p>One respondent mentioned the forthcoming legislative reforms for incorporated societies (which would require certain incorporated societies to report in accordance with accounting standards issued by the XRB). The respondent noted that the new legislation would affect many entities and preferred to delay any changes to the ASF until the new legislation has been passed.</p>	<p>No amendments to the ASF are required at this time</p> <p>The XRB is currently monitoring the development of new legislation for incorporated societies.</p> <p>However, once any new legislation has been enacted, the XRB will assess whether additional guidance for incorporated societies is required in the PBE accounting standards, and/or amendments to the ASF is required</p> <p>Matter will be considered further under a separate project</p>

<p>Support for review of the Tier 3 and Tier 4 PBE Simple Format Reporting Standards</p> <p>Respondents noted that smaller charities are struggling with their financial reporting obligations and expressed support for the XRB’s Post-implementation Review (PIR) of the Tier 3 and Tier 4 PBE Simple Format Reporting Standards.</p> <p>Respondents also suggested that more education and support for small charities will help increase the level of compliance with accounting standards.</p> <p>There were also specific suggestions in relation to the Tier 3 and Tier 4 standards and reporting by entities in Tier 3 and Tier 4.</p>	<p>No amendments to the ASF are required at this time</p> <p>The XRB is aware that some smaller charities are struggling with their financial reporting obligations. As discussed in the DP, this matter will be specifically considered as part of a standards-level PIR of the Tier 3 and Tier 4 PBE Simple Format Reporting Standards.</p> <p>The first step of this project will be the issuance of a <i>Request for Information</i>, which is expected to be issued for public consultation later in the year.</p> <p>Matter will be considered further under a separate project</p>
<p>Other general comments on the ASF</p> <ul style="list-style-type: none"> • The ASF is complex (but is working as intended). • Recommendation for research on the costs and benefits of the multi-sector approach, to support a future comprehensive review of the ASF. 	<p>No amendments to the ASF are required at this time</p> <ul style="list-style-type: none"> • Those respondents who noted the complexity of the ASF did not identify significant unintended consequences and did not recommend changes at this stage. • The XRB will consider whether to undertake the suggested research closer to the time of the future comprehensive review of the ASF.

SMC 1: The importance of maintaining close alignment between PBE Standards and IPSAS

Background

SMC 1 relates to the XRB's strategy for developing PBE Standards for Tier 1 and Tier 2 PBEs based on IPSAS. That strategy is documented in the [Policy Approach to Developing the Suite of PBE Standards](#) (PBE Policy Approach).

Generally, the application of the PBE Policy Approach results in the XRB maintaining close alignment between PBE Standards and IPSAS. That is, in applying the PBE Policy Approach, the XRB generally would:

- wait for the IPSASB to complete its project, rather than developing a PBE standard ahead of the IPSASB; and
- once the IPSASB's project is complete, adopt the IPSAS into PBE Standards, with domestic changes permitted only in specific circumstances.

The DP sought feedback on the importance of maintaining close alignment between PBE Standards and IPSAS, compared with the importance of addressing local considerations.

DP Questions:

- (a) Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important?
- (b) If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?
- (c) If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS are used as the base for PBE Standards?
- (d) Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

What we heard

We received feedback on SMC 1 that supported both the importance of alignment with IPSAS and also the importance of allowing the flexibility for consideration of New Zealand specific issues.

- The majority of respondents considered the prioritisation of local considerations to be more important than maintaining close alignment between PBE Standards and IPSAS, and supported a more flexible approach to the development of PBE Standards.
- However, there was some support for maintaining the current strategy of close alignment between PBE Standards and IPSAS.

It is also important to note the following.

- Some respondents who supported a more flexible approach also noted the importance of alignment with IPSAS in general and where appropriate.

What we heard

- Some respondents that preferred close alignment with IPSAS (or thought the current PBE Policy Approach is appropriate as it is) acknowledged the challenges arising from the current strategy of close alignment with IPSAS and suggested the following to address these challenges.
 - A respondent noted that the existing development principle and rebuttable presumptions in the PBE Policy Approach should be considered on a case-by-case basis; and
 - Another respondent recommended to clarify the current level of flexibility, particularly the circumstances in which it would be appropriate to modify or not adopt an IPSAS.

Our response

In response to the mixed feedback received, the XRB Board decided to introduce some **refinements to the wording of the PBE Policy Approach**.

In developing these refinements, the XRB Board took into account the following key considerations.

- While the majority of respondents supported more flexibility to prioritise local considerations over close alignment with IPSAS when developing PBE Standards, the feedback was mixed in nature.
- The current wording of the PBE Policy Approach already provides some flexibility to prioritise local consideration over close alignment with IPSAS when appropriate – although this could be made clearer.



As a result, we have not made significant changes to the factors that are taken into account when considering a change in PBE Standards, or the rebuttable presumptions in the PBE Policy Approach. Rather, some clarifications have been made.

Ultimately the Board reaffirmed the position in the current ASF, that it is appropriate to develop PBE Standards based primarily on standards issued by the IPSASB.

SMC 2: The importance of harmonisation with Australia for Tier 2 for-profit disclosures

Background

Under the ASF, Tier 2 reporting requirements for for-profit entities are based on NZ IFRS with reduced disclosures (RDR). Since the ASF was introduced, the disclosure requirements for Tier 2 for-profit entities have been harmonised with Australia.

The Australian Accounting Standards Board (AASB) recently changed its approach for developing for-profit Tier 2 disclosure requirements. Furthermore, the IASB has recently commenced a project to develop a set of reduced disclosure requirements that could eventually replace the Tier 2 regime in both New Zealand and Australia (the IASB's project is called *Disclosure Initiative: Subsidiaries that are SMEs*).

To inform the XRB's approach to maintaining and enhancing Tier 2 for-profit disclosure requirements in light of these developments, the DP sought feedback on the importance of maintaining harmonisation with Australia for Tier 2 for-profit disclosures.

DP Questions:

- (a) How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?
- (b) If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?
- (c) Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

What we heard

While the majority of respondents were of the view that continued harmonisation with Australia for Tier 2 for-profit disclosures is important, responses to this SMC were mixed.

Respondents who thought harmonisation with Australia for Tier 2 for-profit disclosures noted that such harmonisation leads to efficiency and cost savings for the many entities that operate across the Tasman, among other reasons. However, some respondents thought that based on cost/benefit considerations, it may be preferable to wait for the IASB to finish its project on reduced disclosure requirements, rather than changing NZ IFRS RDR now to harmonise with the Australian Tier 2 reforms and then changing NZ IFRS RDR again when the IASB finalises its project. There were also some respondents who thought that harmonisation with Australia was important for measurement and recognition requirements, but not for disclosures.

Our response**No amendments to the ASF are required at this time**

The XRB Board decided that the responses to SMC 2 did not require an immediate change to the ASF as part of the Targeted Review project.

The AASB issued its new Tier 2 disclosure standard (AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*) in March 2020. It is effective for periods beginning on or after 1 July 2021.

In July 2020 the XRB confirmed its decision to defer making any changes to NZ IFRS RDR following the introduction of AASB 1060 in Australia, and instead wait for the International Accounting Standards Board (IASB) project on disclosures for subsidiaries that are SMEs, as that might provide a solution for both countries.

Key reasons for this decision include the following.

- Many Tier 2 entities will not be affected by the Tier 2 reforms in Australia, such as entities that are not part of a trans-Tasman group.
- Waiting for the IASB avoids the possibility of two rounds of changes: the first to harmonise with Australia and the second to harmonise with the IASB.
- Although the majority of respondents to the Targeted Review supported harmonisation of disclosures for Tier 2 for-profit entities in Australia and New Zealand, and thought harmonisation is important, some were of the view that we should await the outcome of the IASB's project.
- There will continue to be no recognition and measurement differences for entities that operate in both Australia and New Zealand.

Matter will be considered further under a separate project

SMC 3: Do the PBE tier size criteria need to be revisited?

Background

Under the ASF’s tiered approach, lower tiers have more simplified accounting requirements. The tier that applies to a PBE depends on whether the PBE has “public accountability” (as defined in the standard XRB A1) and the PBE’s size, based on expenses.

PBE Tier	Tier Size Threshold
1	Annual expenses over \$30 million or has ‘public accountability’
2	Annual expenses between \$2 million and \$30 million*
3	Annual expenses less than or equal to \$2 million*
4	Annual operating payments less than \$125,000 (the XRB is unable to amend this)*

* to qualify for this tier, the PBE must also not have public accountability (as defined)

The DP sought feedback on whether there are any unintended consequences or recent developments that would require changes to the PBE tier size criteria.

DP Questions:

- (a) Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?
- (b) If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB’s limitations in amending PBE Tier 4, which is determined by the Government)?
- (c) Do you have any other comments on the tier size criteria for PBEs?

What we heard	Our response
<p>Overarching comments</p> <p>Most respondents did not identify specific unintended consequences or new developments that would require refinements to the PBE tier size thresholds.</p>	<p>No amendments to the ASF are required at this time</p>

What we heard	Our response
<p>The \$2 million threshold between Tier 3 and Tier 2 should be increased</p> <p>Three respondents thought the \$2 million threshold between Tier 3 and Tier 2 should be increased, as it results in too many organisations having to report in Tier 2, including ones for whom the costs of reporting outweigh the benefits to users.</p> <p>Suggestions for what this tier threshold should be ranged from \$4 million to \$10 million.</p>	<p>No amendments to the ASF are required at this time</p> <p>We did not change the \$2 million threshold between Tier 3 and Tier 2 for the following reasons.</p> <p>As noted, in the DP, only about 4% of registered charities currently qualify for Tier 2 based on expenditure. This proportion has remained stable since the ASF was introduced. From this perspective it appears the \$2 million threshold remains appropriate.</p> <p>Also, based on our analysis in the DP, the quantum of increase in the \$2 million threshold recommended by the respondents seems unlikely to significantly increase the percentage of charities that would qualify for Tier 3 instead of Tier 2.</p>
<p>Recommendation to consider adding an asset-based threshold</p> <p>Three respondents did not recommend changing the current expenditure-based PBE tier size threshold, but recommended adding an asset-based threshold.</p> <p>Reasons included the view that entities that control large asset balances have a responsibility to report on the management of these assets, and that some entities that report in the lower tiers of the ASF (including Tier 4, which requires cash accounting) have large asset holdings.</p> <p>However, Charities Services did not recommend adding an asset-based threshold. One reason was that although an asset-based threshold would lead to higher transparency due to entities with large asset holdings having to report in higher tiers, this benefit is unlikely to outweigh the costs to the charitable sector of the additional complexity and compliance burden that such a threshold would introduce.</p>	<p>No amendments to the ASF are proposed at this time</p> <p>However, staff will discuss respondents' feedback on this matter with the Ministry of Business, Innovation and Employment (MBIE).</p> <p>XRB staff have analysed data available from the Charities Register to understand what percentage of charities eligible to report in Tier 3 and Tier 4 have large asset holdings.</p> <p>Based on this analysis and considering respondents' arguments for and against introducing an asset-based threshold, the XRB Board agreed not to amend the ASF at this time. However, the XRB will discuss the feedback received from respondents with MBIE – particularly with respect to Tier 4 entities, given that the Tier 4 size threshold is set in legislation,</p> <p>Furthermore, as part of the Tier 3 and Tier 4 PIR, we will consider whether additional guidance is needed in the standards for PBEs with large asset holdings. The Tier 3 and Tier 4 standards already require certain disclosures on significant assets held.</p>

What we heard	Our response
<p>Adjusting the PBE tier size criteria for inflation movements and other factors</p> <p>Some respondents noted the importance of regularly reviewing the PBE tier size thresholds to consider whether adjustments are required as a result of inflation or other factors (including changes to statutory reporting thresholds).</p>	<p>No amendments to the ASF are required at this time</p> <p>Staff will continue to monitor on a periodic basis whether inflation movements or other factors have arisen that require the PBE tier size criteria to be amended.</p> <p>When new statutory reporting requirements are introduced, staff will consider whether any amendments are required to the ASF (and/or the underlying accounting standards), including the PBE tier size criteria.</p>
<p>Consideration of ‘public interest’ in a PBE</p> <p>One respondent suggested that the level of public interest in an PBE should be considered when determining whether a PBE is in Tier 2 or Tier 3 – in addition to considering the expense-based size criteria.</p>	<p>No amendments to the ASF are required at this time</p> <p>We consider that public accountability and the tier size criteria remain appropriate for assessing the public interest in an entity and the nature and needs of the entity’s users.</p>
<p>Reducing the number of PBE tiers</p> <p>One respondent proposed to streamline the current tier structure and perhaps reduce the number of tiers.</p>	<p>No amendments to the ASF are required at this time</p> <p>Decreasing the number of tiers could worsen the ASF’s ability to balance the costs and benefits of reporting in a way that accommodates the significant size variability among PBEs</p>

Other comments

Other comments received that do not directly relate to DP questions are noted below.

What we heard	Our response
<p>Proposal to develop a specific framework for PBE Tier 2 disclosures</p> <p>The respondent who made this recommendation noted that PBE Tier 2 requirements should not be driven by trans-Tasman harmonisation as in the for-profit sector.</p>	<p>No amendments to the ASF are required at this time</p> <p>A decision on when to recommence the PBE RDR project will be made in the future.</p> <p>Matter will be considered further under a separate project</p>

What we heard	Our response
<p>Proposals relating to XRB A1 Application of the Accounting Standards Framework</p> <p>Proposals included the following.</p> <ul style="list-style-type: none"> • To develop a positive definition of ‘for-profit entity’ • To provide additional guidance on accounting for a change in an entity’s classification from PBE to for-profit and vice versa • To improve the definition of ‘public accountability’ (for the purpose of determining whether an entity is in Tier 1) 	<p>No amendments to the ASF are required at this time</p> <p>We have not proposed amendments to the ASF at the present time, for the following key reasons.</p> <ul style="list-style-type: none"> • A for-profit entity is deliberately defined as “any entity that is not a PBE”, to ensure that the respective definitions of for-profit entity and PBE are exhaustive and mutually exclusive. Also, recent amendments to Appendix 1 of XRB A1 clarified the guidance on the definition of a PBE • Regarding situations where an entity’s classification changes from PBE to for-profit or vice versa, accounting standards already include some guidance in relation to this matter. • While we acknowledge that some entities may need to apply more judgement than others when determining whether they have public accountability, we believe that the current guidance on the meaning of ‘public accountability’ is sufficient, and reflects both the IASB’s internationally accepted definition of public accountability and New Zealand legislation.
<p>Proposals to add guidance on topics not addressed in existing standards</p> <p>Proposal included:</p> <ul style="list-style-type: none"> • To develop specific accounting guidance for trusts, to reduce the current diversity in trust accounting. • To develop accounting guidance on cryptocurrency. 	<p>No amendments to the ASF are required at this time</p> <p>These comments relate to the development of specific accounting standards/guidance for a specific topic/transaction, which would require consideration of changes at the standards level (not at the ASF level).</p> <p>Staff will continue to monitor developments in the reporting of cryptocurrency and any changes in the statutory reporting requirements for trusts, and consider what further actions should be taken.</p>

What we heard	Our response
<p>Timing of the comprehensive review of the ASF</p> <p>A respondent recommended announcing the timing of the future comprehensive first-principles review of the ASF, given the targeted nature of this review.</p>	<p>No amendments to the ASF are required at this time</p> <p>Once the ASF has been operating for 10–15 years, the XRB will assess the need for a comprehensive first-principles review of the ASF. It would not be appropriate to lock-in the date of the review at this time.</p>

Closing comments

The ASF is an important framework that underpins how the XRB goes about developing and issuing accounting standards that meet the needs of all financial statements users across all sectors, while also maintaining an appropriate cost-benefit balance.

The XRB Board appreciates the time and effort constituents have put in to considering the DP on the Targeted Review of the ASF. The feedback received has been very useful in confirming that the ASF is generally operating as intended, which helped the XRB Board conclude that the ASF does not need to be refined at the present time. The feedback also helped with identifying refinements to the PBE Policy Approach and other projects for future consideration.

As noted above, the XRB will assess the need for a comprehensive first-principles review of the ASF at a future date. The XRB expect to make this assessment once the ASF has been operating for at least 10–15 years. The timing will depend on future developments.

Any questions or comments on this Feedback Statement can be directed to enquiries@xrb.govt.nz.



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

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NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 31 July 2020

To: NZASB Members

From: Tracey Crookston

Subject: *Classification of Liabilities as Current or Non-current—Deferral of Effective Date*

Recommendations¹

1. We recommend that the Board:
 - (a) APPROVES for issue *Classification of Liabilities as Current or Non-current—Deferral of Effective Date*, which amends the effective date of some amendments in NZ IAS 1 *Presentation of Financial Statements* (NZ IAS 1); and
 - (b) APPROVES the signing memorandum from the Acting Chair of the NZASB to the Chair of the XRB Board requesting approval to issue the standard.

Introduction

2. In January 2020, the International Accounting Standards Board (IASB) issued *Classification of Liabilities as Current or Non-current*, which amended IAS 1 *Presentation of Financial Statements*. The standard was issued with an effective date of annual reporting periods beginning on or after 1 January 2022,² with early application permitted.
3. The Board approved an equivalent standard at its March 2020 meeting.
4. In May 2020, due to the significant disruption caused by the COVID-19 pandemic, the IASB issued ED/2020/3 *Classification of Liabilities as Current or Non-current—Deferral of Effective Date* (the ED).
5. The ED proposed to defer the effective date by one year to 1 January 2023 to provide entities with more time to implement any classification changes resulting from the amendments. The comment period for the ED closed on 3 June 2020.

RDR concessions and consistency with Australian Accounting Standards

6. The amending standard does not create any new disclosure requirements. Therefore, there are no changes to RDR concessions in NZ IAS 1 and the Tier 1 for-profit reporting requirements

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

² The standard is to be applied retrospectively in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

will continue to be aligned with those in Australia. The AASB is expected to adopt an equivalent amending standard in mid-August.

Due process

7. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of the ED and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's June 2020 meeting.³
8. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.
9. 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.

PBE Policy Approach

10. The Board considered the application of the [Policy Approach to the Development of PBE Standards](#) (the PBE Policy Approach) to the amending standard *Classification of Liabilities as Current or Non-current* at its March 2020 meeting and agreed to wait for the IPSASB to propose adopting the amendments via its Improvements to IPSAS project. The IPSASB has currently scheduled this project for 2021.
11. Given the Board's decision in March, staff consider it appropriate for the Board to also wait for the IPSASB to consider *Classification of Liabilities as Current or Non-current—Deferral of Effective date* as part of its Improvements to IPSAS project in 2021.

Draft amending standard and signing memorandum

12. Attached as agenda item 7.2 is a copy of the amending standard *Classification of Liabilities as Current or Non-current—Deferral of Effective Date*.
13. A scope paragraph has been added to explain that the Standard applies to Tier 1 and Tier 2 for-profit entities.
14. Attached as agenda item 7.3 is a draft signing memorandum from the Acting Chair of the NZASB to the Chair of the XRB Board.

³ [IASB Update June 2020](#)

Questions for the Board

- Q1. Does the Board approve for issue *Classification of Liabilities as Current or Non-current—Deferral of Effective Date*?
- Q2. Does the Board approve the signing memorandum from the Acting Chair of the NZASB to the Chair of the XRB Board requesting approval to issue the Standard?
- Q3. Does the Board agree to wait for the IPSASB to propose this amendment as part of its Improvements to IPSAS project in 2021?

Attachments

Agenda item 7.2: *Classification of Liabilities as Current or Non-current—Deferral of Effective Date*

Agenda item 7.3: Draft signing memorandum



Classification of Liabilities as Current or Non-current—Deferral of Effective Date

Issued August 2020

This Standard was issued on 20 August 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 17 September 2020.

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

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

This Tier 1 and Tier 2 For-profit Accounting Standard is based on *Classification of Liabilities as Current or Non-current—Deferral of Effective Date* issued by the International Accounting Standards Board (IASB).

CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT—DEFERRAL OF EFFECTIVE DATE
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CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT—DEFERRAL OF EFFECTIVE DATE

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The following is available within New Zealand on the XRB website as additional material

**APPROVAL BY THE IASB OF CLASSIFICATION OF LIABILITIES AS CURRENT OR
NON-CURRENT—DEFERRAL OF EFFECTIVE DATE ISSUED IN JULY 2020**

**AMENDMENTS TO THE IASB BASIS FOR CONCLUSIONS ON IAS 1 *PRESENTATION OF
FINANCIAL STATEMENTS***

CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT—DEFERRAL OF EFFECTIVE DATE

Part A – Introduction

This document sets out an amendment made to NZ IFRS as a consequence of *Classification of Liabilities as Current or Non-current—Deferral of Effective Date* issued by the IASB.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendment to NZ IAS 1 *Presentation of Financial Statements*

Paragraph 139U is amended. Deleted text is struck through and new text is underlined.

Transition and effective date

...

139U *Classification of Liabilities as Current or Non-current*, issued in April 2020 amended paragraphs 69, 73, 74 and 76 and added paragraphs 72A, 75A, 76A and 76B. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January ~~2022~~2023 retrospectively in accordance with NZ IAS 8. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Part D – Effective Date

This Standard shall be applied for annual periods beginning on or after 1 January 2023. Earlier application is permitted.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 13 August 2020

To: Michele Embling, Chair External Reporting Board

From: Mike Bradbury, Acting Chair NZASB

Subject: *Classification of Liabilities as Current or Non-current—Deferral of Effective Date*

Introduction¹

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *Classification of Liabilities as Current or Non-current—Deferral of Effective Date* which amends the effective date of some of the amendments in NZ IAS 1 *Presentation of Financial Statements* (NZ IAS 1).
2. Due to the significant disruption caused by the COVID-19 pandemic, the amendment provides entities with more time to implement any classification changes arising from *Classification of Liabilities as Current or Non-current*, issued by the NZASB in April 2020.
3. The amending standard defers the effective date for *Classification of Liabilities as Current or Non-current* by one year to 1 January 2023. It is equivalent to the amending IFRS Standard of the same name issued by the IASB.

Due process

4. IASB ED/2020/3 *Classification of Liabilities as Current or Non-current—Deferral of Effective Date* (the ED) was issued in May 2020 with comments due by 3 June 2020. Due to the short comment period, we asked constituents to submit directly to the IASB, providing a copy to the NZASB. The NZASB did not receive any comment letters.
5. The IASB received 33 comment letters. The majority of respondents agreed with the proposal to defer the effective date as this would provide operational relief to entities affected by COVID-19.
6. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED/2020/3 and concluded that the applicable due process steps for the amendment had been completed. This review of due process occurred at the IASB's meeting in June 2020.²

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² [IASB Update June 2020](#)

7. The IASB issued *Classification of Liabilities as Current or Non-current—Deferral of Effective Date* in July 2020. The amending standard is effective for annual reporting periods beginning on or after 1 January 2023 retrospectively in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, with early application permitted.
8. The NZASB has approved *Classification of Liabilities as Current or Non-current—Deferral of Effective Date*. 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 amending standard is a standard in its own right. *Classification of Liabilities as Current or Non-current—Deferral of Effective Date* is identical to *Classification of Liabilities as Current or Non-current—Deferral of Effective Date* issued by the IASB except for the New Zealand-specific introduction and a scope paragraph has been added to explain that the standard applies to Tier 1 and Tier 2 for-profit entities.
11. The Australian Accounting Standards Board (AASB) is expected to adopt an equivalent amending standard in mid-August.
12. 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*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand's Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case by case basis.
13. The amending standard does not create any new disclosure requirements. As such, there are no changes to the RDR concessions in NZ IAS 1. Therefore, the Tier 1 for-profit reporting requirements will continue to be aligned with those in Australia.
14. The issuance of this amending standard is consistent with all three elements of the Financial Reporting Strategy: it adopts the international standard, retains a harmonised position with Australia and is consistent with the Accounting Standards Framework.

Effective date

15. The amending standard amends the effective date of *Classification of Liabilities as Current or Non-current* to be applicable for annual reporting periods beginning on or after 1 January

2023, retrospectively in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, with early application permitted.

Other matters

16. 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

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

Attachments

Classification of Liabilities as Current or Non-current—Deferral of Effective Date

Certificate of determination

Michael Bradbury
Acting Chair NZASB



**NZ ACCOUNTING
STANDARDS
BOARD**

Memorandum

Date: 5 August 2020
To: NZASB Members
From: Judith Pinny
Subject: **Going Concern Disclosures**

Introduction¹

1. On 11 June 2020 the NZASB issued the following two exposure drafts (EDs):
 - (a) NZASB ED 2020-2 *Going Concern Disclosures* (Proposed amendments to FRS-44); and
 - (b) NZASB ED 2020-3 *Going Concern Disclosures* (Proposed amendments to PBE IPSAS 1).
2. The EDs proposed to introduce specific going concern disclosures in circumstances where an entity's going concern assessment involved significant judgement and/or the consideration of material uncertainties.
3. The Board considered that the proposed specific disclosures would be helpful to:
 - (a) users – by ensuring they get relevant and transparent information;
 - (b) preparers – the proposed disclosure requirements require more specificity which assists preparers in deciding what information to provide to users; and
 - (c) auditors – the proposed disclosure requirements will help align the requirements in accounting standards with the requirements in auditing standards (for auditors to assess the adequacy of going concern disclosures).
4. Comments on the EDs closed on 24 July 2020, following a 45-day comment period. We have received eight formal submissions and two comments via online feedback (see agenda item 8.6).
5. This memo includes a summarised analysis of submissions received, and discussion of issues raised. Agenda item 8.1A contains a detailed analysis of submissions on a question by question basis.

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Recommendation

6. We recommend that the Board:
 - (a) NOTES the submissions on the two EDs (NZASB ED 2020-2 and NZASB ED 2020-3);
 - (b) APPROVES for issue *Going Concern Disclosures* (Amendments to FRS-44) (agenda item 8.2);
 - (c) APPROVES the signing memorandum for *Going Concern Disclosures* (Amendments to FRS-44) from the Acting Chair of the NZASB to the Chair of the XRB Board (agenda item 8.3);
 - (d) APPROVES for issue *Going Concern Disclosures* (Amendments to PBE IPSAS 1) (agenda item 8.4); and
 - (e) APPROVES the signing memorandum for *Going Concern Disclosures* (Amendments to PBE IPSAS 1) from the Acting Chair of the NZASB to the Chair of the XRB Board (agenda item 8.5).

Background

7. The economic impact of the COVID-19 pandemic is expected to increase the level of uncertainty over the ability of many entities to continue as a going concern for financial reporting purposes. As a result, the Board agreed in May 2020 to develop narrow-scope domestic amendments to propose more specific going concern disclosures which will help preparers of financial statements provide improved information, when applying the existing disclosure requirements in NZ IFRS.
8. The economic impacts of COVID-19 are expected to put increased pressure on entities to provide users with relevant and useful information about:
 - (a) significant judgements and estimates made in management's assessment of the entity's ability to continue as a going concern, along with any material uncertainties; and
 - (b) management's plans to address any material uncertainties around the entity's ability to continue as a going concern.
9. At the Board's 7 May meeting it agreed to undertake a project to propose introducing more specific going concern disclosures in:
 - (a) FRS-44 *New Zealand Additional Disclosures*; and
 - (b) PBE IPSAS 1 *Presentation of Financial Reports*.
10. The Board also agreed the following parameters of this project.
 - (a) The scope of the project would be focused on situations where an entity determines the going concern basis of preparation applies, but that assessment has involved significant judgement and/or the consideration of material uncertainty.
 - (b) The proposed disclosures would be based on the information required by auditors when applying ISA (NZ) 570 (Revised) *Going Concern* (to the extent appropriate and useful).

- (c) The proposed disclosures would be developed for Tier 1 and Tier 2 for-profit entities and Tier 1 and Tier 2 public benefit entities (PBEs).
11. As part of the XRB's response to COVID-19 the XRB has taken other steps to make entities aware of the importance of going concern disclosures during periods of increased future uncertainty. *XRB Alert—Spotlight on Going Concern Disclosures*² explains the key messages for directors and those charged with governance in relation to going concern disclosures and assurance requirements for for-profit entities. We have also issued an equivalent *XRB Alert* on going concern disclosure considerations for not-for-profit entities.

Structure of this memo

12. The remainder of this memo is organised as follows:
- (a) Outreach
 - (b) Summarised analysis of submissions
 - (c) Issues raised by submitters and staff response
 - (d) Changes made in finalising the amendments
 - (e) Effective date
 - (f) Trans-Tasman harmonisation
 - (g) Reduced disclosure regime
 - (h) Due process
 - (i) Draft amending standards and signing memos.

Outreach

13. Before issuing the EDs we undertook outreach with constituents and some key stakeholder groups.

XRAP

14. The External Reporting Advisory Panel (XRAP) met on 21 May 2020. From a preparer perspective, some XRAP members voiced concerns about the potential impact on an entity of highlighting uncertainties about going concern. Some also had more general concerns about New Zealand-specific disclosures from an international competitiveness perspective.
15. An XRAP member, and also AASB staff, raised the issue of trans-Tasman harmonisation, when additional disclosures are required for Australian entities who are required to file their financial statements in New Zealand. This matter is discussed below.

TRG

16. The Technical Reference Group (TRG) met on 26 May 2020 and provided feedback on the proposals to introduce more specific going concern disclosures. The TRG strongly supported

² <https://www.xrb.govt.nz/information-hub/information-in-response-to-covid-19/implications-for-financial-reporting/>

the proposals for for-profit entities, noting that alignment with the auditing standards was an important factor and commending the NZASB for addressing this issue so quickly in response to COVID-19. TRG members also noted that the amendments would be appropriate for both not-for-profit and public sector entities.

17. The TRG also queried whether amendments to NZ IAS 34 *Interim Financial Reporting* were required. As discussed in the 4 June agenda papers, NZ IAS 34 already requires information about changes in economic circumstances. The NZASB agreed that no amendments to NZ IAS 34 were required.

NZAuASB

18. The NZAuASB met on 3 June 2020 and received an update on this project from NZASB staff. The NZAuASB were generally supportive of the proposals. Staff received direct feedback from an NZAuASB Board member who supported the NZASB project and noted that the lack of alignment between the accounting and auditing standards was endemic across the two sets of standards and suggested that a long-term alignment project across accounting and auditing standards may be warranted. Staff noted that the Agenda Consultations for the international accounting and auditing standard boards would probably be the best vehicle to seek this level of improvement, but in the meantime a domestic standard-setting response was appropriate given the increased uncertainty caused by COVID-19. As a general comment it was also noted that, going forward, standard-setting projects would benefit from greater consultation between the relevant international accounting and auditing boards.

IASB

19. We received feedback from IASB staff. They suggested minor amendments to the proposed wording and referenced the IFRS Interpretations Committee agenda decisions³ which were issued in response to queries about going concern disclosure requirements in IAS 1 *Presentation of Financial Statements*.
20. The NZASB noted the existence of the IFRIC agenda decisions but felt that the feedback it had received regarding the importance of clear going concern disclosure requirements and promoting consistent going concern disclosures warranted proceeding to issue an exposure draft. The NZASB highlighted the existence of the IFRIC agenda decisions in the Invitation to Comment that accompanied the ED.

Other outreach

21. In addition to notifying constituents generally through the *NZASB Updates* issued on 12 June 2020 and 8 July 2020, staff contacted the following groups of constituents to encourage submissions and feedback:⁴

³ IFRS Interpretations Committee Agenda Decisions on going concern disclosure (IAS 1):
 July 2010 <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-going-concern-disclosure-july-2010.pdf>
 July 2014 <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-disclosure-requirements-relating-to-assessment-of-going-concern-jul-14.pdf>

⁴ The larger accounting firms were not contacted because they are represented on the TRG.

- (a) professional accounting bodies;
- (b) lawyers;⁵
- (c) banks; and
- (d) mid-tier accounting firms.

Summarised analysis of submissions

22. We received submissions from the following groups:

- (a) Users – four submissions;
- (b) Preparers/Auditors – three submissions;
- (c) Professional accounting bodies – two submissions; and
- (d) Public sector – one submission.

23. All ten submissions covered the proposed amendments to FRS-44. Six submissions also covered proposed amendments to PBE IPSAS 1. One submission, from the OAG, focussed on the proposed amendments to PBE IPSAS 1, whilst also covering the proposed amendments to FRS-44.

24. There were six identical questions in NZASB ED 2020-2 and NZASB ED 2020-3.

<p>Q1. Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties? If you disagree, please explain why.</p> <p>Q2. Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion? If you disagree, please explain why.</p> <p>Q3. Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.</p> <p>Q4. Do you agree that there should be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment?</p> <p>Q5. Are there any other issues in relation to going concern disclosures that you would like to be considered in the future?</p> <p>Q6. Do you have any other comments on the ED?</p>
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25. Table 1 summarises the respondent (R#) feedback to the first four questions in the EDs.

⁵ Staff would like to thank the Chair of the NZAuASB for supplying a list of lawyers, of which three made submissions.

Table 1: Summary of responses

	Disagree	Partially agree	Agree	No response	
R#	Overall	Q1 Material uncertainties	Q2 Significant judgement	Q3 Effective date	Q4 Tier 2 RDR
1a	Disagree				
2	Agree	Agree	Agree	Agree	Agree
3	Agree	Agree	Agree	Agree	Agree
4	Agree	Agree	Partially agree	Agree	Agree
5	Agree				
6	Agree	Partially agree	Partially agree	Agree	Agree
7	Agree				Agree
8	Agree				
9	Agree	Partially agree	Agree		
10	Agree	Agree	Agree	Agree	Agree

Issues raised by submitters and staff response

26. A detailed analysis of all the submission comments received, both overall, and on a question by question basis, is in agenda paper 8.1A. Issues which we would like the Board to note, and in some cases provide feedback on, are summarised and discussed in this section.
27. Although this section focuses on issues raised by respondents, we think it is important to note the strong general support expressed by most respondents (except for R1a) for the proposals.

Generic issue

28. Respondent 1a strongly disagreed with the proposed amendments to FRS-44 on the grounds that this is not a New Zealand-specific issue and there is already sufficient guidance in the agenda decisions of the IFRS Interpretations Committee.
29. Other respondents did not raise similar concerns to Respondent 1 and, in general, supported the introduction to specific going concern disclosure requirements in New Zealand. In particular, we note that Respondents 4 and 9 both supported the proposed amendments to for-profit and PBE Standards and also supported lobbying international boards for changes to the going concern disclosures.
30. Paragraph 29 of the ITC considered the issue raised by Respondent 1.

In developing NZ IFRS, the NZASB adopts the requirements in IFRS Standards, and in limited circumstances, requires additional New Zealand specific disclosures.⁶ Although the current economic challenges and increased focus on going concern disclosures is not a New Zealand

⁶ FRS-44 *New Zealand Additional Disclosures* requires a number of New Zealand specific disclosures such as audit fee disclosures.

specific issue, the NZASB considers that the matter is of sufficient importance, and users' need for information is sufficiently urgent, to propose New Zealand specific disclosures.

Staff response

31. Although it can be argued that IFRS Standards already include requirements about material uncertainties, significant judgements and assumptions that should lead to the going concern disclosures proposed for FRS-44 being provided, the proposals identified specific disclosures entities should provide in certain circumstances. The introduction of more specific going concern disclosure requirements will support consistent reporting to users of financial statements and will promote increased transparency of the going concern position of New Zealand reporting entities. This is particularly pertinent and urgent due to the instability inherent in the current COVID-19 reporting environment and the increased needs of users for information about uncertainties.
32. Overall, we feel that the proposed specific going concern disclosure requirements will help preparers of financial statements in New Zealand, when applying the existing disclosure requirements and principles in NZ IFRS and PBE Standards.
33. Staff have noted that some constituents would prefer that these issues be addressed internationally. We plan to raise the topic of going concern disclosures when the IASB's 2020 *Agenda Consultation* (now scheduled for March 2021) and the next IPSASB Agenda Consultation (mid-period work program review scheduled for June 2021) are issued.

Audit fees

34. Respondent 4 supported efforts to also take this opportunity to clarify audit fee disclosures in financial reports to improve transparency and provide more granular disclosure of fees relating to audit and other services. Respondent 4 suggested that this could be done simultaneously with the current domestic amendments.

Staff response

35. This issue is currently within the scope of a separate project that is being undertaken jointly with the AASB and which could result in amendments to FRS-44. If this occurs, similar amendments to PBE IPSAS 1 may also be considered. The EDs did not propose any changes to audit fee disclosures – any such changes will need to go through separate due process.

Close-call situations

36. Respondent 6 suggested additional disclosures around 'close-call situations' including:
 - (a) details of events or conditions that may cast significant doubt;
 - (b) management's plans to mitigate the effect of these events or conditions; and
 - (c) significant judgements and assumptions made by management in its going concern assessment.
37. Respondent 6 put forward alternative wording for the new disclosure paragraphs (see below). For ease of comparison we have also shown the proposals in ED 2020-2.

Respondent 6 proposals	NZASB ED 2020-2
<p>12A.1 An entity shall disclose the following information either when material uncertainties are considered in the going concern assessment or when no material uncertainties exist but reaching that conclusion involved significant judgement:</p> <ul style="list-style-type: none"> — details of events or conditions that may cast significant doubt about entity’s ability to continue as a going concern and management’s evaluation of their significance in relation to the going concern assessment; — management’s plans to mitigate the effect of these events or conditions; and — significant judgements and assumptions made by management in their going concern assessment, including their determination of whether there are material uncertainties. <p>12A.2 If a material uncertainty exists in relation to the going concern assessment, an entity shall explicitly state that there is a material uncertainty related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.</p>	<p>12A.1 When preparing financial statements, paragraph 25 of NZ IAS 1 <i>Presentation of Financial Statements</i> requires management to make an assessment of an entity’s ability to continue as a going concern. It requires an entity to prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. Furthermore, when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, paragraph 25 of NZ IAS 1 requires disclosure of those uncertainties. When such material uncertainties exist, to the extent not already disclosed in accordance with paragraph 25 of NZ IAS 1, an entity that prepares its financial statements on a going concern basis shall disclose:</p> <ul style="list-style-type: none"> (a) that there are one or more material uncertainties related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern; (b) information about the principal events or conditions giving rise to those material uncertainties; (c) information about management’s plans to mitigate the effect of those events or conditions; and (d) that, as a result of those material uncertainties, it may be unable to realise its assets and discharge its liabilities in the normal course of business. <p>12A.2 Paragraph 122 of NZ IAS 1 requires an entity to disclose the judgements, apart from those involving estimations (see paragraph 125 of NZ IAS 1), that management has made in the process of applying the entity’s accounting policies that have the most significant effect on the amounts recognised in the financial statements. Paragraph 125 of NZ IAS 1 requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. To the extent not already disclosed in accordance with paragraphs 122 and 125 of NZ IAS 1, where an entity prepares its financial statements on a going concern basis, and management is aware of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, it shall disclose information about the significant judgements and assumptions made as part of its assessment of whether the going concern assumption is appropriate.</p>

Staff response

38. The ITCs that accompanied the EDs discussed close-call situations (see extract below from the ITC for ED 2020-2).

21. Paragraph 20 of ISA (NZ) 570 (Revised) relates to circumstances in which management has assessed that the going concern basis of preparation should be applied and there are no material uncertainties related to this assessment, but events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern.

<i>Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists</i>	
20	If events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions.

22. In practice, auditors are required by paragraph 20 of ISA (NZ) 570 (Revised) to consider the adequacy of disclosures when management has applied significant judgement in reaching the decision that there are no “material uncertainties” in relation to the entity’s ability to continue as a going concern. These are described by auditors as the “close-call situations” as to whether there is a material uncertainty or not, in circumstances when events or conditions exist that may cast significant doubt on the entity’s ability to continue operating as a going concern.

39. The Board considered the existing requirements in accounting and auditing standards in establishing the parameters for this project (mentioned earlier in this memo). These parameters then shaped the proposed disclosures. We note that the proposed disclosure requirements in the EDs would result in disclosure about some close-call situations. We think that trying to expand the New Zealand specific disclosures to capture more close-call situations would be outside the narrow parameters of this project. Given the support received from the majority of respondents for the proposed wording put forward by the Board, and the urgency of this matter, we think that the Board should proceed with the disclosures as proposed.

40. If, as part of future agenda consultations, we ask the international boards to relook at going concern disclosures, we could highlight some constituents desire for more disclosures around close call situations.

Question for the Board

Q1. Does the Board agree to proceed with the proposed disclosures, as exposed, whilst noting the interest of some constituents in more disclosures about ‘close-call situations’?

Examples

41. Respondent 3 suggested the inclusion of examples within the standards:
- “The inclusion of an example, highlighting how an event or condition can require significant judgement, but is not a material uncertainty would be useful. Any examples could consider highlighting the likelihood of an event or condition occurring and the significance of the event.”

Staff response

42. We suggest no further changes to the current amendments as proposed. The XRB Alert *Spotlight on Going Concern Disclosures* (issued for both Tier 1 and Tier 2 for-profit entities and Tier 1 and Tier 2 PBEs) provides further guidance of this nature. The XRB Alerts are non-authoritative and can therefore be easily added to over time.

Time period for going concern assessment

43. Respondent 3 also noted that PBE IPSAS 1 and the auditing standards require that, when assessing an entity’s ability to continue as a going concern, an entity must consider at least 12 months following the approval of the financial statements. Whereas NZ IAS 1 *Presentation of Financial Statements* refers to the period 12 months following the end of the reporting period, and NZ IAS 10 *Events after the Reporting Period* refers to the requirement to continually assess the going concern assumption up to the date of authorisation of the financial statements (but doesn’t make it clear that this requires a consideration of at least 12 months from the date of authorisation of the financial statements). Respondent 3 suggests that the NZASB make this requirement consistent across New Zealand accounting standards by amending NZ IAS 1 and NZ IAS 10 to require an entity to consider the going concern assessment at least 12 months from the date the financial statements are authorised for issue. Respondent 4a⁷ made a similar argument.

Staff response

44. We agree that there does appear to be an inconsistency between the for-profit standards and the auditing standards on this matter. We note in practice it is generally understood that the going concern assessment is required for the 12 months following the approval of the financial statements, but this is driven by the auditing standards.
45. The NZASB are unable to amend NZ IAS 1 and NZ IAS 10 without potentially compromising the ability of New Zealand entities reporting under NZ IFRS to assert compliance with IFRS. Staff have noted these comments and plan to communicate them to the IASB in the context of its *2020 Agenda Consultation*.

Question for the Board

- Q2. Does the Board agree that no changes to the time period for going concern assessment be made at this time?

⁷ This was online feedback submitted with Respondent 4’s formal submission.

Wording alignment

46. Respondent 9 suggested that the proposed paragraphs 12A.1(d) in FRS-44 and 41.1(d) in PBE IPSAS 1 be amended to include the same wording from paragraph 19(b) of ISA (NZ) 570 (Revised) *Going Concern*.

Staff response

47. The same wording from paragraph 19(b) of ISA (NZ) 570 is included in the proposed amendments in 12A.1(a) and (d) of FRS 44 and in 41.1(a) and (d) of PBE IPSAS 1.
48. No further amendments are proposed.

Proposed wording change

49. Respondent 2 suggested the following change to paragraph 41.2 in NZASB ED 2020-3:
- 41.2 ... To the extent not already disclosed in accordance with paragraphs 137 and 140 of this Standard, where an entity prepares its financial report on a going concern basis, and those responsible for the preparation of financial reports are aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, it shall disclose information about the significant judgements and assumptions made as part of its assessment ~~of whether~~ that the going concern assumption is appropriate.

Staff response

50. It is important to, where possible, maintain consistency across PBE IPSAS 1 and FRS-44. We acknowledge the proposal but consider that, on balance, it does not improve the paragraph, and therefore will stay with the wording that was exposed in paragraph 41.2 of PBE IPSAS 1 (and paragraph 12A.2 of FRS-44).
51. No further amendments are proposed.

Question for the Board:

- Q3. Does the Board agree with the decision not to change paragraph 41(2) of PBE IPSAS 1 (and paragraph 12A.2 of FRS-44)?

Mutually exclusive

52. Respondent 4 contends that paragraphs 12A.2 /41.2 should not be mutually exclusive from paragraphs 12A.1/41.1. Respondent 4 makes the point that significant doubt can exist with and without the existence of material uncertainty.

Staff response

53. We agree that significant doubt can exist with and without material uncertainty and significant judgement may be required in both situations. An entity would need to look at each of the proposed new paragraphs and decide whether it was required to disclose information in accordance with each of those paragraphs. When material uncertainties are

identified an entity will be required to provide disclosures in accordance with 12A.1/41.1 and also consider paragraphs 12A.2 /41.2.

54. No further amendments are proposed.

Proposals do not add value

55. Respondent 4 argues that the auditing standard does not prescribe specific disclosure requirements. Respondent 4 also is of the view that the proposals in paragraph 41.2 do not introduce more specific disclosure requirements, and therefore do not add value.

Staff response

56. The EDs have responded to the fact that the auditing standards impose requirements on auditors to assess the adequacy of an entity's going concern disclosures.
57. The Board felt it was important in the current environment to introduce paragraph 41.2 to promote improved and consistent reporting on an entity's going concern assessment, especially when events or conditions have been identified that may cast doubt on the entity's ability to continue as a going concern.
58. No further amendments are proposed.

Definition of management

59. Respondent 3 notes that the word management is footnoted in the proposed amendments to PBE IPSAS 1 paragraph 41.2 but not in the equivalent proposed amendments to FRS-44 paragraph 2A.2 and considers that management should include those charged with governance.

Staff response

60. The term management is used in a number of IFRS Standards. We do not change terminology in NZ IFRS and try and keep any New Zealand specific paragraphs as closely aligned to terminology in NZ IFRS as possible. In some PBE Standards, depending on context, the phrase 'those charged with governance' is used instead of management. In the context of paragraph 41.2 of PBE IPSAS 1, we consider that the term 'management' reads better, and the footnote provides more context for PBEs.
61. No further amendments are proposed.

Changes made in finalising the amendments

62. In summary, there are no changes proposed to *Going Concern Disclosures* (Amendments to FRS-44) and *Going Concern Disclosures* (Amendments to PBE IPSAS 1). Both amending standards provided for Board approval (agenda items 8.2 and 8.4) reflect the proposals that were exposed.

Effective date

- 63. As these proposals are intended to improve disclosures in the financial statements in response to the COVID-19 pandemic, an effective date of accounting periods ending on or after 30 September 2020, with early adoption permitted was proposed for the amendments.
- 64. Five respondents commented favourably on the proposed effective date, and none unfavourably, therefore we have used the effective date as proposed in the standards for which we are seeking Board approval.

Trans-Tasman harmonisation

- 65. The Australian Accounting Standards Board (AASB) and Australian Auditing and Assurance Standards Board (AUASB) have recently issued guidance on going concern disclosures.⁸ The AASB considered developing Australian-specific disclosures but elected not to. One reason for this was that such a project would not assist Australian entities with 30 June balance dates (this is the main balance date in Australia).
- 66. The AASB queried the effect of the NZASB's proposals on entities complying with Australian Accounting Standards which have a requirement to file their financial statements in New Zealand and have not made the proposed FRS-44 going concern disclosures.
- 67. Staff contacted the FMA staff to discuss this issue. FMA staff are supportive of the proposed additional going concern disclosure requirements, and supportive of aligning the disclosure requirements in the accounting standards with the requirements in the auditing standards (for auditors to form an opinion about the adequacy of disclosures on the going concern assessment).
- 68. The FMA staff also noted that in terms of the impact of the proposed change on existing FMA exemptions, as the proposed new requirements are additional to IFRS, the FMA continues to be comfortable with their existing exemptions for accepting financial statements that comply with Australian GAAP.
- 69. We do not expect the proposed new disclosure paragraphs to cause any significant concern from a trans-Tasman harmonisation perspective. This is because some aspects of the disclosures are already required by accounting standards and other aspects are indirectly required by the requirements in auditing standards for auditors to assess the adequacy of going concern disclosures.

Reduced disclosure regime

- 70. Disclosures on information in relation to management's going concern assessment will provide useful and important information for both Tier 1 and Tier 2 users. There are no disclosure concessions proposed in relation to the additional disclosures in either standard.

⁸ *The Impact of COVID-19 on Going Concern and Related Assessments*: A joint publication by the AASB and AUASB; May 2020.

https://www.aasb.gov.au/admin/file/content102/c3/AASB-AUASB_TheImpactOfCOVID19_05-19.pdf

Those constituents that responded to the question about reduced disclosure requirements supported this position.

Due process

- 71. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.
- 72. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the amending standard is likely to require the disclosure of personal information. In our view the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Draft amending standards and signing memos

- 73. Attached as agenda item 8.2 is a copy of *Going Concern Disclosures* (Amendments to FRS-44). It applies to Tier 1 and Tier 2 for-profit entities.
- 74. Attached as agenda item 8.3 is a draft certificate signing memorandum for *Going Concern Disclosures* (Amendments to FRS-44) from the Acting Chair of the NZASB to the Chair of the XRB Board.
- 75. Attached as agenda item 8.4 is a copy of *Going Concern Disclosures* (Amendments to PBE IPSAS 1). It applies to Tier 1 and Tier 2 public benefit entities.
- 76. Attached as agenda item 8.5 is a draft certificate signing memorandum for *Going Concern Disclosures* (Amendments to PBE IPSAS 1) from the Acting Chair of the NZASB to the Chair of the XRB Board.

Questions for the Board

- Q4. Does the Board APPROVE for issue *Going Concern Disclosures* (Amendments to FRS-44)?
- Q5. Does the Board APPROVE the signing memorandum for *Going Concern Disclosures* (Amendments to FRS-44) from the Acting Chair of the NZASB to the Chair of the XRB Board?
- Q6. Does the Board APPROVE *Going Concern Disclosures* (Amendments to PBE IPSAS 1)?
- Q7. Does the Board APPROVE the signing memorandum for *Going Concern Disclosures* (Amendments to PBE IPSAS 1) from the Acting Chair of the NZASB to the Chair of the XRB Board?

Attachments

- Agenda item 8.1A Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3
- Agenda item 8.2 Draft *Going Concern Disclosures* (Amendments to FRS-44).
- Agenda item 8.3 Draft signing memorandum for *Going Concern Disclosures* (Amendments to FRS-44).
- Agenda item 8.4 Draft *Going Concern Disclosures* (Amendments to PBE IPSAS 1).
- Agenda item 8.5 Draft signing memorandum for *Going Concern Disclosures* (Amendments to PBE IPSAS 1).
- Agenda item 8.6 Submissions and comments received:
 - 8.6.1 Online feedback (R1a and R4a)
 - 8.6.2 OAG
 - 8.6.3 EY
 - 8.6.4 CA ANZ
 - 8.6.5 Michael Webb, Barrister
 - 8.6.6 KPMG
 - 8.6.7 Stephen Layburn, Barrister
 - 8.6.8 Charlotte McLoughlin, Barrister
 - 8.6.9 CPA Australia

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

ED NZASB 2020-2 Going Concern Disclosures – Respondents’ Comments by ITC Question

This Appendix sets out respondents’ comments on ED NZASB 2020-2 and ED NZASB 2020-3, organised by ITC question, with overall comments at the beginning of the table. The questions in the two ITCs were identical.

Submissions were received from the following respondents.

R#	Respondent name	Type	Commented on FRS-44	Commented on PBE IPSAS 1	Overall view Agree/Disagree	Support for future IASB project	Agenda item
R1	Online Feedback						
R1a	Joanna Perry	Individual	✓		Disagree		8.6.1
R4a	Zaryab Hyder, CA ANZ (included under R4)						8.6.1
R2	Office of the Auditor-General (OAG)	Public Sector	✓	✓	Agree		8.6.2
R3	EY	CA firm	✓	✓	Agree		8.6.3
R4	CA ANZ	Membership body	✓	✓	Agree	Yes	8.6.4
R5	Michael Webb	Barrister	✓		Agree		8.6.5
R6	KPMG	CA firm	✓	✓	Agree		8.6.6
R7	Stephen Layburn	Barrister	✓		Agree		8.6.7
R8	Charlotte McLoughlin	Solicitor	✓		Agree		8.6.8
R9	CPA Australia	Membership body	✓	✓	Agree	Yes	8.6.9
R10	Informal comments from mid-tier accounting firm	CA firm	✓	✓	Agree		Informal comments included in analysis below.

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

If you would prefer to read each submission in its entirety, copies are available in the supporting Board papers (see agenda items 8.6.1 to 8.6.10).

The classifications used in the following tables for the overall comments and the first four questions in the ITC are:¹

- A Agree
- P Partially agree
- D Disagree
- No response

The tables in this document show how the responses have been classified.

ED NZASB 2020-2 and ED NZASB 2020-3 Summary of submissions – overall comments	
Category (C#)	Total
A – Agree (R2, R3, R4, R5, R6, R7, R8, R9, R10)	9
D – Disagree (R1a)	1
Total of those providing comments	10

R #	C #	Overall comments
R1a	D	I strongly disagree with this proposal. There is nothing in New Zealand that is unique about this issue. And from the documentation you have provided it is clear that the expectations (as indicated by Interpretations Committee) around disclosures are as proposed in this amendment to FRS 44. I strongly believe that New Zealandisation of the International Standards (if we are going to continue to use them) should ONLY occur for very exceptional New Zealand situations. This is NOT one. I can't remember the last time I made a submission. I feel SO strongly about this!
R2	A	We agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties to better align with the requirements of para 19 of ISA (NZ) 570 (revised). (repeated from Question 1)

¹ We acknowledge that there is judgement involved in classifying responses, particularly in classifying a response as “Agree” or “Partially agree”.

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

R #	C #	Overall comments
		<p>We agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion to better align with the requirements of para 20 of ISA (NZ) 570 (revised). (repeated from Question 2)</p> <p>Our responses to the questions are set out below in relation to NZASB ED 2020-3 <i>Going Concern Disclosures</i> (Proposed amendments to PBE IPSAS 1). Given that the same questions are asked in NZASB ED 2020-2 <i>Going Concern Disclosures</i> (Proposed amendments to FRS-44), our comments also apply to NZASB ED 2020-2.</p>
R3	A	<p>We are pleased to comment on the proposals set out in the NZASB Invitation to Comment Exposure Drafts NZASB 2020-2: <i>Going Concern Disclosures</i> (Proposed amendments to FRS-44) and NZASB Exposure Draft 2020-3 <i>Going Concern Disclosures</i> (Proposed amendments to PBE IPSAS 1). We are encouraged by the NZASB's work to help preparers provide useful information to users and align the requirements in accounting standards with the requirements in auditing standards. We believe that the more specific disclosure requirements contained in the proposed amendments will improve consistency of the disclosures for both public benefit entities and those in the for-profit sector. We believe ED 2020-2 could be improved to facilitate even greater alignment.</p>
R4	A	<p>Thank you for the opportunity to provide feedback on the above Exposure Drafts ("the EDs"). Currently the disclosure requirements in auditing standards are more specific than in accounting standards when the use of the going concern basis of accounting is appropriate but a material uncertainty exists. Therefore, we support aligning the disclosure requirements in the accounting standards with those in the auditing standards in this regard.</p> <p>Financial report preparers are not required to comply with the auditing standards, therefore auditing standards should not prescribe disclosure requirements. It can result in such disclosures being omitted from financial reports which in turn can create tension between management and auditors in practice. Against a backdrop of COVID-19, there are likely to be more significant judgements in determining whether the going concern basis of preparation is appropriate and more material uncertainties related to going concern, which amplifies the issue.</p> <p>This is not a New Zealand specific issue therefore our preference is for this to be an international standard setting project. However, we believe a timely response is required and therefore support the NZASB taking it on as a domestic project in the interim. We note that the AASB has decided not to conduct an equivalent project, so there will not be trans-Tasman harmonisation in this regard. We will be raising this issue in our submission to the IASB on ED/2019/7 <i>General Presentation and Disclosures</i> whilst NZ IAS 1 <i>Presentation of Financial Statements</i> is open for revision. Likewise, we encourage the NZASB to continue working with the IASB and the IPSASB to achieve accounting standards change in this area.</p>

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

R #	C #	Overall comments
		<p>The IESBA ED: <i>Proposed Revisions to the Fee-related Provisions of the Code</i> proposed requirements to disclose fee-related information for public interest entity (PIE) audit clients. In our submission we supported efforts to clarify fee disclosures in financial reports to improve transparency but raised concern over this being in the ethical standards rather than the accounting standards. Whilst FRS-44 <i>New Zealand Additional Disclosures</i> / PBE IPSAS 1 <i>Presentation of Financial Statements</i> are being opened for revision we encourage the NZASB to also consider amendments to paragraphs 8.1—8.2 / 116.1—116.2 for more granular disclosure of fees (i.e. audit, assurance, audit related, and non-audit related services).</p>
R5	A	<p>I limit my comments to the aspects set out below rather than making a detailed submission on the whole ITC and the various questions set out in it.</p> <p>In this context:</p> <ul style="list-style-type: none"> <li data-bbox="427 635 2074 767">(a) I support the proposals in relation to their general intention and proposed effect. I believe the proposals are an important step in addressing the “expectation gap” between what readers, investors and the public generally may or do expect from audited financial statements on the one hand, and the technical objectives and expectations of financial reporting and auditing standards on the other. <li data-bbox="427 794 2074 895">(b) I also consider the proposals are a valuable move towards some general consistency between the going concern aspects of financial reporting, the continuous disclosure requirements under financial markets regulation, and the solvency test under companies legislation. <li data-bbox="427 922 2074 1023">(c) In relation to the current position with FRS-44 and the relevant ISAs, the ITC in my view sets out a good case for harmonising the two, and mitigating the difficulties in distinguishing between paragraphs 19 and 20 of ISA(NZ)570 (Revised), highlighted in particular as two of the four broad categories set out in (b) and (c) of paragraph 18 of the ITC. <li data-bbox="427 1050 2074 1214">(d) To me, looking at the wording of those two categories (b) and (c), the differences between events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern which are not considered “material uncertainties”, and those which are, necessarily involve interpretations, guidance and judgement calls which are inherently problematic. There may well be a case, although it would need to be further considered, for collapsing these two categories into one, with different wording. <li data-bbox="427 1241 2074 1374">(e) On the basis, however, that these two categories do continue, I agree that it is too drastic a consequence that matters which are judged to come into category (b) do not require to be disclosed on a similar basis to those matters which come into category (c), particularly given the difficulties in interpretation and the necessary judgement calls which have to be made in assessing which category applies.

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

R #	C #	Overall comments
		<p>(f) In my view it is desirable and preferable that if an entity’s circumstances fall into either category there be identification and discussion of that in the material. If the board of an entity and the auditors take a different view as between themselves on those questions, so be it, and that itself should be a relevant matter for readers of the financial statements to have available to them, rather than a “negotiated” outcome or one which does not appropriately represent the realities of the situation.</p>
R6	A	<p>We appreciate the opportunity to comment on the New Zealand Accounting Standard Board’s (the Board) Exposure Drafts (EDs) relating to going concern disclosures for for-profit entities and Public Benefit Entities (PBEs).</p> <p>Our comments in this letter apply equally to both EDs as the going concern assumption is relevant to preparation of financial statements under both NZ IFRS and PBE Standards and we expect consistent disclosures for both for-profit entities and PBEs. We elected to use for-profit related terminologies in this letter for the reader’s convenience.</p> <p>We recognise that the aim of the EDs is to establish more specific going concern disclosure requirements to be applied when material uncertainties exist, or when significant judgements are made when assessing the appropriateness of applying the going concern basis of preparation, which is particularly relevant as a result of the COVID-19 pandemic in 2020.</p> <p>Overall, we support the Board’s intent to provide more specific disclosure requirements as it will assist preparers of financial statements to provide relevant and transparent information to users of financial statements when material uncertainties exist, or significant judgements are made regarding the going concern assessment. Furthermore, the proposed disclosure requirements will also help the auditors in assessing the adequacy of going concern disclosures.</p> <p>Notwithstanding our overall support for the Board’s intentions behind these EDs, we have noted some comments in the Appendix 1. In summary, we suggest the Board considers the following comments:</p> <ul style="list-style-type: none"> • Include a specific requirement to disclose the significant judgements and assumptions when there is a material uncertainty. • Clarify the applicability of FRS 44.12A.2 as to whether it will apply to both material uncertainties and ‘close-call’ situations. • Include more specific disclosure requirements in respect of ‘close-call’ situations. Specifically, consider adding the following: <ul style="list-style-type: none"> ○ Details of events or conditions that may cast significant doubt about an entity’s ability to continue as a going concern and the management’s evaluation of their significance in relation to the going concern assessment; ○ Management’s plans to mitigate the effect of those events or conditions; and ○ Significant judgements and assumptions made by management in its going concern assessment, including its determination of whether there are material uncertainties.

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

R #	C #	Overall comments
R7	A	<ol style="list-style-type: none"> <li data-bbox="430 261 2054 432">1. The purpose of this memo is to provide a handful of comments on the XRB Exposure Drafts on going concern disclosures. I have not commented on the technical details or specific questions raised for submitters. However, I did wonder whether the stance of <u>not</u> proposing a strict demarcation for Tier-1 entities might result in some pushback. Instead, I have simply provided a handful of observations from a lawyer (typically) advising directors and management – and who has also seen how preparers seek to meet their compliance obligations whilst thinking about the needs of users of financial statements. <li data-bbox="430 459 2054 683">2. My comments below are shaped by my recent experiences, including: <ol style="list-style-type: none"> <li data-bbox="510 501 2054 564">a. For-profit entities: advising the manager of a family of (distressed) managed investment schemes, governed by the FMC Act, and which are FMC reporting entities, whose problems have been exacerbated by COVID-19; and <li data-bbox="510 580 2054 683">b. Not-for-profit sector: working with a not-for-profit in the sports sector – which was tracking satisfactorily until COVID-19 brought its activities to a complete stop and which (in keeping with many community sports organisations) has only been kept alive by the Government support for the community sports sector. <li data-bbox="430 708 2054 842">3. As a result of those recent experiences, I am also aware that there is an apparent mismatch between the going concern disclosure requirements in accounting standards and those for auditing standards. To give this some context, I am aware that some licensed auditors (of FMC reporting entities) consider that, in some circumstances, they have no choice other than to include more specific information about “going concern issues” in the audit report – on the basis that there may be no other home for that information. <li data-bbox="430 868 2054 1034">4. I would observe that this does not appear to be as a result of pushback from the preparers of the financial statements. Instead, this seems to be as a result of a view that the auditor is subject to more specific requirements and that there wasn’t a specific/clear requirement (or guidance) for inclusion in the financial statements in what was a fluid/developing environment. Whilst I make no comment about the (technical) correctness of this view – I don’t think there is any disagreement that the audit report is not the ideal home for disclosures of such information. <li data-bbox="430 1059 2054 1257">5. The factors listed in the Exposure Drafts as the drivers for the current proposals appear quite comprehensive. As is the description of the need to users of the financial statements with relevant and transparent information about: <ol style="list-style-type: none"> <li data-bbox="510 1139 1514 1171">a. material uncertainties affecting the ability to continue as a going concern; and <li data-bbox="510 1187 1214 1257">b. management’s plans to mitigate those uncertainties, and do not need appear to need further comment. <li data-bbox="430 1283 2054 1380">6. And I was pleased to see that, whilst the interests of end users (when reading that such a material uncertainty has been flagged), are seen as the primary drive for reform – thought has also gone in to the need to provide management/preparers of financial statements with more guidance on this topic. That guidance will, I think, need to be ongoing and cover not only the decision-

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R #	C #	Overall comments
		<p>making process required to decide when to flag uncertainties about an entity’s ability to continue as a going concern but also cover disclosures about the sources of those uncertainties and the judgements made about them.</p> <p>7. For this reason, my view is that even before the push provided by COVID-19 there has been a need for mandating more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties.</p> <p>8. From the preceding comments, it is clear that I think it would assist both the preparers and the audience – to have a set of more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties. For this reason, my view of the current proposals is that they address what I see as the key elements surrounding disclosure of the existence of a problem (uncertainty). Specifically, that there is:</p> <ul style="list-style-type: none"> a. problem identification: disclosure of the principal events or conditions giving rise to the uncertainty; b. discussion about what is being done about the problem: providing information about management’s plans to address the effect of the cause/s of the problem; and c. provision of adequate context: clarity that, as a result of the problem, the entity may be unable to continue as a going concern – by realising assets and discharging liabilities in the normal course of business. <p>9. In this regard, the add-on in the form of the proposed paragraph 12A.2 to FRS 44 also seems particularly appropriate as it appears that one of the most immediate impacts of COVID-19 has been to generate great uncertainty about asset values. Prior to the impact of COVID-19, this may have been a factor that was relevant only to particularly industries (such as those undergoing rapid changes or prone to high levels of certainty). Today, this could be almost any industry – hopefully only for the duration of the period while the pandemic and the accompanying downturn in economic activity is at its apex.</p> <p>10. Also on the topic of guidance, from a director/management perspective, I have recently had cause to make use of the joint publication by AICD, Chartered Accountants Australia and New Zealand and CPA Australia providing guidance for directors and preparers of financial statements and auditors on the impacts of COVID-19 on annual reporting disclosures. The concept of providing (in summary format) the key considerations when assessing how best to disclose the effects of the COVID-19 pandemic in annual reports for the upcoming reporting season is a very practical response to the needs of preparers. And by starting from a discussion about fundamental principles (such as the basis for an assessment of going concern status) and moving to worked examples – I think the three bodies have led the way for a wide range of entities. Because of experts’ views about the length and depth of the impact of COVID-19 it seems highly likely that there will need to be updates to this and similar guidance, next year – based on the learnings from the current reporting season.</p>

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R #	C #	Overall comments
R8	A	<p>I personally have no substantive comments on the proposed change to the Accounting Standard. There are several important ‘terms of art’ included in there, very familiar to accountants but on which I’m just not qualified to comment, and so will not. There will be many accountants who will be doing this.</p> <p>My general comments however are below. These comments reflect my thought that the changes proposed seem generally consistent (or at least not inconsistent) with the changes made recently to two of the directors’ duties that predominantly concern solvency and so very much linked to the continued existence, or otherwise, of the company. There is obviously a clear benefit to directors in these duties, and the G/C assessment, being generally consistent. I realise my comments do not address the specific, fairly technical, questions asked in the consultation paper.</p> <ul style="list-style-type: none"> • As general proposition, my instinct – as a lawyer – is to encourage greater certainty as to the meaning or interpretation of key terms. In the present case, this would seem to benefit many parties: the company or business about whom the “going concern” statement is being made; the directors / managers who are making those statements; the accounting and assurance professionals who are tasked with helping the company or business prepare and audit its accounts; buyers of businesses who rely on a “going concern” assessment. I can’t see a reason why any greater certainty that can be offered as to how “going concern” is described, even if only to require disclosure of matters which present uncertainty to the G/C assessment, should not be offered. • The fact of the C-19 crisis only makes the need greater, but also in practical terms still hard to achieve – events have moved fast, and the only real certainty is that there will be more uncertainty as to when the domestic economy will get back to “normal” and indeed as to what that “normal” will look and feel like. Ultimately, only the directors / management will be able to form any sort of view as to future viability of the company / business, and so the judgment has to remain with them, albeit perhaps with some recognition of the highly unusual events that have come upon us. My swift reading of the proposed changes to the AS are that this is recognised by the new standard – and that the directors must articulate in the financial statements were there are any uncertainties about whether the G/C status is sound. • Changes made to the Companies Act earlier in the year, for a similar reason, took a generally similar approach – but without the disclosure element. The ‘problem statement’ was that the Government did not want directors simply shutting businesses down because of the sheer fact of uncertainty – and so “snowballing” the likely economic effect of the C-19 crisis. Changes were sought to help directors navigate the (assumed temporarily) shifting landscape, and also have the confidence to keep the company running through the difficult period. Hence, changes were made to two key directors’ duties that, if not able to be met, leave the directors no real option but to close the business. Those changes clarified to directors that if the company was “profitable” (I use that term generally) before C-19 hit, and the directors were reasonably confident that the company would be “profitable” again by a certain date in the future (a date presumed / hoped to be when the economy was back on some sort of level), then directors would not be in breach of their duties in relation to incurring obligations, and as to reckless trading. The Companies Act changes to

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R #	C #	Overall comments
		<p>do not required directors to formally disclose issues they are concerned about, but in making the necessary assessments directors must still to be able to identify what the issues facing the business are, know that they are related to the C-19 crisis, and form a view that the issues are likely to be solved within the stated time frame. So the assessment is still, necessarily, in the hands of the directors who must make the necessary calls, but they have been given some leeway as to the specific C-19 matters.</p> <ul style="list-style-type: none"> • The Government made clear throughout the crisis that the Government’s response (reflected in legal, regulatory and policy measures) could not save every business and every job. And ultimately also, the law (and relevant regulations) cannot hope – and nor should it – to legislate in detail for sudden shocks. Absent a decision that “government will fund every business” (which very clearly is not the case) all that can be done is to offer as much clarity as is reasonably possible on what (in this case) “going concern” means in the post-C19 world, while also recognising that commercial and business life has to go on. • It seems to me, as a layperson, that the changes proposed to the going concern standard do what they can do, in the circumstances. First, the change retains the principle that it is for directors / managers to form the relevant views. Second, the changes seek to help directors / managers (and their advisors) form a reasonably held view that the G/C assessment being made now, in the wake of the C-19 crisis, is sound and if there are any doubts, then to explain them clearly to allow others to form their own views as appropriate. Finally, and I think importantly, this approach is generally consistent (or at least not inconsistent) with the approach taken vis a vis the legal issue of solvency in the Companies Act. A position otherwise would make things impossible / untenable for the directors from a legal perspective.
R9	A	<p>CPA Australia supports the proposed requirements in the two Exposure Drafts (EDs) even though they largely reiterate the disclosure requirements that are currently set out in NZ IAS 1 <i>Presentation of Financial Statements</i> (applicable to the for-profit sector) and PBE IPSAS 1 <i>Presentation of Financial Reports</i> (applicable to Public Benefit Entities (PBE)).</p> <p>In our view the current requirements in the New Zealand Accounting Standards applicable to the for-profit sector and PBE sector adequately address the going concern disclosures that are contemplated in the two EDs. As stated in ED 2020-2, the IFRS Interpretations Committee has previously considered the need for going concern disclosures and has decided that the current requirements in IAS 1 (NZ IAS 1) are adequate.</p> <p>It is also notable that at its June 2020 meeting the Australian Accounting Standards Board (AASB) considered the NZASB’s standard-setting proposals and decided not to proceed with a corresponding project for the reasons set out in the Action Alert arising from that meeting. In coming to its conclusion to not proceed with a standard-setting initiative, the AASB noted that relevant going concern disclosures had already been addressed through its joint guidance with the Australian Auditing Standards Board, <i>The Impact of COVID-19 on Going Concern and Related Assessments</i>. We believe the contrasting approaches taken by the AASB (through guidance) and the NZASB (through proposed additional disclosure requirements) should provide similar outcomes.</p>

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

R #	C #	Overall comments
		<p>CPA Australia agrees with the AASB's views expressed in its Action Alert that any improvements to going concern assessments and disclosures should be undertaken by the International Accounting Standards Board (IASB). In particular, we note there are no current requirements that specify the basis of accounting to a set of financial statements when the going concern basis does not apply. CPA Australia also agrees with the AASB's Action Alert that the IASB should undertake a fundamental review of the requirements related to going concern assessments, disclosures and the basis of accounting where the going concern assumption is no longer appropriate.</p> <p>Although we believe the current requirements in the New Zealand Accounting Standards applicable to the for-profit and PBE sectors already address the additional disclosures proposed in the two EDs, we see no harm in reiterating these requirements as proposed.</p>
R10	A	<p>The current NZ IFRS and PBE Standard frameworks do not provide sufficient guidance for preparers around the disclosures required around the going concern assessment, when the entity has material uncertainties around going concern or when the preparers have applied significant judgement re this.</p>

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

ED NZASB 2020-2 and ED NZASB 2020-3 Summary of submissions received by question	
Question 1	
Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties? If you disagree, please explain why.	
Category (C#)	Total
A – Agree (R2, R3, R4, R6, R10)	5
P – Partially agree (R9)	1
C – Disagree	0
Total of those providing comments	6

R #	C #	Responses to Question 1 (Material Uncertainties)
R1a	-	-
R2	A	We agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties to better align with the requirements of para 19 of ISA (NZ) 570 (revised).
R3	A	<p>We support the NZASB’s proposal to amend FRS 44 and PBE IPSAS 1 to introduce more specific disclosure requirements when an entity’s going concern assessment has involved the consideration of material uncertainties. We believe users of the financial statements will benefit from the increased disclosures and the resulting increase in comparability of the financial statements. Information regarding the events or conditions giving rise to the material uncertainty and how an entity plans to mitigate the effect of those uncertainties will provide useful information to readers.</p> <p>Disclosing that a material uncertainty could result in the entity being unable to realise assets and discharge its liabilities in the normal course of business will highlight the significance of the existence of the material uncertainty to the reader. We believe it will be important for entities to apply the requirements in FRS 44 para 12A.1 and PBE IPSAS 1 para 41.1 only when it is clear there are material uncertainties. Therefore, distinguishing between when an uncertainty is material and when an uncertainty is not material, but required significant judgement to reach that conclusion, may be difficult. The inclusion of an example, highlighting how an event or condition can require significant judgement, but is not a material uncertainty would be useful. Any examples could consider highlighting the likelihood of an event or condition occurring and the significance of the event.</p>

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

R #	C #	<i>Responses to Question 1 (Material Uncertainties)</i>
		<p>We support the alignment of the requirements in accounting standards with the requirements in auditing standards for auditors to assess the adequacy of going concern disclosures. Given it is those charged with governance who are ultimately responsible for providing reliable and relevant information in the financial statements, aligning auditing requirements with NZ IFRS and PBE Standards requirements removes ambiguity around what must be disclosed.</p> <p>We believe the proposed ED 2020-2 could be improved by prescribing the specific minimum period in the future to be considered when making the going concern assessment. PBE IPSAS 1 and the auditing standards require that the period to be considered when making the assessment as to an entity's ability to continue as a going concern is at least 12 months following the approval of the financial statements. However, NZ IAS 1 refers to the period 12 months following the end of the reporting period. NZ IAS 10 refers to the requirement to continuously assess the going concern assumption up until the date of authorisation of the financial statements, but it doesn't make it clear that this requires consideration of at least 12 months from the date of authorisation of the financial statements. We see no specific reason for a difference between for-profit and PBE standards for financial reporting. As such, NZASB may consider clarifying the requirement that this period is at least 12 months following the date the financial statements are authorised for issue.</p>
R4	A	<p>Proposed paragraphs 12A.1 / 41.1 would apply in situations where events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, and a material uncertainty does exist, but the use of the going concern basis of accounting is appropriate.</p> <p>The proposed paragraphs are based on paragraph 19 of ISA (NZ) 570 (Revised) <i>Going Concern</i> which does prescribe specific disclosure requirements. Therefore, we agree with this proposal. However, it is not clear what "significant doubt" means or how it differs from "material uncertainty". We encourage the NZASB to explore alternative terminology related to the application of significant judgement in forming a view that there is a material uncertainty.</p>
R5	-	-
R6	A	<p>We support the Board's proposals to introduce more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties as this will align the disclosure requirements under the accounting and the auditing standards. However, we believe that the EDs should include additional specific disclosure requirements on certain aspects to help preparers provide more useful and meaningful information in the financial statements. We have noted the following comments for the Board to consider in finalising the proposed disclosures under FRS 44.12A.1 and 12A.2:</p> <ol style="list-style-type: none"> 1) The specific disclosure requirements under point (a) to (d) under FRS 44.12A.1 align with the requirements under paragraph 20 of ISA (NZ) 570 (Revised) <i>Going Concern</i>. However, there are no specific requirements to disclose the following:

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

R #	C #	<i>Responses to Question 1 (Material Uncertainties)</i>
		<p>a) Management’s evaluation of the significance of the events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern;</p> <p>b) Significant judgements and assumptions made by management in their going concern assessment including their determination of whether there are material uncertainties.</p> <p>We believe that it is important to include the above-mentioned specific disclosure requirements as it will help the preparers of financial statements to disclose all the facts regarding the going concern assessment. The proposed disclosure requirements in the EDs along with our suggested additions will help the users of the financial statements understand the following:</p> <p>a) The nature of events or conditions that may cast significant doubt upon the entity’s ability to make the going concern;</p> <p>b) Management’s evaluation of the significance of such events or conditions on the entity’s business</p> <p>c) Management’s plans to mitigate the adversity expected to be caused by such events or conditions</p> <p>d) Any significant judgements and assumptions involved in determining why the material uncertainty remains and why the going concern assumption is still appropriate.</p> <p>We have included the proposed wording in Appendix 2 that the Board may consider using in place of the current FRS 44.12A.1 and 12A.2 wording.</p> <p>2) It is not clear to us whether the Board intended to propose the disclosure requirements in FRS 44.12A.2 for ‘close-call’ situations only or in respect of both material uncertainties and ‘close-call’ situations. The ambiguity stems from the wording in paragraphs 14 and 27 of the Invitation to Comment - paragraph 27 states that FRS 44.12A.2 intends to cover only ‘close-call’ situations, while paragraph 14 notes that the general disclosure requirements of NZ IAS 1.122 apply when significant judgement is applied to both material uncertainties and ‘close-call’ situations.</p> <p>We acknowledge that the current requirements under NZ IAS 1.122 require an entity to disclose all the significant judgements applied in preparation of the financial statements. However, we believe that by not stating all the specific disclosure requirements under FRS 44.12A.1, the EDs may fail to achieve their overall objective, i.e., to provide more specific disclosure requirements around material uncertainties and ‘close-call’ situations.</p> <p>Therefore, we believe that the significant judgements (NZ IAS 1.122) and assumptions (NZ IAS 1.125) considered in the going concern assessment should be disclosed for both material uncertainties and ‘close-call’ situations.</p> <p>3) We have also noted that Australian Accounting Standard Board and Auditing and Assurance Standard Board have issued a joint publication in May 2020 which addresses the impact of COVID-19 on going concern and related assessments (Click here for the Joint Publication). Pages 17 and 18 of the joint publication provides suggested disclosure items under the different scenarios of</p>

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

R #	C #	<i>Responses to Question 1 (Material Uncertainties)</i>
		<p>the going concern assessment. We suggest the Board considers including similar items either under FRS 44 and PBE IPSAS 1 or in a guidance note which supplements the proposed disclosure requirements under the EDs. That may help the preparers of financial statements to understand the practical application of the proposed disclosure requirements in the EDs.</p>
R7	-	-
R8	-	-
R9	P	<p>As stated in our above cover letter, we support the proposed disclosures that reiterate the existing requirements in the New Zealand Accounting Standards.</p> <p>We note from paragraph 4 of both EDs, the NZASB’s focus on aligning the requirements in accounting standards with the requirements in auditing standards. In principle, we do not believe financial reporting requirements should be influenced by requirements in auditing standards, and accordingly our preference (as stated in the cover letter) that any improvements in going concern disclosures should be addressed by the IASB. However, as these proposals are simply reiterating existing disclosure requirements in New Zealand Accounting Standards, we recommend using the same terminology in paragraph 19(b) of ISA (NZ) 570 <i>Going Concern</i> for the disclosure proposed in paragraph 12A.1(d) of ED 2020-2 and paragraph 41.1(d) of ED 2020-3 as follows:</p> <p>“that as a result of material uncertainties related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business”.</p>
R10	A	<p>The current NZ IFRS and PBE Standard frameworks do not provide sufficient guidance for preparers around the disclosures required around the going concern assessment, when the entity has material uncertainties around going concern or when the preparers have applied significant judgement re this.</p> <p>This leads to significant tension between prepares of the financial statements and their auditors (who do have sufficient guidance via the auditing standards, ISA NZ) 570, in particular).</p> <p>(This applied to both Tier 1 and Tier 2 entities of both frameworks)</p> <p>This is proving especially challenging in the COVID-19 world that we find ourselves in at present.</p> <p>The proposed amendments contained in the above mentioned EDs provide users with a much more certain framework to assess what disclosures should be provided around going concern if there are material uncertainties or significant judgements applied in the determination of the assessment of going concern.</p>

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

ED NZASB 2020-2 and ED NZASB 2020-3 Summary of submissions received by question	
Question 2	
Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion? If you disagree, please explain why.	
Category (C#)	Total
A – Agree (R2, R3, R6, R9, R10)	5
C – Disagree (R4)	1
Total of those providing comments	6

R #	C #	Responses to Question 2 (Significant Judgement)
R1a	-	-
R2	A	<p>We agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion to better align with the requirements of para 20 of ISA (NZ) 570 (revised).</p> <p>However, we suggest that the last sentence of para 41.2 be amended to read:</p> <p>41.2 ... To the extent not already disclosed in accordance with paragraphs 137 and 140 of this Standard, where an entity prepares its financial report on a going concern basis, and those responsible for the preparation of financial reports are aware of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, it shall disclose information about the significant judgements and assumptions made as part of its assessment of whether <u>that</u> the going concern assumption is appropriate.</p> <p>We think it aligns better with the requirements of para 20 of ISA (NZ) 570 (revised) that no material uncertainty exists and the going concern assumption remains appropriate.</p>
R3	A	<p>We agree with the proposals. The ability of an entity to continue as a going concern is a fundamental assumption in preparing financial statements. Where this assessment requires significant judgement, it is important that users of the financial statements are aware of this fact. It is also important that users understand management’s rationale in reaching the conclusion that no material</p>

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

R #	C #	<i>Responses to Question 2 (Significant Judgement)</i>
		<p>uncertainty exists. These additional details may provide useful input to inform the thinking of the users. Having it clearly stated in FRS 44 / PBE IPSAS 1 will support the appropriate disclosure.</p> <p>As noted above, we believe it could be difficult to distinguish between when there is a material uncertainty and when there is no material uncertainty, but that significant judgement was required, and thus believe an example should be included.</p>
R4	D	<p>Proposed paragraphs 12A.2 / 41.2 would apply to situations where events or conditions are identified that may cast significant doubt on the entity’s ability to continue as a going concern, but the use of the going concern basis of accounting is appropriate. However, there is no indication that they would only apply to situations where the conclusion is that a material uncertainty does <i>not</i> exist. So, as currently drafted, they would apply alongside proposed paragraphs 12A.1 / 41.1 when a material uncertainty does exist, as well as in isolation when a material uncertainty does not exist. It is not clear whether the intention is for the two proposed paragraphs to be mutually exclusive. Given significant judgement would be applied in reaching a conclusion as to whether a material uncertainty does or does not exist, we do not believe the two proposed paragraphs should be mutually exclusive.</p> <p>The proposed paragraphs are based on paragraph 20 of ISA (NZ) 570 (Revised) <i>Going Concern</i> which states “<i>in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions</i>”. In our view, the auditing standard does not prescribe specific disclosure requirements. Likewise, we do not believe proposed paragraphs 12A.2 / 41.2 introduce more specific disclosure requirements in the accounting standard. They appear to serve as a reminder that the existing disclosure requirements in paragraphs 122 and 125 of NZ IAS 1 <i>Presentation of Financial Statements</i> / paragraphs 137 and 140 of PBE IPSAS 1 <i>Presentation of Financial Statements</i> apply in the context of making the going concern assessment. Therefore, we are not convinced that these proposed paragraphs add value.</p>
R5	-	-
R6	A	<p>We support the Board’s intention to introduce more specific disclosure requirements in the ‘close-call’ situations. However, we believe that the proposed disclosure requirements under FRS 44.12A.2 may not achieve the objective of the EDs.</p> <p>FRS 44.12A.2 does not require the preparers to disclose any specific detailed information around ‘close-call’ situations (e.g., details of events or conditions that may cast significant doubt upon an entity’s ability to continue as a going concern or management’s assessment or plans to mitigate the adverse impact of such events or conditions). Instead, FRS 44.12A.2 refers only to the existing disclosure requirements as required under the paragraphs 122 and 125 of NZ IAS 1.</p> <p>In our view, it is equally important to provide specific disclosures in ‘close-call’ situations. Enhanced disclosure will assist the preparers of financial statements to provide relevant and transparent information to users of the financial statements in these</p>

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

R #	C #	Responses to Question 2 (Significant Judgement)
		<p>situations as well. We suggest the Board considers including the following specific disclosure requirements in the ‘close-call’ situations:</p> <ul style="list-style-type: none"> a) Details events or conditions that may cast significant doubt about entity’s ability to continue as a going concern and the management’s evaluation of their significance in relation to the going concern assessment; b) Management’s plan to mitigate the effect of these events of conditions; and c) Significant judgements and assumptions made by the management in its going concern assessment. <p>We also believe that the significant judgements (NZ IAS 1.122) and assumptions (NZ IAS 1.125) considered in the going concern assessment should be disclosed for both material uncertainties and ‘close-call’ situations – see comments under Question 1.</p> <p>We have included the proposed wording in Appendix 2 that the Board may consider using in place of the current FRS 44.12A.1 and 12A.2 wording.</p> <p>Appendix 2: Proposed wording for FRS 44.12A.1 and 12A.2</p> <p><i>12A.1 An entity shall disclose the following information either when material uncertainties are considered in the going concern assessment or when no material uncertainties exist but reaching that conclusion involved significant judgement:</i></p> <ul style="list-style-type: none"> — <i>details of events or conditions that may cast significant doubt about entity’s ability to continue as a going concern and management’s evaluation of their significance in relation to the going concern assessment;</i> — <i>management’s plans to mitigate the effect of these events or conditions; and</i> — <i>significant judgements and assumptions made by management in their going concern assessment, including their determination of whether there are material uncertainties.</i> <p><i>12A.2 If a material uncertainty exists in relation to the going concern assessment, an entity shall explicitly state that there is a material uncertainty related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.</i></p>
R7	-	-
R8	-	-

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

<i>R #</i>	<i>C #</i>	<i>Responses to Question 2 (Significant Judgement)</i>
R9	A	As stated in our above cover letter, we support the proposed disclosures that reiterate the existing requirements in the New Zealand Accounting Standards.
R10	A	<p>(response repeated from Q1)</p> <p>The current NZ IFRS and PBE Standard frameworks do not provide sufficient guidance for preparers around the disclosures required around the going concern assessment, when the entity has material uncertainties around going concern or when the preparers have applied significant judgement re this.</p> <p>This leads to significant tension between prepares of the financial statements and their auditors (who do have sufficient guidance via the auditing standards, ISA NZ) 570, in particular).</p> <p>(This applied to both Tier 1 and Tier 2 entities of both frameworks)</p> <p>This is proving especially challenging in the COVID-19 world that we find ourselves in at present.</p> <p>The proposed amendments contained in the above mentioned EDs provide users with a much more certain framework to assess what disclosures should be provided around going concern if there are material uncertainties or significant judgements applied in the determination of the assessment of going concern.</p>

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

ED NZASB 2020-2 and ED NZASB 2020-3 Summary of submissions received by question	
Question 3	
Do you agree with the proposed effective date of the amendments? If you disagree please explain why.	
Category (C#)	Total
A – Agree (R2, R3, R4, R6, R10)	5
D – Disagree	0
Total of those providing comments	5

R #	C #	Responses to Question 3 (Effective date)
R1a		-
R2	A	We agree with the proposed effective date for annual financial periods ending on or after 30 September 2020. We note that it is proposed that earlier application of the amendments is permitted. As the proposed disclosures will be useful for entities reporting on the impact of Covid-19 on their going concern considerations, we recommend that early application of the amendments should be encouraged.
R3	A	Yes, we agree with the proposed effective date. While it is generally appropriate to provide entities with longer period to incorporate the requirements of an amendment in their financial reporting, the current environment calls for a more immediate effective date. Currently, many entities in both for-profit and PBE sectors are facing significant challenges and uncertainty. As such, the proposed amendments are expected to be relevant to entities and the users of their financial statements.
R4	A	We agree with the proposed effective date of the amendments being accounting periods ending on or after 30 September 2020, with early adoption permitted.
R5	-	-
R6	A	We support the Board’s proposed effective date of the amendments.
R7	-	-
R8	-	-

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

<i>R #</i>	<i>C #</i>	<i>Responses to Question 3 (Effective date)</i>
R9	-	-
R10	A	We are also supportive of the proposed effective date and the allowance for earlier application.

ED NZASB 2020-2 and ED NZASB 2020-3 Summary of submissions received by question	
Question 4	
Do you agree that there should be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment?	
Category (C#)	Total
A – Agree (R2, R3, R4, R6, R7, R10)	6
C – Disagree	0
Total of those providing comments	6

<i>R #</i>	<i>C #</i>	<i>Responses to Question 4 (Disclosure concessions for Tier 2)</i>
R1a		-
R2	A	We agree there should be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment.
R3	A	We agree there should be no disclosure concessions for Tier 2 entities. As noted above, we believe the entity’s ability to continue as a going concern is a fundamental assumption when preparing the financial statements. As such, we believe the proposed disclosures would be useful to users irrespective of size and public accountability of the entity and that the cost of providing these disclosures would not outweigh such benefits.
R4	A	We agree that there should be no disclosure concessions for Tier 2 entities as the requirements in the auditing standards are the same regardless of what tier the entity reports under.
R5	-	-
R6	A	We support the Board’s proposal that there should not be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment.

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

R #	C #	Responses to Question 4 (Disclosure concessions for Tier 2)
R7	A	The issue of guidance also led me to think about the proposal not to make disclosure concessions for Tier-2 entities because of the extent to which the going concern assessment (and uncertainties about the future) is likely to impact beyond just Tier-1 entities. However, this decision underlines the need for more guidance to be provided to preparers – with a particular emphasis on Tier-2 entities. In part, any such guidance should reflect not only the different resourcing and skillsets available to management in entities below Tier-1 but also the likelihood that the audience for those financial statements may have different resources, skillsets and needs.
R8	-	-
R9	-	-
R10	A	We believe the assessment of the going concern assumption to be fundamental to the preparation of financial statements, so fully agree that no Tier 2 disclosure concessions be provided for these disclosures.

ED NZASB 2020-2 and ED NZASB 2020-3 Summary of submissions received by question	
Question 5	
Are there any other issues in relation to going concern concessions that you would like considered in the future?	
Category (C#)	Total
I – Lobby international board(s)	2
N – No issues	3
Total of those providing comments	5

The classifications for question 5 are:

- I Issue – lobby international Boards
- N No issues
- No response

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

<i>R #</i>	<i>C #</i>	<i>Responses to Question 5 (Issues for future consideration)</i>
R1a	-	-
R2	N	We have no other issues in relation to going concern disclosures that we wish to raise at this time.
R3	N	We do not have any further comments.
R4	I	This is not a New Zealand specific issue therefore our preference is for this to be an international standard setting project. However, we believe a timely response is required and therefore support the NZASB taking it on as a domestic project in the interim. We note that the AASB has decided not to conduct an equivalent project, so there will not be trans-Tasman harmonisation in this regard. We will be raising this issue in our submission to the IASB on ED/2019/7 <i>General Presentation and Disclosures</i> whilst NZ IAS 1 Presentation of Financial Statements is open for revision. Likewise, we encourage the NZASB to continue working with the IASB and the IPSASB to achieve accounting standards change in this area.
R5	-	-
R6	N	We do not have any other issues in relation to going concern disclosures for the Board's considerations. However, we will continue to assess the situation and will share our suggestions (if any) to the Board in the future.
R7	-	-
R8	-	-
R9	I	CPA Australia agrees with the AASB's views expressed in its Action Alert that any improvements to going concern assessments and disclosures should be undertaken by the International Accounting Standards Board (IASB). In particular, we note there are no current requirements that specify the basis of accounting to a set of financial statements when the going concern basis does not apply. CPA Australia also agrees with the AASB's Action Alert that the IASB should undertake a fundamental review of the requirements related to going concern assessments, disclosures and the basis of accounting where the going concern assumption is no longer appropriate. In principle, we do not believe financial reporting requirements should be influenced by requirements in auditing standards, and accordingly our preference (as stated in the cover letter) that any improvements in going concern disclosures should be addressed by the IASB.
R10	-	-

Detailed analysis of submissions on Going Concern Disclosures for NZASB ED 2020-2 and NZASB ED 2020-3

ED NZASB 2020-2 and ED NZASB 2020-3 Summary of submissions received by question
Question 6
Do you have any other comments on the proposals in this ED?

R #	Responses to Question 6 (Other comments)
R1a	-
R2	We agree with the similar disclosures proposed for for-profit entities in FRS-44 and our comments on NZASB ED 2020-3 also apply to NZASB ED 2020-2.
R3	We note that the amendments to PBE IPSAS 1 include a footnote reference that the term 'management' is referring to the person / committee responsible for the financial statements. There is no similar reference in the FRS 44 amendments that refer to management assessing the entities ability to continue as a going concern. Any considerations made regarding going concern should ultimately rest with those charged with governance that have responsibility for the financial statements. Therefore, we believe the reference to 'management' should be clear that it relates to those responsible for the financial statements, in most cases being those charged with governance. Otherwise, we do not have any further comments.
R4a	Thank you for the opportunity to provide our submission. We have covered both ED 2020-2 and ED 2020-3 in a single submission document. Another comment we want to make outside our formal submission is about the difference between the requirements of NZ IAS 1 and PBE IPSAS 1 in relation to prescribing the period management should consider when making a going concern assessment. NZ IAS 1 paragraph 26 states 12 months from the end of the reporting period which should be reconsidered and aligned with the requirements of PBE IPSAS 1 paragraph 39 and NZ ISA 570.
R5	-
R6	We do not have any other comments on the proposals in the EDs.
R7	-
R8	-
R9	-
R10	-

GOING CONCERN DISCLOSURES



GOING CONCERN DISCLOSURES (AMENDMENTS TO FRS-44)

Issued [Date]

This Standard was issued on 20 August 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 17 September 2020.

Reporting entities that are subject to this Standard are required to apply the Standard in accordance with the effective date set out in Part D.

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

This Tier 1 and Tier 2 For-profit Accounting Standard has been issued to establish more specific going concern disclosure requirements when material uncertainties exist or significant judgements were made when assessing the appropriateness of applying the going concern basis of preparation. The more specific disclosure requirements will assist preparers of financial statements to provide relevant and transparent information to users of financial statements in these circumstances, which is particularly relevant as a result of the COVID-19 pandemic in 2020.

GOING CONCERN DISCLOSURES

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GOING CONCERN DISCLOSURES

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GOING CONCERN DISCLOSURES

Part A – Introduction

This Standard sets out amendments to FRS-44 *New Zealand Additional Disclosures*.

The amendments introduce more specific disclosure requirements about going concern assessments to help preparers of financial statements to provide relevant and transparent information to users of those financial statements about the matters considered when making such assessments.

Tier 2 for-profit entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments to FRS-44 *New Zealand Additional Disclosures*

Paragraphs 12A.1 and 12A.2, and a section heading, are added. Paragraph 20 is added. New text is underlined.

Going concern disclosures

12A.1 When preparing financial statements, paragraph 25 of NZ IAS 1 *Presentation of Financial Statements* requires management to make an assessment of an entity's ability to continue as a going concern. It requires an entity to prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. Furthermore, when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, paragraph 25 of NZ IAS 1 requires disclosure of those uncertainties. When such material uncertainties exist, to the extent not already disclosed in accordance with paragraph 25 of NZ IAS 1, an entity that prepares its financial statements on a going concern basis shall disclose:

- (a) that there are one or more material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;
- (b) information about the principal events or conditions giving rise to those material uncertainties;
- (c) information about management's plans to mitigate the effect of those events or conditions; and
- (d) that, as a result of those material uncertainties, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

12A.2 Paragraph 122 of NZ IAS 1 requires an entity to disclose the judgements, apart from those involving estimations (see paragraph 125 of NZ IAS 1), that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements. Paragraph 125 of NZ IAS 1 requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. To the extent not already disclosed in accordance with paragraphs 122 and 125 of NZ IAS 1, where an entity prepares its financial statements on a going concern basis, and management is aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, it shall disclose information about the significant judgements and assumptions made as part of its assessment of whether the going concern assumption is appropriate.

...

Effective date

...

- 20 *Going Concern Disclosures* (Amendments to FRS-44), issued in August 2020, added paragraphs 12.A1–12.A2 and the related heading. An entity shall apply those amendments for annual periods ending on or after 30 September 2020. Earlier application is permitted.

In the NZASB Basis for Conclusions, paragraph BC5 is added.

Going concern disclosures

- BC5 In June 2020 the NZASB issued ED 2020-2 *Going Concern Disclosures* (Proposed amendments to FRS-44). The NZASB noted that the COVID-19 pandemic in 2020 resulted in significant business disruption and uncertainties for many entities and led to an increased interest in going concern disclosures. The NZASB was of the view that more specific going concern disclosure requirements would help preparers of financial statements when applying existing disclosure requirements to provide relevant and transparent information to investors, lenders and other users of those financial statements in these circumstances, both in the current environment and in the future. The NZASB considered that the matter was of sufficient importance, and users' need for information is sufficiently urgent, to propose New Zealand-specific disclosures. Constituents were broadly supportive of the proposals, although some would have preferred that the matter be addressed by international bodies. The NZASB finalised these amendments in August 2020.

Part D – Effective Date

This Standard shall be applied for annual periods ending on or after 30 September 2020. Earlier application is permitted.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 13 August 2020

To: Michele Embling, Chair External Reporting Board

From: Michael Bradbury, Acting Chair NZASB

Subject: *Going Concern Disclosures (Amendments to FRS-44)*

Introduction¹

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *Going Concern Disclosures (Amendments to FRS-44)* for application by Tier 1 and Tier 2 for-profit entities.
2. FRS-44 *New Zealand Additional Disclosures* specifies additional disclosures for entities applying NZ IFRS. FRS-44 was developed by the Financial Reporting Standards Board, the predecessor to the NZASB.
3. The amending standard proposes to introduce more specific going concern disclosure requirements with respect to situations where management has determined that the going concern basis of preparation is appropriate and either:
 - (a) material uncertainties were considered in forming this view; or
 - (b) significant judgement was applied in forming this view.
4. Motivated by the economic effects of the COVID-19 pandemic, the NZASB has added certain going concern disclosures to FRS-44 to facilitate the provision of relevant and transparent information to users of financial statements in times of increased uncertainty. The amendments will more closely align the accounting standards with requirements in the auditing standards (for auditors to assess the adequacy of going concern disclosures). The benefits of introducing more specific going concern disclosure requirements are expected to endure over the long term.

Due process

5. The due process followed in developing and finalising the amendments is set outlined below.
6. Prior to issuing an exposure draft the NZASB consulted with a number of constituents and interested parties to ensure that the issues were fully understood and the standard amended in a way that would adequately address the issues raised by constituents. We consulted with

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).

the TRG, the NZAuASB, XRAP, and staff of the FMA, Australian Accounting Standards Board (AASB) and the International Accounting Standards Board (IASB).

- (a) The TRG and the NZAuASB both indicated strong support for the proposals. A member of the NZAuASB suggested that the NZASB seek feedback from lawyers and banks. We subsequently received three submissions from lawyers.
 - (b) XRAP met in May 2020. From a preparer perspective, some XRAP members voiced concerns about the potential impact on an entity of highlighting uncertainties about going concern. Some also had more general concerns about New Zealand-specific disclosures from an international competitiveness perspective.
 - (c) An XRAP member, and also AASB staff, raised the issue of trans-Tasman harmonisation, when additional disclosures are required for Australian entities who are required to file their financial statements in New Zealand. This matter is discussed below.
7. We received feedback from IASB staff. They suggested minor amendments to the proposed wording and referenced the IFRS Interpretations Committee agenda decisions² which were issued in response to queries about going concern disclosure requirements in IAS 1 Presentation of Financial Statements.
 8. The NZASB noted the existence of the IFRIC agenda decisions but felt that the feedback it had received regarding the importance of clear going concern disclosure requirements and clear going concern disclosures warranted proceeding to issue an exposure draft. The NZASB highlighted the existence of the IFRIC agenda decisions in the Invitation to Comment that accompanied the ED.
 9. The NZASB has indicated that it intends to seek opportunities to influence the IASB to add a project on going concern (which could be broader than just disclosure) to its Work Plan.³ We note the support for this strategy in the two submissions from membership bodies.
 10. The NZASB issued for comment ED 2020-2 *Going Concern Disclosures* (Proposed amendments to FRS-44) in June 2020. The 45-day comment period closed on 24 July 2020. Although this is shorter comment period than the usual 90-day comment period, the NZASB considered that this still allowed sufficient time for constituents to comment, and would make it possible to finalise the proposed disclosure requirements in time for them to be applied in financial statements affected by the COVID-19 economic environment.
 11. The NZASB received eight formal submissions. Two constituents also provided online feedback (via the XRB website). Informal comments from a mid-tier accounting firm were also considered by the NZASB in its deliberations.

² IFRS Interpretations Committee Agenda Decisions on going concern disclosure (IAS 1):
 July 2010 <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-going-concern-disclosure-july-2010.pdf>

July 2014 <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-disclosure-requirements-relating-to-assessment-of-going-concern-jul-14.pdf>

³ The IASB's 2020 Agenda Consultation has been postponed to March 2021 due to the COVID-19 pandemic.

12. Almost all constituents indicated general support for the proposals. One online submitter was strongly opposed to the proposals and felt that the current international response through the IFRS Interpretations Committee was sufficient. Two submitters felt that the issue of going concern disclosures was not a New Zealand-specific and would be better dealt with on an international basis, but because the issue has not been picked up by the international boards both submitters ultimately supported the NZASB's proposals. Five of the formal submissions also covered ED 2020-3 *Going Concern Disclosures* (Proposed Amendments to PBE IPSAS 1).
13. The NZASB considered all the submissions and agreed that, on balance, there was substantial support for the proposed amendments across the New Zealand constituency and that the amendments would improve financial reporting in the current COVID reporting environment, and provide ongoing benefits when the economic effects of COVID-19 have passed.
14. The NZASB has approved *Going Concern Disclosures* (Amendments to FRS-44). The amendments are effective for accounting periods ending on or after 30 September 2020, with early adoption permitted.
15. 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.
16. 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

17. The amending standard is a standard in its own right. This amending standard will be applicable for Tier 1 and Tier 2 for-profit entities.
18. *Going Concern Disclosures* (Amendments to FRS-44) is a domestic standard that establishes disclosure requirements and will result in the going concern disclosure requirements in accounting standards being more aligned with the requirements in auditing standards (for auditors to assess the adequacy of going concern disclosures).
19. Motivated by the effect of the COVID-19 pandemic on the New Zealand economy, the NZASB felt there was an urgent need for improvements to financial reporting to reflect the impact of COVID-19 on New Zealand reporting entities. This was further supported by the New Zealand constituency and provided the NZASB with the mandate to go ahead with including more specific going concern disclosures in FRS-44. The AASB and the Australian Auditing and Assurance Standards Board (AUASB) have recently issued guidance on going concern disclosures.⁴ The AASB considered starting a project similar to this New Zealand project but

⁴ *The Impact of COVID-19 on Going Concern and Related Assessments*: A joint publication by the AASB and AUASB; May 2020. https://www.aasb.gov.au/admin/file/content102/c3/AASB-AUASB_TheImpactOfCOVID19_05-19.pdf

elected not to because it would not assist Australian entities with 30 June balance dates (this is the main balance date in Australia).

20. The AASB was concerned about the effect of these proposals on entities complying with Australian Accounting Standards which have a requirement to file their financial statements in New Zealand and have not made the going concern disclosures in FRS-44.
21. Staff contacted the FMA staff who are supportive of the additional requirements for issuers in relation to going concern disclosure and to aligning the requirements in New Zealand accounting and auditing standards.
22. The FMA staff also noted that in terms of the impact of the proposed change on existing FMA exemptions, as the proposed new requirements are additional to IFRS, the FMA continue to be comfortable with the policy basis in our existing exemptions for accepting financial statements that comply with Australian GAAP.

RDR concessions

23. The NZASB considers that the more specific going concern disclosures will provide useful and important information for the users of financial statements of both Tier 1 and Tier 2 entities. Consequently, no disclosure concessions are proposed for Tier 2 entities. All six respondents who commented on this question in their submissions agreed with this proposal.

Effective date

24. The amending standard will be applicable for annual reporting periods ending on or after 30 September 2020. Earlier application is permitted. All five respondents who commented on this question agreed with this proposal.

Other matters

25. 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

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

Attachments

Going Concern Disclosures (Amendments to FRS-44)

Certificate of determination

Michael Bradbury

Acting Chair NZASB



GOING CONCERN DISCLOSURES (AMENDMENTS TO PBE IPSAS 1)

Issued August 2020

This Standard was issued on 20 August 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 17 September 2020.

Reporting entities that are subject to this Standard are required to apply the Standard in accordance with the effective date set out in Part D.

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

This Tier 1 and Tier 2 PBE Standard has been issued to establish more specific going concern disclosure requirements when material uncertainties exist or significant judgements were required when assessing the appropriateness of applying the going concern basis of preparation. The more specific disclosure requirements will assist preparers of financial reports to provide relevant and transparent information to users of financial reports in these circumstances, which is particularly relevant as a result of the COVID-19 pandemic in 2020.

GOING CONCERN DISCLOSURES

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GOING CONCERN DISCLOSURES

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GOING CONCERN DISCLOSURES

Part A – Introduction

This Standard sets out amendments to PBE IPSAS 1 *Presentation of Financial Reports*.

The amendments introduce more specific disclosures about going concern assessments to help preparers of financial reports to provide relevant and transparent information to users of those financial reports about the matters considered when making such assessments.

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

Part B – Scope

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

Part C – Amendments to PBE IPSAS 1 *Presentation of Financial Reports*

Paragraphs 41.1 and 41.2, and a section heading, are added. Paragraphs 38 to 41 are shown for context. Paragraph 154.13 is added. New text is underlined.

Going Concern

38. **When preparing a financial report, an assessment of an entity’s ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of the financial report. Financial reports shall be prepared on a going concern basis unless intends to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial report are aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, those uncertainties shall be disclosed. When financial reports are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial report is prepared and the reason why the entity is not regarded as a going concern.**
39. Financial reports are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial reports take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial report.
40. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the entity is nonetheless a going concern. For example:
- (a) In assessing whether a government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern, even though they may operate for extended periods with negative net assets/equity; and
 - (b) For an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the entity.
41. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of the financial report may need to consider a wide range of factors relating to (a) current and expected performance, (b) potential and announced restructurings of organisational units, (c) estimates of revenue or the likelihood of continued revenue streams, including government funding and the donation base, and (d) potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

GOING CONCERN DISCLOSURES

Going Concern Disclosures

41.1 Paragraph 38 of this Standard requires disclosure of material uncertainties related to events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern. When such material uncertainties exist, to the extent not already disclosed in accordance with paragraph 38 of this Standard, an entity that prepares its financial report on a going concern basis shall disclose:

- (a) that there are one or more material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;
- (b) information about the principal events or conditions giving rise to those material uncertainties;
- (c) information about the plans of those responsible for governance to mitigate the effect of those events or conditions; and
- (d) that, as a result of those material uncertainties, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

41.2 Paragraph 137 of this Standard requires an entity to disclose the judgements, apart from those involving estimations (see paragraph 140), that management* has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial reports. Paragraph 140 of this Standard requires an entity to disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. To the extent not already disclosed in accordance with paragraphs 137 and 140 of this Standard, where an entity prepares its financial report on a going concern basis, and those responsible for the preparation of financial reports are aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, it shall disclose information about the significant judgements and assumptions made as part of its assessment of whether the going concern assumption is appropriate.

* In this context, management is the person/committee responsible for the financial report.

...

Effective Date

...

154.13 *Going Concern Disclosures* (Amendments to PBE IPSAS 1), issued in August 2020, added paragraphs 41.1–41.2 and the related heading. An entity shall apply those amendments for annual financial periods ending on or after 30 September 2020. Earlier application is permitted.

In the Basis for Conclusions, paragraph BC13 is added.

Going Concern Disclosures

BC13 In June 2020 the NZASB issued ED 2020-3 *Going Concern Disclosures* (Proposed amendments to PBE IPSAS 1). The NZASB noted that the COVID-19 pandemic in 2020 resulted in significant disruption and uncertainties for many entities and led to an increased interest in going concern disclosures. The NZASB was of the view that more specific going concern disclosure requirements would help preparers of financial reports when applying existing disclosure requirements to provide relevant and transparent information to resource providers and other users of financial reports in these circumstances, both in the current environment and in the future. The NZASB considered that the matter was of sufficient importance, and users' need for information is sufficiently urgent, to propose New Zealand-specific disclosures. Constituents were broadly supportive of the proposals, although some would have preferred that the matter be addressed by international bodies. The NZASB finalised these amendments in August 2020.

Part D – Effective Date

This Standard shall be applied for annual periods ending on or after 30 September 2020. Earlier application is permitted.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 13 August 2020

To: Michele Embling, Chair External Reporting Board

From: Michael Bradbury, Acting Chair NZASB

Subject: *Going Concern Disclosures (Amendments to PBE IPSAS 1)*

Introduction¹

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *Going Concern Disclosures (Amendments to PBE IPSAS 1)* for application by Tier 1 and Tier 2 public benefit entities.
2. PBE IPSAS 1 *Presentation of Financial Reports* specifies disclosure requirements for entities applying PBE Standards.
3. The amending standard proposes to introduce more specific going concern disclosure requirements with respect to situations where management has determined that the going concern basis of preparation is appropriate and either:
 - (a) material uncertainties were considered in forming this view; or
 - (b) significant judgement was applied in forming this view.
4. Motivated by the economic effects of the COVID-19 pandemic, the NZASB has added certain going concern disclosures to PBE IPSAS 1 to facilitate the provision of more relevant and transparent information to users of financial statements in times of uncertainty. The amendments will more closely align the accounting standards with requirements in the auditing standards (for auditors to assess the adequacy of going concern disclosures). The benefits of more specific going concern disclosure requirements are expected to endure over the long term.

Due process

5. The due process followed in developing and finalising the amendments is set outlined below.

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. Prior to issuing an exposure draft the NZASB consulted with a number of constituents and interested parties to ensure that the issues were fully understood and the standard amended in a way that would adequately address the issues raised by constituents. We consulted with the TRG, the NZAuASB, and XRAP on going concern issues as they related to PBE entities.
 - (a) The TRG and the NZAuASB both indicated strong support for the proposals.
 - (b) XRAP met in May 2020. From a preparer perspective, some XRAP members voiced concerns about the potential impact on an entity of highlighting uncertainties about going concern.
7. We received feedback from IASB staff. They suggested minor amendments to the proposed wording for the for-profit amendments upon which the PBE IPSAS 1 amendments were based, and referenced the IFRIC agenda decisions² which were issued in response to queries about disclosure requirements in IAS 1 Presentation of Financial Statements. The NZASB noted the existence of the IFRIC agenda decisions but felt that the feedback it had received regarding the importance of clear going concern disclosure requirements and clear going concern disclosures warranted proceeding to issue an exposure draft for amendments to PBE IPSAS 1. The NZASB highlighted the existence of the IFRIC agenda decisions in the Invitation to Comment that accompanied the ED.
8. The NZASB has indicated that it intends to continue to seek to influence the IPSASB and the IASB to add a project on going concern (which could be broader than just disclosure) to its Work Plan.³ We note there was the support for this strategy in two submissions from membership bodies.
9. The NZASB issued for comment ED 2020-3 *Going Concern Disclosures* (Proposed amendments to PBE IPSAS 1) in June 2020. At the same time the NZASB also issued ED 2020-2 *Going Concern Disclosures* (Proposed Amendments to FRS-44) which proposed equivalent disclosures in FRS-44 *New Zealand Additional Disclosures*. The 45-day comment period closed on 24 July 2020. Although this is shorter comment period than the usual 90-day comment period, the NZASB considered that this still allowed sufficient time for constituents to comment, and would make it possible to finalise the proposed disclosure requirements in time for them to be applied in financial statements affected by the COVID-19 economic environment.
10. The NZASB received five formal submissions on ED 2020-3. One constituent also provided online feedback (via the XRB website). Informal comments from a mid-tier accounting firm were also considered by the NZASB in its deliberations.

² IFRS Interpretations Committee Agenda Decisions on going concern disclosure (IAS 1):
 July 2010 <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-going-concern-disclosure-july-2010.pdf>
 July 2014 <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-disclosure-requirements-relating-to-assessment-of-going-concern-jul-14.pdf>

³ The IASB's 2020 Agenda Consultation has been postponed to March 2021 due to the COVID-19 pandemic.

11. Almost all constituents indicated general support for the proposals. Two submitters felt that the issue of going concern disclosures was not New Zealand-specific and would be better dealt with on an international basis, but both still supported the NZASB's proposals. All five of the formal submissions also covered ED 2020-2 *Going Concern Disclosures* (Proposed Amendments to FRS-44).
12. The NZASB considered all the submissions and decided that, on balance, there was substantial support for the amendments across the New Zealand constituency and that the amendments would improve financial reporting in the current COVID reporting environment, and provide ongoing benefits when the economic effects of COVID-19 have passed.
13. The NZASB has approved *Going Concern Disclosures* (Amendments to PBE IPSAS 1). The amendments are effective for accounting periods ending on or after 30 September 2020, with early adoption permitted.
14. 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.
15. 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

16. The amending standard is a standard in its own right. This amending standard will be applicable for Tier 1 and Tier 2 public benefit entities.
17. *Going Concern Disclosures* (Amendments to PBE IPSAS 1) adds more specific disclosure requirements to PBE IPSAS 1 and will result in the going concern disclosure requirements in accounting standards being more aligned with the requirements in auditing standards (for auditors to assess the adequacy of going concern disclosures).
18. Motivated by the effect of the COVID-19 pandemic on the New Zealand economy, the NZASB felt there was an urgent need for improvements to financial reporting to reflect the impact of COVID-19 on New Zealand reporting entities. This was further supported by the New Zealand constituency and provided the NZASB with the mandate to go ahead with including more specific going concern disclosures in PBE IPSAS 1.

RDR concessions

19. The NZASB considers that the more specific going concern disclosures will provide useful and important information for the users of financial statements of both Tier 1 and Tier 2 entities. Consequently, no disclosure concessions are proposed for Tier 2 entities. All five PBE IPSAS 1 respondents who commented on this question in their submissions agreed with this proposal.

Effective date

20. The amending standard will be applicable for annual reporting periods ending on or after 30 September 2020. Earlier application is permitted. All five respondents who commented on this question agreed with this proposal.

Other matters

21. 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

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

Attachments

Going Concern Disclosures (Amendments to PBE IPSAS 1)

Certificate of determination

Michael Bradbury

Acting Chair NZASB

R1 Online Feedback

1. On NZASB ED 2020-2 Going Concern Disclosures (Proposed amendments to FRS-44)

R1a Joanna Perry, Non-executive Director and Audit Committee Chair of a number of organisations. Ex-Chair of FRSB.

I strongly disagree with this proposal. There is nothing in New Zealand that is unique about this issue. And from the documentation you have provided it is clear that the expectations (as indicated by Interpretations Committee) around disclosures are as proposed in this amendment to FRS 44. I strongly believe that New Zealandisation of the International Standards (if we are going to continue to use them) should ONLY occur for very exceptional New Zealand situations. This is NOT one.

I can't remember the last time I made a submission. I feel SO strongly about this.

2. On NZASB ED 2020-2 Going Concern Disclosures (Proposed amendments to FRS-44) and NZASB ED 2020-3 Going Concern Disclosures (Proposed amendments to PBE IPSAS 1)

R4a Zaryab Hyder, CA ANZ.

(website comments in addition to submission letter)

Thank you for the opportunity to provide our submission. We have covered both ED 2020-2 and ED 2020-3 in a single submission document.

Another comment we want to make outside our formal submission is about the difference between the requirements of NZ IAS 1 and PBE IPSAS 1 in relation to prescribing the period management should consider when making a going concern assessment. NZ IAS 1 paragraph 26 states 12 months from the end of the reporting period which should be reconsidered and aligned with the requirements of PBE IPSAS 1 paragraph 39 and NZ ISA 570.



10 July 2020

Michael Bradbury
Chair
New Zealand Accounting Standards Board
PO Box 11250
Manners Street Central
Wellington 6142

Dear Mike

NZASB ED 2020-3 *Going Concern Disclosures (Proposed amendments to PBE IPSAS 1)*
NZASB ED 2020-2 *Going Concern Disclosures (Proposed amendments to FRS-44)*

Thank you for the opportunity to comment on the New Zealand Accounting Standards Board's (NZASB's) exposure drafts on proposed amendments to PBE IPSAS 1 and FRS 44 on going concern disclosures.

Our responses to the questions are set out below in relation to NZASB ED 2020-3 *Going Concern Disclosures (Proposed amendments to PBE IPSAS 1)*. Given that the same questions are asked in NZASB ED 2020-2 *Going Concern Disclosures (Proposed amendments to FRS-44)*, our comments also apply to NZASB ED 2020-2.

Question 1

Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties? If you disagree, please explain why.

We agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties to better align with the requirements of para 19 of ISA (NZ) 570 (revised).

Question 2

Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion? If you disagree, please explain why.

We agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion to better align with the requirements of para 20 of ISA (NZ) 570 (revised).

However, we suggest that the last sentence of para 41.2 be amended to read:

41.2 ... To the extent not already disclosed in accordance with paragraphs 137 and 140 of this Standard, where an entity prepares its financial report on a going concern basis, and those responsible for the preparation of financial reports are aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, it shall

disclose information about the significant judgements and assumptions made as part of its assessment of whether that the going concern assumption is appropriate.

We think it aligns better with the requirements of para 20 of ISA (NZ) 570 (revised) that no material uncertainty exists and the going concern assumption remains appropriate.

Question 3

Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.

We agree with the proposed effective date for annual financial periods ending on or after 30 September 2020.

We note that it is proposed that earlier application of the amendments is permitted. As the proposed disclosures will be useful for entities reporting on the impact of Covid-19 on their going concern considerations, we recommend that early application of the amendments should be encouraged.

Question 4

Do you agree that there should be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment?

We agree there should be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment.

Question 5

Are there any other issues in relation to going concern disclosures that you would like to be considered in the future?

We have no other issues in relation to going concern disclosures that we wish to raise at this time.

Question 6

Do you have any other comments on the proposals in this ED?

We agree with the similar disclosures proposed for for-profit entities in FRS-44 and our comments on NZASB ED 2020-3 also apply to NZASB ED 2020-2.

If you have any questions about our submission, please phone Jacques Coetzee, Director, Accounting and Auditing Policy on 021 222 8316 or email him on Jacques.Coetzee@oag.parliament.nz.

Yours sincerely



Todd Beardsworth
Assistant Auditor-General, Audit Quality

21 July 2020

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

Dear Madam

NZASB Invitation to Comment on NZASB Exposure Draft 2020-2 (ED 2020-2) and NZASB Exposure Draft 2020-3 (ED 2020-3)

We are pleased to comment on the proposals set out in the NZASB Invitation to Comment *Exposure Drafts NZASB 2020-2: Going Concern Disclosures (Proposed amendments to FRS-44)* and *NZASB Exposure Draft 2020-3 Going Concern Disclosures (Proposed amendments to PBE IPSAS 1)*. We are encouraged by the NZASB's work to help preparers provide useful information to users and align the requirements in accounting standards with the requirements in auditing standards.

We believe that the more specific disclosure requirements contained in the proposed amendments will improve consistency of the disclosures for both public benefit entities and those in the for-profit sector. We believe ED 2020-2 could be improved to facilitate even greater alignment.

We have responded to your specific questions in the appendix attached.

Please do not hesitate to contact us should you have any queries. We also would be happy to meet with you to discuss our comments further.

Yours faithfully
Ernst & Young Limited



Simon O'Connor
Managing Partner

Appendix A - Response to specific ITC questions

Question 1. Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties? If you disagree, please explain why.

We support the NZASB's proposal to amend FRS 44 and PBE IPSAS 1 to introduce more specific disclosure requirements when an entity's going concern assessment has involved the consideration of material uncertainties. We believe users of the financial statements will benefit from the increased disclosures and the resulting increase in comparability of the financial statements. Information regarding the events or conditions giving rise to the material uncertainty and how an entity plans to mitigate the effect of those uncertainties will provide useful information to readers.

Disclosing that a material uncertainty could result in the entity being unable to realise assets and discharge its liabilities in the normal course of business will highlight the significance of the existence of the material uncertainty to the reader. We believe it will be important for entities to apply the requirements in FRS 44 para 12A.1 and PBE IPSAS 1 para 41.1 only when it is clear there are material uncertainties. Therefore, distinguishing between when an uncertainty is material and when an uncertainty is not material, but required significant judgement to reach that conclusion, may be difficult. The inclusion of an example, highlighting how an event or condition can require significant judgement, but is not a material uncertainty would be useful. Any examples could consider highlighting the likelihood of an event or condition occurring and the significance of the event.

We support the alignment of the requirements in accounting standards with the requirements in auditing standards for auditors to assess the adequacy of going concern disclosures. Given it is those charged with governance who are ultimately responsible for providing reliable and relevant information in the financial statements, aligning auditing requirements with NZ IFRS and PBE Standards requirements removes ambiguity around what must be disclosed.

We believe the proposed ED 2020-2 could be improved by prescribing the specific minimum period in the future to be considered when making the going concern assessment. PBE IPSAS 1 and the auditing standards require that the period to be considered when making the assessment as to an entity's ability to continue as a going concern is at least 12 months following the approval of the financial statements. However, NZ IAS 1 refers to the period 12 months following the end of the reporting period. NZ IAS 10 refers to the requirement to continuously assess the going concern assumption up until the date of authorisation of the financial statements, but it doesn't make it clear that this requires consideration of at least 12 months from the date of authorisation of the financial statements. We see no specific reason for a difference between for-profit and PBE standards for financial reporting. As such, NZASB may consider clarifying the requirement that this period is at least 12 months following the date the financial statements are authorised for issue.

Question 2. Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion? If you disagree, please explain why.

We agree with the proposals. The ability of an entity to continue as a going concern is a fundamental assumption in preparing financial statements. Where this assessment requires significant judgement, it is important that users of the financial statements are aware of this fact. It is also important that users understand management's rationale in reaching the conclusion that no material uncertainty exists. These additional details may provide useful input to inform the thinking of the users. Having it clearly stated in FRS 44 / PBE IPSAS 1 will support the appropriate disclosure.

As noted above, we believe it could be difficult to distinguish between when there is a material uncertainty and when there is no material uncertainty, but that significant judgement was required, and thus believe an example should be included.

Question 3. Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.

Yes, we agree with the proposed effective date. While it is generally appropriate to provide entities with longer period to incorporate the requirements of an amendment in their financial reporting, the current environment calls for a more immediate effective date. Currently, many entities in both for-profit and PBE sectors are facing significant challenges and uncertainty. As such, the proposed amendments are expected to be relevant to entities and the users of their financial statements.

Q4 Do you agree that there should be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment?

We agree there should be no disclosure concessions for Tier 2 entities. As noted above, we believe the entity's ability to continue as a going concern is a fundamental assumption when preparing the financial statements. As such, we believe the proposed disclosures would be useful to users irrespective of size and public accountability of the entity and that the cost of providing these disclosures would not outweigh such benefits.

Question 5 Are there any other issues in relation to going concern disclosures that you would like to be considered in the future?

We do not have any further comments.

Question 6. Do you have any other comments on the Exposure Draft(s)?

We note that the amendments to PBE IPSAS 1 include a footnote reference that the term 'management' is referring to the person / committee responsible for the financial statements. There is no similar reference in the FRS 44 amendments that refer to management assessing the entities ability to continue as a going concern. Any considerations made regarding going concern should ultimately rest with those charged with governance that have responsibility for the financial statements. Therefore, we believe the reference to 'management' should be clear that it relates to those responsible for the financial statements, in most cases being those charged with governance.

Otherwise, we do not have any further comments.

24 July 2020

April Mckenzie FCA
Chief Executive
External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142

Via website: <https://www.xrb.govt.nz/accounting-standards/standards-in-development/open-for-comment/nzasb-ed-2020-2/> and <https://www.xrb.govt.nz/accounting-standards/standards-in-development/open-for-comment/nzasb-ed-2020-3/>

Dear April

Submission on Exposure Drafts: ED 2020-2 and ED 2020-3 Going Concern Disclosures (Proposed Amendments to FRS-44 and PBE IPSAS 1)

Thank you for the opportunity to provide feedback on the above Exposure Drafts (“the EDs”). Currently the disclosure requirements in auditing standards are more specific than in accounting standards when the use of the going concern basis of accounting is appropriate but a material uncertainty exists. Therefore, we support aligning the disclosure requirements in the accounting standards with those in the auditing standards in this regard.

Financial report preparers are not required to comply with the auditing standards, therefore auditing standards should not prescribe disclosure requirements. It can result in such disclosures being omitted from financial reports which in turn can create tension between management and auditors in practice. Against a backdrop of COVID-19, there are likely to be more significant judgements in determining whether the going concern basis of preparation is appropriate and more material uncertainties related to going concern, which amplifies the issue.

This is not a New Zealand specific issue therefore our preference is for this to be an international standard setting project. However, we believe a timely response is required and therefore support the NZASB taking it on as a domestic project in the interim. We note that the AASB has decided not to conduct an equivalent project, so there will not be trans-Tasman harmonisation in this regard. We will be raising this issue in our submission to the IASB on ED/2019/7 *General Presentation and Disclosures* whilst NZ IAS 1 *Presentation of Financial Statements* is open for revision. Likewise, we encourage the NZASB to continue working with the IASB and the IPSASB to achieve accounting standards change in this area.

The IESBA ED: *Proposed Revisions to the Fee-related Provisions of the Code* proposed requirements to disclose fee-related information for public interest entity (PIE) audit clients. In our submission we supported efforts to clarify fee disclosures in financial reports to improve transparency but raised concern over this being in the ethical standards rather than the accounting standards. Whilst FRS-44 *New Zealand Additional Disclosures* / PBE IPSAS 1 *Presentation of Financial Statements* are being opened for

revision we encourage the NZASB to also consider amendments to paragraphs 8.1—8.2 / 116.1—116.2 for more granular disclosure of fees (i.e. audit, assurance, audit related, and non-audit related services).

Appendix A contains our responses to the specific questions raised in the ED. Appendix B provides information about Chartered Accountants Australia and New Zealand (CA ANZ). If you have any questions about our submission, please contact Amir Ghandar, Assurance and Reporting Leader at Amir.Ghandar@charteredaccountantsanz.com.

Yours sincerely

Amir Ghandar FCA
Leader, Reporting and Assurance

Simon Grant FCA
Group Executive, Advocacy and Professional Standing

Appendix A

Responses to specific questions

1. Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties? If you disagree, please explain why.

Proposed paragraphs 12A.1 / 41.1 would apply in situations where events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, and a material uncertainty does exist, but the use of the going concern basis of accounting is appropriate.

The proposed paragraphs are based on paragraph 19 of ISA (NZ) 570 (Revised) *Going Concern* which does prescribe specific disclosure requirements. Therefore, we agree with this proposal. However, it is not clear what "significant doubt" means or how it differs from "material uncertainty". We encourage the NZASB to explore alternative terminology related to the application of significant judgement in forming a view that there is a material uncertainty.

2. Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion? If you disagree, please explain why.

Proposed paragraphs 12A.2 / 41.2 would apply to situations where events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, but the use of the going concern basis of accounting is appropriate. However, there is no indication that they would only apply to situations where the conclusion is that a material uncertainty does *not* exist. So, as currently drafted, they would apply alongside proposed paragraphs 12A.1 / 41.1 when a material uncertainty does exist, as well as in isolation when a material uncertainty does not exist. It is not clear whether the intention is for the two proposed paragraphs to be mutually exclusive. Given significant judgement would be applied in reaching a conclusion as to whether a material uncertainty does *or* does not exist, we do not believe the two proposed paragraphs should be mutually exclusive.

The proposed paragraphs are based on paragraph 20 of ISA (NZ) 570 (Revised) *Going Concern* which states "*in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions*". In our view, the auditing standard does not prescribe specific disclosure requirements. Likewise, we do not believe proposed paragraphs 12A.2 / 41.2 introduce more specific disclosure requirements in the accounting standard. They appear to serve as a reminder that the existing disclosure requirements in paragraphs 122 and 125 of NZ IAS 1 *Presentation of Financial Statements* / paragraphs 137 and 140 of PBE IPSAS 1 *Presentation of Financial Statements* apply in the context of making the going concern assessment. Therefore, we are not convinced that these proposed paragraphs add value.

3. Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.

We agree with the proposed effective date of the amendments being accounting periods ending on or after 30 September 2020, with early adoption permitted.

4. Do you agree that there should be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment?

We agree that there should be no disclosure concessions for Tier 2 entities as the requirements in the auditing standards are the same regardless of what tier the entity reports under.

5. Are there any other issues in relation to going concern disclosures that you would like to be considered in the future?

We have no other issues in relation to going concern disclosures to raise at this time.

6. Do you have any other comments on the proposals in this ED?

We have no further comments.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 125,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live. Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.



Michael Webb
Barrister

24 July 2020

Ms Judith Pinney
Project Manager – Accounting Standards
External Reporting Board
Wellington

By email: judith.pinney@xrb.govt.nz

GOING CONCERN DISCLOSURES (PROPOSED AMENDMENTS TO FRS-44) – INVITATION TO COMMENT

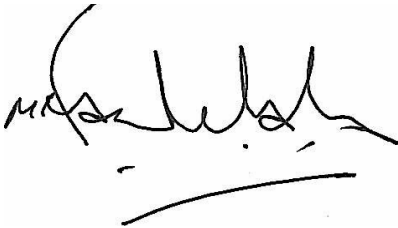
1. Further to your email of 7 July 2020 I write to make some brief comments in relation to the proposed amendments to FRS-44 as set out in your Invitation to Comment of June 2020 (ITC). I make these comments in my personal capacity. I limit my comments to the aspects set out below rather than making a detailed submission on the whole ITC and the various questions set out in it.
2. In this context:
 - (a) I support the proposals in relation to their general intention and proposed effect. I believe the proposals are an important step in addressing the “expectation gap” between what readers, investors and the public generally may or do expect from audited financial statements on the one hand, and the technical objectives and expectations of financial reporting and auditing standards on the other.
 - (b) I also consider the proposals are a valuable move towards some general consistency between the going concern aspects of financial reporting, the continuous disclosure requirements under financial markets regulation, and the solvency test under companies legislation.
 - (c) In relation to the current position with FRS-44 and the relevant ISAs, the ITC in my view sets out a good case for harmonising the two, and mitigating the difficulties in distinguishing between paragraphs 19 and 20 of ISA(NZ)570 (Revised), highlighted in particular as two of the four broad categories set out in (b) and (c) of paragraph 18 of the ITC.
 - (d) To me, looking at the wording of those two categories (b) and (c), the differences between events or conditions identified that may cast

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significant doubt on the entity's ability to continue as a going concern which are not considered "material uncertainties", and those which are, necessarily involve interpretations, guidance and judgement calls which are inherently problematic. There may well be a case, although it would need to be further considered, for collapsing these two categories into one, with different wording.

- (e) On the basis, however, that these two categories do continue, I agree that it is too drastic a consequence that matters which are judged to come into category (b) do not require to be disclosed on a similar basis to those matters which come into category (c), particularly given the difficulties in interpretation and the necessary judgement calls which have to be made in assessing which category applies.
 - (f) In my view it is desirable and preferable that if an entity's circumstances fall into either category there be identification and discussion of that in the material. If the board of an entity and the auditors take a different view as between themselves on those questions, so be it, and that itself should be a relevant matter for readers of the financial statements to have available to them, rather than a "negotiated" outcome or one which does not appropriately represent the realities of the situation.
3. Thank you for the invitation to comment. I will be pleased to enlarge on any of these comments if this would assist.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M R H Webb', with a horizontal line underneath.

M R H WEBB



KPMG Centre
18 Viaduct Harbour Ave
PO Box 1584
Auckland 1140
New Zealand

April Mackenzie
Chief Executive
External Reporting Board
PO Box 11250
Wellington 6142

24 July 2020

Dear April

Exposure Drafts: NZASB ED 2020-2 Going Concern Disclosures (Proposed amendments to FRS 44) and NZASB ED 2020-3 Going Concern Disclosures (Proposed amendments to PBE IPSAS 1)

We appreciate the opportunity to comment on the New Zealand Accounting Standard Board's (the Board) Exposure Drafts (EDs) relating to going concern disclosures for for-profit entities and Public Benefit Entities (PBEs).

Our comments in this letter apply equally to both EDs as the going concern assumption is relevant to preparation of financial statements under both NZ IFRS and PBE Standards and we expect consistent disclosures for both for-profit entities and PBEs. We elected to use for-profit related terminologies in this letter for the reader's convenience.

We recognise that the aim of the EDs is to establish more specific going concern disclosure requirements to be applied when material uncertainties exist, or when significant judgements are made when assessing the appropriateness of applying the going concern basis of preparation, which is particularly relevant as a result of the COVID-19 pandemic in 2020.

Overall, we support the Board's intent to provide more specific disclosure requirements as it will assist preparers of financial statements to provide relevant and transparent information to users of financial statements when material uncertainties exist, or significant judgements are made regarding the going concern assessment. Furthermore, the proposed disclosure requirements will also help the auditors in assessing the adequacy of going concern disclosures.

Notwithstanding our overall support for the Board's intentions behind these EDs, we have noted some comments in the **Appendix 1**. In summary, we suggest the Board considers the following comments:

- Include a specific requirement to disclose the significant judgements and assumptions when there is a material uncertainty.
- Clarify the applicability of FRS 44.12A.2 as to whether it will apply to both material uncertainties and 'close-call' situations.
- Include more specific disclosure requirements in respect of 'close-call' situations. Specifically, consider adding the following:
 - Details of events or conditions that may cast significant doubt about an entity's ability to continue as a going concern and the management's evaluation of their significance in relation to the going concern assessment;
 - Management's plans to mitigate the effect of those events or conditions; and
 - Significant judgements and assumptions made by management in its going concern assessment, including its determination of whether there are material uncertainties.

Please don't hesitate to contact me at dahealey@kpmg.co.nz if you wish to discuss any of the comments provided in this letter.

Kind regards,

Darby Healey

Partner

Appendix 1

Question 1

Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties? If you disagree, please explain why.

We support the Board's proposals to introduce more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties as this will align the disclosure requirements under the accounting and the auditing standards. However, we believe that the EDs should include additional specific disclosure requirements on certain aspects to help preparers provide more useful and meaningful information in the financial statements. We have noted the following comments for the Board to consider in finalising the proposed disclosures under FRS 44.12A.1 and 12A.2:

- 1) The specific disclosure requirements under point (a) to (d) under FRS 44.12A.1 align with the requirements under paragraph 20 of ISA (NZ) 570 (Revised) *Going Concern*. However, there are no specific requirements to disclose the following:
 - a) Management's evaluation of the significance of the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;
 - b) Significant judgements and assumptions made by management in their going concern assessment including their determination of whether there are material uncertainties.

We believe that it is important to include the above-mentioned specific disclosure requirements as it will help the preparers of financial statements to disclose all the facts regarding the going concern assessment. The proposed disclosure requirements in the EDs along with our suggested additions will help the users of the financial statements understand the following:

- a) The nature of events or conditions that may cast significant doubt upon the entity's ability to make the going concern;
- b) Management's evaluation of the significance of such events or conditions on the entity's business
- c) Management's plans to mitigate the adversity expected to be caused by such events or conditions
- d) Any significant judgements and assumptions involved in determining why the material uncertainty remains and why the going concern assumption is still appropriate.

We have included the proposed wording in **Appendix 2** that the Board may consider using in place of the current FRS 44.12A.1 and 12A.2 wording.

- 2) It is not clear to us whether the Board intended to propose the disclosure requirements in FRS 44.12A.2 for 'close-call' situations only or in respect of both material uncertainties and 'close-call' situations. The ambiguity stems from the wording in paragraphs 14 and 27 of the Invitation to Comment - paragraph 27 states that FRS 44.12A.2 intends to cover only 'close-call' situations, while paragraph 14 notes that the general disclosure requirements of NZ IAS 1.122 apply when significant judgement is applied to both material uncertainties and 'close-call' situations.

We acknowledge that the current requirements under NZ IAS 1.122 require an entity to disclose all the significant judgements applied in preparation of the financial statements. However, we believe that by not stating all the specific disclosure requirements under FRS 44.12A.1, the EDs may fail to achieve their overall objective, i.e., to provide more specific disclosure requirements around material uncertainties and 'close-call' situations.

Therefore, we believe that the significant judgements (NZ IAS 1.122) and assumptions (NZ IAS 1.125) considered in the going concern assessment should be disclosed for both material uncertainties and 'close-call' situations.

- 3) We have also noted that Australian Accounting Standard Board and Auditing and Assurance Standard Board have issued a joint publication in May 2020 which addresses the impact of COVID-19 on going concern and related assessments ([Click here for the Joint Publication](#)). Pages 17 and 18 of the joint publication provides suggested disclosure items under the different scenarios of the going concern assessment. We suggest the Board considers including similar items either under FRS 44 and PBE IPSAS 1 or in a guidance note which supplements the proposed disclosure requirements under the EDs. That may help the preparers of financial statements to understand the practical application of the proposed disclosure requirements in the EDs.

Question 2

Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion? If you disagree, please explain why.

We support the Board’s intention to introduce more specific disclosure requirements in the ‘close-call’ situations. However, we believe that the proposed disclosure requirements under FRS 44.12A.2 may not achieve the objective of the EDs.

FRS 44.12A.2 does not require the preparers to disclose any specific detailed information around ‘close-call’ situations (e.g., details of events or conditions that may cast significant doubt upon an entity’s ability to continue as a going concern or management’s assessment or plans to mitigate the adverse impact of such events or conditions). Instead, FRS 44.12A.2 refers only to the existing disclosure requirements as required under the paragraphs 122 and 125 of NZ IAS 1.

In our view, it is equally important to provide specific disclosures in ‘close-call’ situations. Enhanced disclosure will assist the preparers of financial statements to provide relevant and transparent information to users of the financial statements in the situations as well. We suggest the Board considers including the following specific disclosure requirements in the ‘close-call’ situations:

- a) Details events or conditions that may cast significant doubt about entity’s ability to continue as a going concern and the management’s evaluation of their significance in relation to the going concern assessment;
- b) Management’s plan to mitigate the effect of these events or conditions; and
- c) Significant judgements and assumptions made by the management in its going concern assessment.

We also believe that the significant judgements (NZ IAS 1.122) and assumptions (NZ IAS 1.125) considered in the going concern assessment should be disclosed for both material uncertainties and ‘close-call’ situations – see comments under Question 1.

We have included the proposed wording in **Appendix 2** that the Board may consider using in place of the current FRS 44.12A.1 and 12A.2 wording.

Question 3

Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.

We support the Board’s proposed effective date of the amendments.

Question 4

Do you agree that there should be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment?

We support the Board’s proposal that there should not be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment.

Question 5

Are there any other issues in relation to going concern disclosures that you would like to be considered in the future?

We do not have any other issues in relation to going concern disclosures for the Board's considerations. However, we will continue to assess the situation and will share our suggestions (if any) to the Board in the future.

Question 6

Do you have any other comments on the proposals in this ED?

We do not have any other comments on the proposals in the EDs.

Appendix 2: Proposed wording for FRS 44.12A.1 and 12A.2

- 12A.1 *An entity shall disclose the following information either when material uncertainties are considered in the going concern assessment or when no material uncertainties exist but reaching that conclusion involved significant judgement:*
- details of events or conditions that may cast significant doubt about entity's ability to continue as a going concern and management's evaluation of their significance in relation to the going concern assessment;*
 - management's plans to mitigate the effect of these events or conditions; and*
 - significant judgements and assumptions made by management in their going concern assessment, including their determination of whether there are material uncertainties.*
- 12A.2 *If a material uncertainty exists in relation to the going concern assessment, an entity shall explicitly state that there is a material uncertainty related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.*

Memo

To:	Judith Pinny, XRB
Subject	Accounting Standards Board on Going Concern Disclosures, in response to COVID-19
Date	27 July 2020

1. The purpose of this memo is to provide a handful of comments on the XRB Exposure Drafts on going concern disclosures. I have not commented on the technical details or specific questions raised for submitters. However, I did wonder whether the stance of not proposing a strict demarcation for Tier-1 entities might result in some pushback. Instead, I have simply provided a handful of observations from a lawyer (typically) advising directors and management – and who has also seen how preparers seek to meet their compliance obligations whilst thinking about the needs of users of financial statements.
2. My comments below are shaped by my recent experiences, including:
 - a. **For-profit entities:** advising the manager of a family of (distressed) managed investment schemes, governed by the FMC Act, and which are FMC reporting entities, whose problems have been exacerbated by COVID-19; and
 - b. **Not-for-profit sector:** working with a not-for-profit in the sports sector – which was tracking satisfactorily until COVID-19 brought its activities to a complete stop and which (in keeping with many community sports organisations) has only been kept alive by the Government support for the community sports sector.
3. As a result of those recent experiences, I am also aware that there is an apparent mismatch between the going concern disclosure requirements in accounting standards and those for auditing standards. To give this some context, I am aware that some licensed auditors (of FMC reporting entities) consider that, in some circumstances, they have no choice other than to include more specific information about “going concern issues” in the audit report – on the basis that there may be no other home for that information.
4. I would observe that this does not appear to be as a result of pushback from the preparers of the financial statements. Instead, this seems to be as a result of a view that the auditor is subject to more specific requirements and that there wasn't a specific/clear requirement (or guidance) for inclusion in the financial statements in what was a fluid/developing environment. Whilst I make no comment about the (technical) correctness of this view - I don't think there is any disagreement that the audit report is not the ideal home for disclosures of such information.
5. The factors listed in the Exposure Drafts as the drivers for the current proposals appear quite comprehensive. As is the description of the need to users of the financial statements with relevant and transparent information about:
 - a. material uncertainties affecting the ability to continue as a going concern; and
 - b. management's plans to mitigate those uncertainties,and do not need appear to need further comment.

6. And I was pleased to see that, whilst the interests of end users (when reading that such a material uncertainty has been flagged), are seen as the primary drive for reform – thought has also gone in to the need to provide management/preparers of financial statements with more guidance on this topic. That guidance will, I think, need to be ongoing and cover not only the decision-making process required to decide when to flag uncertainties about an entity’s ability to continue as a going concern but also cover disclosures about the sources of those uncertainties and the judgements made about them.
7. For this reason, my view is that even before the push provided by COVID-19 there has been a need for mandating more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties.
8. From the preceding comments, it is clear that I think it would assist both the preparers and the audience – to have a set of more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties. For this reason, my view of the current proposals is that they address what I see as the key elements surrounding disclosure of the existence of a problem (uncertainty). Specifically, that there is:
 - a. **problem identification:** disclosure of the principal events or conditions giving rise to the uncertainty;
 - b. **discussion about what is being done about the problem:** providing information about management’s plans to address the effect of the cause/s of the problem; and
 - c. **provision of adequate context:** clarity that, as a result of the problem, the entity may be unable to continue as a going concern - by realising assets and discharging liabilities in the normal course of business.
9. In this regard, the add-on in the form of the proposed paragraph 12A.2 to FRS 44 also seems particularly appropriate as it appears that one of the most immediate impacts of COVID-19 has been to generate great uncertainty about asset values. Prior to the impact of COVID-19, this may have been a factor that was relevant only to particularly industries (such as those undergoing rapid changes or prone to high levels of certainty). Today, this could be almost any industry – hopefully only for the duration of the period while the pandemic and the accompanying downturn in economic activity is at its apex.
10. Also on the topic of guidance, from a director/management perspective, I have recently had cause to make use of the joint publication by AICD, Chartered Accountants Australia and New Zealand and CPA Australia providing guidance for directors and preparers of financial statements and auditors on the impacts of COVID-19 on annual reporting disclosures. The concept of providing (in summary format) the key considerations when assessing how best to disclose the effects of the COVID-19 pandemic in annual reports for the upcoming reporting season is a very practical response to the needs of preparers. And by starting from a discussion about fundamental principles (such as the basis for an assessment of going concern status) and moving to worked examples – I think the three bodies have led the way for a wide range of entities. Because of experts’ views about the length and depth of the impact of COVID-19 it seems highly likely that there will need to be updates to this and similar guidance, next year – based on the learnings from the current reporting season.

11. The issue of guidance also led me to think about the proposal not to make disclosure concessions for Tier-2 entities because of the extent to which the going concern assessment (and uncertainties about the future) is likely to impact beyond just Tier-1 entities. However, this decision underlines the need for more guidance to be provided to preparers – with a particular emphasis on Tier-2 entities. In part, any such guidance should reflect not only the different resourcing and skillsets available to management in entities below Tier-1 but also the likelihood that the audience for those financial statements may have different resources, skillsets and needs.
12. I trust that these brief comments are of assistance.

Going Concern Disclosures

Submission from Charlotte McLoughlin, solicitor

I personally have no substantive comments on the proposed change to the Accounting Standard. There are several important 'terms of art' included in there, very familiar to accountants but on which I'm just not qualified to comment, and so will not. There will be many accountants who will be doing this.

My general comments however are below. These comments reflect my thought that the changes proposed seem generally consistent (or at least not inconsistent) with the changes made recently to two of the directors' duties that predominantly concern solvency and so very much linked to the continued existence, or otherwise, of the company. There is obviously a clear benefit to directors in these duties, and the G/C assessment, being generally consistent. I realise my comments do not address the specific, fairly technical, questions asked in the consultation paper.

- As general proposition, my instinct – as a lawyer – is to encourage greater certainty as to the meaning or interpretation of key terms. In the present case, this would seem to benefit many parties: the company or business about whom the “going concern” statement is being made; the directors / managers who are making those statements; the accounting and assurance professionals who are tasked with helping the company or business prepare and audit its accounts; buyers of businesses who rely on a “going concern” assessment. I can't see a reason why any greater certainty that can be offered as to how “going concern” is described, even if only to require disclosure of matters which present uncertainty to the G/C assessment, should not be offered.
- The fact of the C-19 crisis only makes the need greater, but also in practical terms still hard to achieve – events have moved fast, and the only real certainty is that there will be more uncertainty as to when the domestic economy will get back to “normal” and indeed as to what that “normal” will look and feel like. Ultimately, only the directors / management will be able to form any sort of view as to future viability of the company / business, and so the judgment has to remain with them, albeit perhaps with some recognition of the highly unusual events that have come upon us. My swift reading of the proposed changes to the AS are that this is recognised by the new standard – and that the directors must articulate in the financial statements where there are any uncertainties about whether the G/C status is sound.
- Changes made to the Companies Act earlier in the year, for a similar reason, took a generally similar approach – but without the disclosure element. The ‘problem statement’ was that the Government did not want directors simply shutting businesses down because of the sheer fact of uncertainty – and so “snowballing” the likely economic effect of the C-19 crisis. Changes were sought to help directors navigate the (assumed temporarily) shifting landscape, and also have the confidence to keep the company running through the difficult period. Hence, changes were made to two key directors' duties that, if not able to be met, leave the directors no real option but to close the business. Those changes clarified to directors that if the company was “profitable” (I use that term generally) before C-19 hit, and the directors were reasonably confident that the company would be “profitable” again by a certain date in the future (a date presumed / hoped to be when the economy was back on some sort of level), then directors would not be in breach of their duties in relation to incurring obligations, and as to reckless trading. The Companies Act changes do not require directors to formally disclose issues they are concerned about, but in making the necessary assessments directors must still be able to identify what the issues facing the business are, know that they are related to the C-19 crisis, and form a view that the issues are likely to be solved within the stated time frame. So

the assessment is still, necessarily, in the hands of the directors who must make the necessary calls, but they have been given some leeway as to the specific C-19 matters.

- The Government made clear throughout the crisis that the Government's response (reflected in legal, regulatory and policy measures) could not save every business and every job. And ultimately also, the law (and relevant regulations) cannot hope – and nor should it – to legislate in detail for sudden shocks. Absent a decision that “government will fund every business” (which very clearly is not the case) all that can be done is to offer as much clarity as is reasonably possible on what (in this case) “going concern” means in the post-C19 world, while also recognising that commercial and business life has to go on.
- It seems to me, as a layperson, that the changes proposed to the going concern standard do what they can do, in the circumstances. First, the change retains the principle that it is for directors / managers to form the relevant views. Second, the changes seek to help directors / managers (and their advisors) form a reasonably held view that the G/C assessment being made now, in the wake of the C-19 crisis, is sound and if there are any doubts, then to explain them clearly to allow others to form their own views as appropriate. Finally, and I think importantly, this approach is generally consistent (or at least not inconsistent) with the approach taken vis a vis the legal issue of solvency in the Companies Act. A position otherwise would make things impossible / untenable for the directors from a legal perspective.

Charlotte McLoughlin

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3 August 2020

Anthony Heffernan
Director – Accounting Standards
New Zealand Accounting Standards Board
PO Box 11250, Manners St Central
Wellington 6142
NEW ZEALAND

Via website: www.xrb.govt.nz

Dear Anthony,

NZASB Exposure Draft 2020-2 – Going Concern Disclosures (Proposed Amendments to FRS-44)
NZASB Exposure Draft 2020-3 – Going Concern Disclosures (Proposed Amendments to PBE IPSAS 1)

CPA Australia represents the diverse interests of more than 166,000 members working in over 100 countries and regions around the world. We make this submission to the New Zealand Accounting Standards Board (NZASB) on behalf of our members and in the broader public interest.

CPA Australia supports the proposed requirements in the two Exposure Drafts (EDs) even though they largely reiterate the disclosure requirements that are currently set out in NZ IAS 1 *Presentation of Financial Statements* (applicable to the for-profit sector) and PBE IPSAS 1 *Presentation of Financial Reports* (applicable to Public Benefit Entities (PBE)).

In our view the current requirements in the New Zealand Accounting Standards applicable to the for-profit sector and PBE sector adequately address the going concern disclosures that are contemplated in the two EDs. As stated in ED 2020-2, the IFRS Interpretations Committee has previously considered the need for going concern disclosures and has decided that the current requirements in IAS 1 (NZ IAS 1) are adequate.

It is also notable that at its June 2020 meeting the Australian Accounting Standards Board (AASB) considered the NZASB's standard-setting proposals and decided not to proceed with a corresponding project for the reasons set out in the [Action Alert](#) arising from that meeting. In coming to its conclusion to not proceed with a standard-setting initiative, the AASB noted that relevant going concern disclosures had already been addressed through its joint guidance with the Australian Auditing Standards Board, *The Impact of COVID-19 on Going Concern and Related Assessments*. We believe the contrasting approaches taken by the AASB (through guidance) and the NZASB (through proposed additional disclosure requirements) should provide similar outcomes.

CPA Australia agrees with the AASB's views expressed in its Action Alert that any improvements to going concern assessments and disclosures should be undertaken by the International Accounting Standards Board (IASB). In particular, we note there are no current requirements that specify the basis of accounting to a set of financial statements when the going concern basis does not apply. CPA Australia also agrees with the AASB's Action Alert that the IASB should undertake a fundamental review of the requirements related to going concern assessments, disclosures and the basis of accounting where the going concern assumption is no longer appropriate.

Although we believe the current requirements in the New Zealand Accounting Standards applicable to the for-profit and PBE sectors already address the additional disclosures proposed in the two EDs, we see no harm in reiterating these requirements as proposed.

We have provided responses to the specific questions raised in the **Attachment** to this letter. If you require further information on the views expressed above, please contact Ram Subramanian on +61 3 9606 9755 or ram.subramanian@cpaaustralia.com.au.

Your sincerely



Dr. Gary Pflugrath
Executive General Manager, Policy and Advocacy

Attachment

NZASB Exposure Draft 2020-2 – Questions 1-6

As stated in our above cover letter, we support the proposed disclosures that reiterate the existing requirements in the New Zealand Accounting Standards.

We note from paragraph 4 of both EDs, the NZASB's focus on aligning the requirements in accounting standards with the requirements in auditing standards. In principle, we do not believe financial reporting requirements should be influenced by requirements in auditing standards, and accordingly our preference (as stated in the cover letter) that any improvements in going concern disclosures should be addressed by the IASB. However, as these proposals are simply reiterating existing disclosure requirements in New Zealand Accounting Standards, we recommend using the same terminology in paragraph 19(b) of ISA (NZ) 570 *Going Concern* for the disclosure proposed in paragraph 12A.1(d) of ED 2020-2 and paragraph 41.1(d) of ED 2020-3 as follows:

“that as a result of material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business”.

NZASB Exposure Draft 2020-3 – Questions 1-6

As stated above and in our cover letter, we support the proposed disclosures that reiterate the existing requirements in the New Zealand Accounting Standards.

We note some inconsistencies in references to the group of individuals responsible for making the going concern assessments and disclosures, in paragraphs 41.1 and 41.2. Paragraph 41.1(c) refers to “those responsible for governance” whilst paragraph 41.2 refers to “management (clarified as the person/committee responsible for the financial report)”. We suggest ensuring consistent terminology and recommend using the term “those responsible for governance” throughout.

Attachments

- Agenda item 9.2: *Amendments to NZ IFRS 17*
- Agenda item 9.3: Draft signing memorandum *Amendments to NZ IFRS 17*
- Agenda item 9.4: *Extension of the Temporary Exemption from Applying NZ IFRS 9*
- Agenda item 9.5: Draft signing memorandum *Extension of the Temporary Exemption from Applying NZ IFRS 9*
- Agenda item 9.6: Copy of submission from New Zealand Society of Actuaries to the IASB on IASB ED/2019/4 *Amendments to IFRS 17*
- Agenda item 9.7: IASB Project Summary and Feedback Statement



Amendments to NZ IFRS 17

Issued August 2020

This Standard was issued on 20 August 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 17 September 2020.

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

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

This Tier 1 and Tier 2 For-profit Accounting Standard is based on amendments to IFRS 17 *Insurance Contracts* issued by the International Accounting Standards Board.

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APPROVAL BY THE IASB OF *AMENDMENTS TO IFRS 17* ISSUED IN JUNE 2020

AMENDMENTS TO ILLUSTRATIVE EXAMPLES ON IFRS 17

AMENDMENTS TO BASIS FOR CONCLUSIONS ON IFRS 17

Part A – Introduction

This Standard sets out targeted amendments to NZ IFRS 17 *Insurance Contracts*. The amendments are identical to *Amendments to IFRS 17*, issued by the International Accounting Standards Board (IASB).

The aim of these amendments is to ease implementation of NZ IFRS 17 by reducing implementation costs and making it easier for entities to explain the result of applying NZ IFRS 17 to investors and others. Although narrow in scope, the targeted amendments address many of the concerns and challenges raised to the IASB by stakeholders.

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

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments

NZ IFRS 17 *Insurance Contracts*

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

Scope

- ...
- 4 All references in NZ IFRS 17 to insurance contracts also apply to:
- (a) reinsurance contracts held, except:
 - (i) ...
 - (ii) as described in paragraphs 60–~~70~~70A.
 - (b) ...
- ...
- 7 An entity shall not apply NZ IFRS 17 to:
- ...
- (h) credit card contracts, or similar contracts that provide credit or payment arrangements, that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer (see NZ IFRS 9 and other applicable Standards). However, if, and only if, NZ IFRS 9 requires an entity to separate an insurance coverage component (see paragraph 2.1(c)(iv) of NZ IFRS 9) that is embedded in such a contract, the entity shall apply NZ IFRS 17 to that component.
- ...
- 8A Some contracts meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). An entity shall choose to apply either NZ IFRS 17 or NZ IFRS 9 to such contracts that it issues unless such contracts are excluded from the scope of NZ IFRS 17 by paragraph 7. The entity shall make that choice for each portfolio of insurance contracts, and the choice for each portfolio is irrevocable.

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

Separating components from an insurance contract (paragraphs B31–B35)

- 10 An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an *investment component* or a ~~service~~ component for services other than insurance contract services (or both). An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.
- 11 An entity shall:
- (a) ...
 - (b) separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs B31–B32). The entity shall apply NZ IFRS 9 to account for the separated investment component unless it is an investment contract with discretionary participation features within the scope of NZ IFRS 17 (see paragraph 3(c)).
- 12 After applying paragraph 11 to separate any cash flows related to embedded derivatives and distinct investment components, an entity shall separate from the host insurance contract any promise to transfer to a policyholder distinct goods or ~~non-insurance~~ services other than insurance contract services ~~to a policyholder~~, applying paragraph 7 of NZ IFRS 15. The entity shall account for such promises applying NZ IFRS 15. In applying paragraph 7 of NZ IFRS 15 to separate the promise, the entity shall apply paragraphs B33–B35 of NZ IFRS 17 and, on initial recognition, shall:
- (a) apply NZ IFRS 15 to attribute the cash inflows between the insurance component and any promises to provide distinct goods or ~~non-insurance~~ services other than insurance contract services; and
 - (b) attribute the cash outflows between the insurance component and any promised goods or ~~non-insurance~~ services other than insurance contract services, accounted for applying NZ IFRS 15 so that:
- ...
- ...

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

Level of aggregation of insurance contracts

- ...
- 19 For contracts issued to which an entity does not apply the premium allocation approach (see paragraphs 53–~~54~~⁵⁹), an entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:
- ...
- 24 An entity shall apply the recognition and measurement requirements of NZ IFRS 17 to the groups of contracts ~~issued~~ determined by applying paragraphs 14–23. An entity shall establish the groups at initial recognition and add contracts to the groups applying paragraph 28. ~~and~~ The entity shall not reassess the composition of the groups subsequently. To measure a group of contracts, an entity may estimate the fulfilment cash flows at a higher level of aggregation than the group or portfolio, provided the entity is able to include the appropriate fulfilment cash flows in the measurement of the group, applying paragraphs 32(a), 40(a)(i) and 40(b), by allocating such estimates to groups of contracts.

Paragraph 27 is deleted and paragraph 28 is amended. Paragraphs 28A–28F and the heading above paragraph 28A are added. Paragraph 25 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

Recognition

- 25 An entity shall recognise a group of insurance contracts it issues from the earliest of the following:
- (a) the beginning of the *coverage period* of the group of contracts;
 - (b) the date when the first payment from a policyholder in the group becomes due; and
 - (c) for a group of onerous contracts, when the group becomes onerous.
- ...
- 27 ~~[Deleted by IASB] An entity shall recognise an asset or liability for any *insurance acquisition cash flows* relating to a group of issued insurance contracts that the entity pays or receives before the group is recognised, unless it chooses to recognise them as expenses or income applying paragraph 59(a). An entity shall derecognise the asset or liability resulting from such insurance acquisition cash flows when the group of insurance contracts to which the cash flows are allocated is recognised (see paragraph 38(b)).~~
- 28 In recognising a group of insurance contracts in a reporting period, an entity shall include only contracts that individually meet one of the criteria set out in paragraph 25 issued by the end of the reporting period and shall make estimates for the discount rates at the date of initial recognition (see paragraph B73) and the coverage units provided in the reporting period (see paragraph B119). An entity may include ~~issue~~ more contracts in the group after the end of a reporting period, subject to ~~paragraphs 14–22~~ paragraph 22. An entity shall add a contract ~~the contracts~~ to the group in the reporting period in which that contract meets one of the criteria set out in paragraph 25 the contracts are issued. This may result in a change to the determination of the discount rates at the date of initial recognition applying paragraph B73. An entity shall apply the revised rates from the start of the reporting period in which ~~the~~ new contracts are added to the group.

Insurance acquisition cash flows (paragraphs B35A–B35D)

- 28A An entity shall allocate *insurance acquisition cash flows* to groups of insurance contracts using a systematic and rational method applying paragraphs B35A–B35B, unless it chooses to recognise them as expenses applying paragraph 59(a).
- 28B An entity not applying paragraph 59(a) shall recognise as an asset insurance acquisition cash flows paid (or insurance acquisition cash flows for which a liability has been recognised applying another Standard) before the related group of insurance contracts is recognised. An entity shall recognise such an asset for each related group of insurance contracts.
- 28C An entity shall derecognise an asset for insurance acquisition cash flows when the insurance acquisition cash flows are included in the measurement of the related group of insurance contracts applying paragraph 38(c)(i) or paragraph 55(a)(iii).
- 28D If paragraph 28 applies, an entity shall apply paragraphs 28B–28C in accordance with paragraph B35C.
- 28E At the end of each reporting period, an entity shall assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired (see paragraph B35D). If an entity identifies an impairment loss, the entity shall adjust the carrying amount of the asset and recognise the impairment loss in profit or loss.
- 28F An entity shall recognise in profit or loss a reversal of some or all of an impairment loss previously recognised applying paragraph 28E and increase the carrying amount of the asset, to the extent that the impairment conditions no longer exist or have improved.

Paragraph 29 and the heading above it are amended. New text is underlined and deleted text is struck through.

Measurement (paragraphs ~~B36–B119~~B119)

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

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

...

The heading for paragraph 32 is amended. Paragraphs 34 and 38–39 are amended. New text is underlined and deleted text is struck through.

Measurement on initial recognition (paragraphs ~~B36–B95~~B95)

...

Estimates of future cash flows (paragraphs ~~B36–B71~~)

...

34 Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance contract services (see paragraphs B61–B71). A substantive obligation to provide insurance contract services ends when:

- (a) ...
- (b) both of the following criteria are satisfied:
 - (i) ...
 - (ii) the pricing of the premiums ~~for coverage~~ up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

...

Contractual service margin

38 The contractual service margin is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the entity will recognise as it provides insurance contract services in the future. An entity shall measure the contractual service margin on initial recognition of a group of insurance contracts at an amount that, unless paragraph 47 (on onerous contracts) or paragraph B123A (on insurance revenue relating to paragraph 38(c)(ii)) applies, results in no income or expenses arising from:

- (a) ...
- (b) any cash flows arising from the contracts in the group at that date;
- (c) ~~(b)~~ the derecognition at the date of initial recognition of:
 - (i) any asset ~~or liability~~ recognised for insurance acquisition cash flows applying paragraph ~~28C27~~; and
 - (ii) any other asset or liability previously recognised for cash flows related to the group of contracts as specified in paragraph B66A.
- (e) ~~any cash flows arising from the contracts in the group at that date.~~

- 39 For insurance contracts acquired in a transfer of insurance contracts or in a business combination within the scope of NZ IFRS 3, an entity shall apply paragraph 38 in accordance with paragraphs B93–~~B95~~B95.

Paragraphs 44–45 and the heading above them are amended. New text is underlined and deleted text is struck through.

Contractual service margin (paragraphs B96–~~B119~~B119)

- ...
- 44 For *insurance contracts without direct participation features*, the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for:
- ...
- (e) the amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period applying paragraph B119.
- 45 For insurance contracts with direct participation features (see paragraphs B101–B118), the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for the amounts specified in subparagraphs (a)–(e) below. An entity is not required to identify these adjustments separately. Instead, a combined amount may be determined for some, or all, of the adjustments. The adjustments are:
- (a) ...
- (b) the change in the amount of the entity's share of the ~~change in the~~ fair value of the *underlying items* (see paragraph B104(b)(i)), except to the extent that:
- (i) ...
- (ii) the decrease in the amount of the entity's share of ~~a decrease in~~ the fair value of the underlying items exceeds the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or
- (iii) the increase in the amount of the entity's share of ~~an increase in~~ the fair value of the underlying items reverses the amount in (ii).
- ...
- (e) the amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period~~;~~ applying paragraph B119.
- ...

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

Onerous contracts

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

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

- (a) unfavourable changes relating to future service in the fulfilment cash flows allocated to the group, arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk~~relating to future service~~; and
- (b) for a group of insurance contracts with direct participation features, the decrease in the amount of the entity's share of a decrease in the fair value of the underlying items.

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

...

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

- (a) ...
- (b) solely to the loss component until that component is reduced to zero:
 - (i) any subsequent decrease relating to future service in fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk~~relating to future service~~ and
 - (ii) any subsequent increases in the amount of the entity's share of ~~in~~ the fair value of the underlying items solely to the loss component until that component is reduced to zero.

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

...

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

Premium allocation approach

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

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

...

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

- (a) on initial recognition, the carrying amount of the liability is:
 - ...
 - (iii) plus or minus any amount arising from the derecognition at that date of:
 1. any asset for insurance acquisition cash flows applying paragraph 28C; and the asset or liability recognised for insurance acquisition cash flows applying paragraph 27.
 2. any other asset or liability previously recognised for cash flows related to the group of contracts as specified in paragraph B66A.
- (b) at the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period:
 - ...
 - (v) minus the amount recognised as insurance revenue for services coverage provided in that period (see paragraph B126); and
 - (vi) ...

56 If insurance contracts in the group have a significant financing component, an entity shall adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial

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

...

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

Reinsurance contracts held

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

...

Recognition

62 Instead of applying paragraph 25, an entity shall recognise a group of reinsurance contracts held from the earlier of the following:

- (a) the beginning of the coverage period of the group of reinsurance contracts held; and
- (b) the date the entity recognises an onerous group of underlying insurance contracts applying paragraph 25(c), if the entity entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

62A Notwithstanding paragraph 62(a), an entity shall delay the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date that any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held.

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

- ~~(a) if the reinsurance contracts held provide proportionate coverage at the beginning of the coverage period of the group of reinsurance contracts held or at the initial recognition of any underlying contract, whichever is the later; and~~
- ~~(b) in all other cases from the beginning of the coverage period of the group of reinsurance contracts held.~~

Measurement

...

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

- (a) the fulfilment cash flows;
- (b) the amount derecognised at that date of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held; ~~and~~
- (c) any cash flows arising at that date; and
- (d) any income recognised in profit or loss applying paragraph 66A; ~~unless~~

65A If ~~(b)~~ the net cost of purchasing reinsurance coverage relates to events that occurred before the purchase of the group of reinsurance contracts held, in which case, notwithstanding the requirements of paragraph B5, the entity shall recognise such a cost immediately in profit or loss as an expense.

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

...

- (ba) income recognised in profit or loss in the reporting period applying paragraph 66A;
- (bb) reversals of a loss-recovery component recognised applying paragraph 66B (see paragraph B119F) to the extent those reversals are not changes in the fulfilment cash flows of the group of reinsurance contracts held;
- (c) changes in the fulfilment cash flows, measured at the discount rates specified in paragraph B72(c), to the extent that the change relates to future service, unless:
 - ~~(i)~~ relates to future service; unless
 - ~~(i)(ii)~~ the change results from a change in fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for the group of underlying insurance contracts; or-
 - ~~(ii)~~ the change results from applying paragraphs 57–58 (on onerous contracts), if the entity measures a group of underlying insurance contracts applying the premium allocation approach.

...

66A An entity shall adjust the contractual service margin of a group of reinsurance contracts held, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group (see paragraphs B119C–B119E).

66B An entity shall establish (or adjust) a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses recognised applying paragraphs 66(c)(i)–(ii) and 66A. The loss-recovery component determines the amounts that are presented in profit or loss as reversals of recoveries of losses from reinsurance contracts held and are consequently excluded from the allocation of premiums paid to the reinsurer (see paragraph B119F).

...

Premium allocation approach for reinsurance contracts held

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

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

...

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

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

Investment contracts with discretionary participation features

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

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

...

Paragraphs 72 and 76 are amended. New text is underlined and deleted text is struck through.

Modification and derecognition

Modification of an insurance contract

- 72 If the terms of an insurance contract are modified, for example by agreement between the parties to the contract or by a change in regulation, an entity shall derecognise the original contract and recognise the modified contract as a new contract, applying NZ IFRS 17 or other applicable Standards if, and only if, any of the conditions in (a)–(c) are satisfied. The exercise of a right included in the terms of a contract is not a modification. The conditions are that:
- (a) if the modified terms had been included at contract inception:
 - (i) the modified contract would have been excluded from the scope of NZ IFRS 17, applying paragraphs 3–~~8A~~8;
 - (ii) ...
- ...

Derecognition

- 76 An entity derecognises an insurance contract from within a group of contracts by applying the following requirements in NZ IFRS 17:
- ...
- (c) the number of coverage units for expected remaining insurance contract services~~coverage~~ is adjusted to reflect the coverage units derecognised from the group, and the amount of the contractual service margin recognised in profit or loss in the period is based on that adjusted number, applying paragraph B119.
- ...

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

Presentation in the statement of financial position

- 78 **An entity shall present separately in the statement of financial position the carrying amount of portfolios~~groups~~ of:**
- (a) **insurance contracts issued that are assets;**
 - (b) **insurance contracts issued that are liabilities;**
 - (c) **reinsurance contracts held that are assets; and**
 - (d) **reinsurance contracts held that are liabilities.**
- 79 An entity shall include any assets ~~or liabilities~~ for insurance acquisition cash flows recognised applying paragraph ~~28B~~27 in the carrying amount of the related portfolios~~groups~~ of insurance contracts issued, and any assets or liabilities for cash flows related to portfolios~~groups~~ of reinsurance contracts held (see paragraph ~~65(b)~~65(a)) in the carrying amount of the portfolios~~groups~~ of reinsurance contracts held.

Paragraphs 83, 86 and 88–89 are amended and paragraph 87A is added. New text is underlined and deleted text is struck through.

Recognition and presentation in the statement(s) of financial performance (paragraphs B120–B136)

...

Insurance service result

83 An entity shall present in profit or loss insurance revenue arising from the groups of insurance contracts issued. Insurance revenue shall depict the provision of ~~coverage and other~~ services arising from the group of insurance contracts at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Paragraphs B120–B127 specify how an entity measures insurance revenue.

...

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

- (a) ...
- (b) treat amounts from the reinsurer that it expects to receive that are not contingent on claims of the underlying contracts (for example, some types of ceding commissions) as a reduction in the premiums to be paid to the reinsurer; ~~and~~
- (ba) treat amounts recognised relating to recovery of losses applying paragraphs 66(c)(i)–(ii) and 66A–66B as amounts recovered from the reinsurer; and
- (c) not present the allocation of premiums paid as a reduction in revenue.

Insurance finance income or expenses (see paragraphs B128–B136)

...

87A An entity shall apply:

- (a) paragraph B117A to insurance finance income or expenses arising from the application of paragraph B115 (risk mitigation); and
- (b) paragraphs 88 and 89 to all other insurance finance income or expenses.

88 In applying paragraph 87A(b), unless ~~Unless~~ paragraph 89 applies, an entity shall make an accounting policy choice between:

...

89 In applying paragraph 87A(b), for ~~For~~ insurance contracts with direct participation features, for which the entity holds the underlying items, an entity shall make an accounting policy choice between:

...

Disclosure

...

Paragraphs 97, 99–101, 103–105, 106–107 and 109 are amended, paragraphs 105A–105B, and 109A are added. New text is underlined and deleted text is struck through.

Explanation of recognised amounts

- 97 Of the disclosures required by paragraphs 98–~~109A~~109, only those in paragraphs 98–100, 102–103, 105–105B and 109A and ~~102–105~~ apply to contracts to which the premium allocation approach has been applied. If an entity uses the premium allocation approach, it shall also disclose:
- ...
- 99 An entity shall provide enough information in the reconciliations to enable users of financial statements to identify changes from cash flows and amounts that are recognised in the statement(s) of financial performance. To comply with this requirement, an entity shall:
- (a) disclose, in a table, the reconciliations set out in paragraphs 100–~~105B~~105; and
 - (b) for each reconciliation, present the net carrying amounts at the beginning and at the end of the period, disaggregated into a total for portfolios~~groups~~ of contracts that are assets and a total for portfolios~~groups~~ of contracts that are liabilities, that equal the amounts presented in the statement of financial position applying paragraph 78.
- 100 An entity shall disclose reconciliations from the opening to the closing balances separately for each of:
- ...
- (c) the liabilities for incurred claims. For insurance contracts to which the premium allocation approach described in paragraphs 53–59 or 69–~~70A~~70 has been applied, an entity shall disclose separate reconciliations for:

...
- 101 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–~~70A~~70 has been applied, an entity shall also disclose reconciliations from the opening to the closing balances separately for each of:
- ...
- 103 An entity shall separately disclose in the reconciliations required in paragraph 100 each of the following amounts related to ~~insurance~~ services, if applicable:
- ...
- (c) investment components excluded from insurance revenue and insurance service expenses (combined with refunds of premiums unless refunds of premiums are presented as part of the cash flows in the period described in paragraph 105(a)(i)).
- 104 An entity shall separately disclose in the reconciliations required in paragraph 101 each of the following amounts related to ~~insurance~~ services, if applicable:
- (a) ...
 - (b) changes that relate to current service, ie:
 - (i) ...
 - (ii) the change in the risk adjustment for non-financial risk that does not relate to future service or past service; and
 - (iii) experience adjustments (see paragraphs B97(c) and B113(a)), excluding amounts relating to the risk adjustment for non-financial risk included in (ii).
 - (c) ...
- 105 To complete the reconciliations in paragraphs 100–101, an entity shall also disclose separately each of the following amounts not related to ~~insurance~~ services provided in the period, if applicable:
- ...
- 105A An entity shall disclose a reconciliation from the opening to the closing balance of assets for insurance acquisition cash flows recognised applying paragraph 28B. An entity shall aggregate information for the

- reconciliation at a level that is consistent with that for the reconciliation of insurance contracts, applying paragraph 98.
- 105B An entity shall separately disclose in the reconciliation required by paragraph 105A any impairment losses and reversals of impairment losses recognised applying paragraph 28E–28F.
- 106 For insurance contracts issued other than those to which the premium allocation approach described in paragraphs 53–59 has been applied, an entity shall disclose an analysis of the insurance revenue recognised in the period comprising:
- (a) the amounts relating to the changes in the liability for remaining coverage as specified in paragraph B124, separately disclosing:
 - (i) ...
 - (ii) the change in the risk adjustment for non-financial risk, as specified in paragraph B124(b); ~~and~~
 - (iii) the amount of the contractual service margin recognised in profit or loss because of the transfer of insurance contract services in the period, as specified in paragraph B124(c); ~~and~~
 - (iv) other amounts, if any, for example, experience adjustments for premium receipts other than those that relate to future service as specified in paragraph B124(d).
 - (b) the allocation of the portion of the premiums that relate to the recovery of insurance acquisition cash flows (see paragraph B125).
- 107 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–~~70A~~70 has been applied, an entity shall disclose the effect on the statement of financial position separately for insurance contracts issued and reinsurance contracts held that are initially recognised in the period, showing their effect at initial recognition on:
- ...
- 109 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–~~70A~~70 has been applied, an entity shall disclose ~~an explanation of~~ when it expects to recognise the contractual service margin remaining at the end of the reporting period in profit or loss, ~~either~~ quantitatively, in appropriate time bands, ~~or by providing qualitative information~~. Such information shall be provided separately for insurance contracts issued and reinsurance contracts held.
- 109A An entity shall disclose quantitatively, in appropriate time bands, when it expects to derecognise an asset for insurance acquisition cash flows applying paragraph 28C.
- ...

Paragraph 114 is amended. New text is underlined and deleted text is struck through.
--

Transition amounts

- 114 An entity shall provide disclosures that enable users of financial statements to identify the effect of groups of insurance contracts measured at the transition date applying the modified retrospective approach (see paragraphs C6–~~C19A~~C19) or the fair value approach (see paragraphs C20–~~C24B~~C24) on the contractual service margin and insurance revenue in subsequent periods. Hence an entity shall disclose the reconciliation of the contractual service margin applying paragraph 101(c), and the amount of insurance revenue applying paragraph 103(a), separately for:
- ...

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

Significant judgements in applying NZ IFRS 17

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

- (c) to the extent not covered in (a), the approach used:
- ...

- (iii) to determine discount rates; ~~and~~
- (iv) to determine investment components; ~~and~~
- (v) to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or by insurance coverage and investment-related service (see paragraphs B119–B119B).

...

Paragraphs 128–129 and 132 are amended. New text is underlined and deleted text is struck through.

Nature and extent of risks that arise from contracts within the scope of NZ IFRS 17

...

Insurance and market risks—sensitivity analysis

128 An entity shall disclose information about sensitivities to changes in risk ~~variable exposures~~ arising from contracts within the scope of NZ IFRS 17. To comply with this requirement, an entity shall disclose:

- (a) a sensitivity analysis that shows how profit or loss and equity would have been affected by changes in risk ~~variable exposures~~ that were reasonably possible at the end of the reporting period:
 - (i) ...
 - (ii) for each type of market risk—in a way that explains the relationship between the sensitivities to changes in risk ~~variable exposures~~ arising from insurance contracts and those arising from financial assets held by the entity.

...

129 If an entity prepares a sensitivity analysis that shows how amounts different from those specified in paragraph 128(a) are affected by changes in risk ~~variable exposures~~ and uses that sensitivity analysis to manage risks arising from contracts within the scope of NZ IFRS 17, it may use that sensitivity analysis in place of the analysis specified in paragraph 128(a). The entity shall also disclose:

...

Liquidity risk—other information

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

- (a) ...
- (b) separate maturity analyses for ~~portfolios~~ groups of insurance contracts issued that are liabilities and ~~portfolios~~ groups of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the ~~portfolios~~ groups for each of the first five years after the reporting date and in aggregate beyond the first five years. An entity is not required to include in these analyses liabilities for remaining coverage measured applying paragraphs 55–59 ~~and paragraphs 69–70A~~. The analyses may take the form of:
 - (c) the amounts that are payable on demand, explaining the relationship between such amounts and the carrying amount of the related ~~portfolios~~ groups of contracts, if not disclosed applying (b) of this paragraph.

Appendix A—Defined terms

The definitions of 'contractual service margin', 'coverage period', 'group of insurance contracts' and 'insurance acquisition cash flows' are amended. New text is underlined and deleted text is struck through.

contractual service margin	A component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned profit the entity will recognise as it provides <u>insurance contract services</u> under the insurance contracts in the group.
coverage period	The period during which the entity provides <u>insurance contract services</u> coverage for insured events . This period includes the <u>insurance contract services that relate to coverage that relates</u> to all premiums within the boundary of the insurance contract .
...	
group of insurance contracts	A set of insurance contracts resulting from the division of a portfolio of insurance contracts into, at a minimum, contracts issued <u>written</u> within a period of no longer than one year and that, at initial recognition: <ol style="list-style-type: none"> (a) are onerous, if any; (b) have no significant possibility of becoming onerous subsequently, if any; or (c) do not fall into either (a) or (b), if any.
insurance acquisition cash flows	Cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts (<u>issued or expected to be issued</u>) that are directly attributable to the portfolio of insurance contracts to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or groups of insurance contracts within the portfolio.
...	

A new definition is added after the definition of 'insurance contract'. New text is underlined.

<u>insurance contract services</u>	The following <u>services</u> that an entity provides to a policyholder of an insurance contract : <ol style="list-style-type: none"> (a) <u>coverage for an insured event (insurance coverage);</u> (b) <u>for insurance contracts without direct participation features, the generation of an investment return for the policyholder, if applicable (investment-return service); and</u> (c) <u>for insurance contracts with direct participation features, the management of underlying items on behalf of the policyholder (investment-related service).</u>
...	

The definitions of 'investment component', 'liability for incurred claims' and 'liability for remaining coverage' are amended. New text is underlined and deleted text is struck through.

investment component	The amounts that an insurance contract requires the entity to repay to a policyholder <u>in all circumstances, regardless of whether an insured event occurs</u> even if an insured event does not occur .
...	

liability for incurred claims

An entity’s obligation to:

- (a) investigate and pay valid claims for **insured events** that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; ~~and~~
- (b) pay amounts that are not included in (a) and that relate to:
 - (i) **insurance contract services** that have already been provided; or
 - (ii) any **investment components** or other amounts that are not related to the provision of **insurance contract services** and that are not in the **liability for remaining coverage**.

liability for remaining coverage

An entity’s obligation to:

- (a) investigate and pay valid claims under existing **insurance contracts** for **insured events** that have not yet occurred (ie the obligation that relates to the unexpired portion of the ~~insurance coverage~~**coverage period**); ~~and~~
- (b) pay amounts under existing **insurance contracts** that are not included in (a) and that relate to:
 - (i) **insurance contract services** not yet provided (ie the obligations that relate to future provision of **insurance contract services**); or
 - (ii) any **investment components** or other amounts that are not related to the provision of **insurance contract services** and that have not been transferred to the **liability for incurred claims**.

...

Appendix B—Application guidance

Paragraph B1 is amended. New text is underlined and deleted text is struck through.

B1 This appendix provides guidance on the following:

...

- (ba) asset for insurance acquisition cash flows (see paragraphs B35A–B35D);
- (c) measurement (see paragraphs B36–~~B119F~~**B119**);

...

Paragraphs B5 and B12 are amended. New text is underlined.

Definition of an insurance contract (Appendix A)

...

Uncertain future event

...

B5 Some insurance contracts cover events that have already occurred but the financial effect of which is still uncertain. An example is an insurance contract that provides insurance coverage against an adverse

development of an event that has already occurred. In such contracts, the insured event is the determination of the ultimate cost of those claims.

...

The distinction between insurance risk and other risks

...

- B12 The definition of an insurance contract refers to an adverse effect on the policyholder. This definition does not limit the payment by the entity to an amount equal to the financial effect of the adverse event. For example, the definition includes ‘new for old’ insurance coverage that pays the policyholder an amount that permits the replacement of a used and damaged asset with a new one. Similarly, the definition does not limit the payment under a life insurance contract to the financial loss suffered by the deceased’s dependants, nor does it exclude contracts that specify the payment of predetermined amounts to quantify the loss caused by death or an accident.

...

Paragraphs B33–B35 and the heading above paragraph B33 are amended. New text is underlined and deleted text is struck through.

Promises to transfer distinct goods or ~~non-insurance~~ services other than insurance contract services (paragraph 12)

- B33 Paragraph 12 requires an entity to separate from an insurance contract a promise to transfer distinct goods or ~~non-insurance~~ services other than insurance contract services to a policyholder. For the purpose of separation, an entity shall not consider activities that an entity must undertake to fulfil a contract unless the entity transfers a good or service other than insurance contract services to the policyholder as those activities occur. For example, an entity may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the policyholder as the tasks are performed.
- B34 A good or ~~non-insurance~~ service other than an insurance contract service promised to a policyholder is distinct if the policyholder can benefit from the good or service either on its own or together with other resources readily available to the policyholder. Readily available resources are goods or services that are sold separately (by the entity or by another entity), or resources that the policyholder has already got (from the entity or from other transactions or events).
- B35 A good or ~~non-insurance~~ service other than an insurance contract service that is promised to the policyholder is not distinct if:
- (a) ...
 - (b) the entity provides a significant service in integrating the good or ~~non-insurance~~ service with the insurance components.

Paragraphs B35A–B35D and the heading above paragraph B35A are added. New text is underlined.

Insurance acquisition cash flows (paragraphs 28A–28F)

- B35A To apply paragraph 28A, an entity shall use a systematic and rational method to allocate:
- (a) insurance acquisition cash flows directly attributable to a group of insurance contracts:
 - (i) to that group; and
 - (ii) to groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group.
 - (b) insurance acquisition cash flows directly attributable to a portfolio of insurance contracts, other than those in (a), to groups of contracts in the portfolio.
- B35B At the end of each reporting period, an entity shall revise amounts allocated as specified in paragraph B35A to reflect any changes in assumptions that determine the inputs to the method of allocation used. An entity

shall not change amounts allocated to a group of insurance contracts after all contracts have been added to the group (see paragraph B35C).

B35C An entity might add insurance contracts to a group of insurance contracts across more than one reporting period (see paragraph 28). In those circumstances, an entity shall derecognise the portion of an asset for insurance acquisition cash flows that relates to insurance contracts added to the group in that period and continue to recognise an asset for insurance acquisition cash flows to the extent that the asset relates to insurance contracts expected to be added to the group in a future reporting period.

B35D To apply paragraph 28E:

- (a) an entity shall recognise an impairment loss in profit or loss and reduce the carrying amount of an asset for insurance acquisition cash flows so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group of insurance contracts, determined applying paragraph 32(a).
- (b) when an entity allocates insurance acquisition cash flows to groups of insurance contracts applying paragraph B35A(a)(ii), the entity shall recognise an impairment loss in profit or loss and reduce the carrying amount of the related assets for insurance acquisition cash flows to the extent that:
 - (i) the entity expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals, determined applying paragraph 32(a); and
 - (ii) the excess determined applying (b)(i) has not already been recognised as an impairment loss applying (a).

Paragraphs B64–B66 and B71–B72 are amended and paragraph B66A is added. New text is underlined and deleted text is struck through.

Measurement (paragraphs 29–71)

Estimates of future cash flows (paragraphs 33–35)

...

Cash flows within the contract boundary (paragraph 34)

...

B64 Paragraph 34 refers to an entity's practical ability to set a price at a future date (a renewal date) that fully reflects the risks in the contract from that date. An entity has that practical ability in the absence of constraints that prevent the entity from setting the same price it would for a new contract with the same characteristics as the existing contract issued on that date, or if it can amend the benefits to be consistent with the price it will charge. Similarly, an entity has that practical ability to set a price when it can reprice an existing contract so that the price reflects overall changes in the risks in a portfolio of insurance contracts, even if the price set for each individual policyholder does not reflect the change in risk for that specific policyholder. When assessing whether the entity has the practical ability to set a price that fully reflects the risks in the contract or portfolio, it shall consider all the risks that it would consider when underwriting equivalent contracts on the renewal date for the remaining ~~service coverage~~. In determining the estimates of future cash flows at the end of a reporting period, an entity shall reassess the boundary of an insurance contract to include the effect of changes in circumstances on the entity's substantive rights and obligations.

B65 Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing. The cash flows within the boundary include:

...

- (ka) costs the entity will incur:
 - (i) performing investment activity, to the extent the entity performs that activity to enhance benefits from insurance coverage for policyholders. Investment activities enhance benefits from insurance coverage if the entity performs those activities expecting to generate an investment return from which policyholders will benefit if an insured event occurs.
 - (ii) providing investment-return service to policyholders of insurance contracts without direct participation features (see paragraph B119B).

- (iii) providing investment-related service to policyholders of insurance contracts with direct participation features.

...

B66 The following cash flows shall not be included when estimating the cash flows that will arise as the entity fulfils an existing insurance contract:

...

- (f) income tax payments and receipts the insurer does not pay or receive in a fiduciary capacity or that are not specifically chargeable to the policyholder under the terms of the contract. ~~Such payments and receipts are recognised, measured and presented separately applying NZ IAS 12 *Income Taxes*.~~

...

B66A Before the recognition of a group of insurance contracts, an entity might be required to recognise an asset or liability for cash flows related to the group of insurance contracts other than insurance acquisition cash flows either because of the occurrence of the cash flows or because of the requirements of another Standard. Cash flows are related to the group of insurance contracts if those cash flows would have been included in the fulfilment cash flows at the date of initial recognition of the group had they been paid or received after that date. To apply paragraph 38(c)(ii) an entity shall derecognise such an asset or liability to the extent that the asset or liability would not be recognised separately from the group of insurance contracts if the cash flow or the application of the Standard occurred at the date of initial recognition of the group of insurance contracts.

Contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts

...

B71 After all insurance contract services have the coverage ~~has~~ been provided to the contracts in a group, the fulfilment cash flows may still include payments expected to be made to current policyholders in other groups or future policyholders. An entity is not required to continue to allocate such fulfilment cash flows to specific groups but can instead recognise and measure a liability for such fulfilment cash flows arising from all groups.

Discount rates (paragraph 36)

B72 An entity shall use the following discount rates in applying NZ IFRS 17:

...

- (c) to measure the changes to the contractual service margin applying paragraphs B96(a)–B96(b) and B96(d) ~~paragraph B96(a)–B96(e)~~ for insurance contracts without direct participation features—discount rates applying paragraph 36 determined on initial recognition;

...

Paragraphs B93–B95 are amended, paragraph B95 is bifurcated creating new paragraph B95A. Paragraphs B95B–B95F and the heading above paragraph B95E are added. New text is underlined.

Initial recognition of transfers of insurance contracts and business combinations (paragraph 39)

B93 When an entity acquires insurance contracts issued or reinsurance contracts held in a transfer of insurance contracts that do not form a business or in a business combination within the scope of NZ IFRS 3, the entity shall apply paragraphs 14–24 to identify the groups of contracts acquired, as if it had entered into the contracts on the date of the transaction.

B94 An entity shall use the consideration received or paid for the contracts as a proxy for the premiums received. The consideration received or paid for the contracts excludes the consideration received or paid for any other assets and liabilities acquired in the same transaction. In a business combination within the scope of NZ IFRS 3, the consideration received or paid is the fair value of the contracts at that date. In determining that fair value, an entity shall not apply paragraph 47 of NZ IFRS 13 (relating to demand features).

B95 Unless the premium allocation approach for the liability for remaining coverage in paragraphs 55–59 and 69–70A applies, on initial recognition the contractual service margin is calculated applying paragraph 38 for acquired insurance contracts issued and paragraph 65 for acquired reinsurance contracts held using the

consideration received or paid for the contracts as a proxy for the premiums received or paid at the date of initial recognition.

- B95A If acquired insurance contracts issued are onerous, applying paragraph 47, the entity shall recognise the excess of the fulfilment cash flows over the consideration paid or received as part of goodwill or gain on a bargain purchase for contracts acquired in a business combination within the scope of NZ IFRS 3, or as a loss in profit or loss for contracts acquired in a transfer. The entity shall establish a loss component of the liability for remaining coverage for that excess, and apply paragraphs 49–52 to allocate subsequent changes in fulfilment cash flows to that loss component.
- B95B For a group of reinsurance contracts held to which paragraphs 66A–66B apply, an entity shall determine the loss-recovery component of the asset for remaining coverage at the date of the transaction by multiplying:
- (a) the loss component of the liability for remaining coverage of the underlying insurance contracts at the date of the transaction; and
 - (b) the percentage of claims on the underlying insurance contracts the entity expects at the date of the transaction to recover from the group of reinsurance contracts held.
- B95C The entity shall recognise the amount of the loss-recovery component determined applying paragraph B95B as part of goodwill or gain on a bargain purchase for reinsurance contracts held acquired in a business combination within the scope of NZ IFRS 3, or as income in profit or loss for contracts acquired in a transfer.
- B95D Applying paragraphs 14–22, at the date of the transaction an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous contracts not covered by the group of reinsurance contracts held. To apply paragraph B95B in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

Asset for insurance acquisition cash flows

- B95E When an entity acquires insurance contracts issued in a transfer of insurance contracts that do not form a business or in a business combination within the scope of NZ IFRS 3, the entity shall recognise an asset for insurance acquisition cash flows at fair value at the date of the transaction for the rights to obtain:
- (a) future insurance contracts that are renewals of insurance contracts recognised at the date of the transaction; and
 - (b) future insurance contracts, other than those in (a), after the date of the transaction without paying again insurance acquisition cash flows the acquirer has already paid that are directly attributable to the related portfolio of insurance contracts.
- B95F At the date of the transaction, the amount of any asset for insurance acquisition cash flows shall not be included in the measurement of the acquired group of insurance contracts applying paragraphs B93–B95A.

Paragraphs B96–B97 are amended. New text is underlined and deleted text is struck through.

Changes in the carrying amount of the contractual service margin for insurance contracts without direct participation features (paragraph 44)

- B96 For insurance contracts without direct participation features, paragraph 44(c) requires an adjustment to the contractual service margin of a group of insurance contracts for changes in fulfilment cash flows that relate to future service. These changes comprise:
- (a) experience adjustments arising from premiums received in the period that relate to future service, and related cash flows such as insurance acquisition cash flows and premium-based taxes, measured at the discount rates specified in paragraph B72(c);
 - (b) changes in estimates of the present value of the future cash flows in the liability for remaining coverage, except those described in paragraph B97(a), measured at the discount rates specified in paragraph B72(c);
 - (c) differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period. Those differences are determined by comparing (i) the actual investment component that becomes payable in the period with (ii) the

payment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable, measured at the discount rates specified in paragraph B72(c); and

- (ca) differences between any loan to a policyholder expected to become repayable in the period and the actual loan to a policyholder that becomes repayable in the period. Those differences are determined by comparing (i) the actual loan to a policyholder that becomes repayable in the period with (ii) the repayment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected repayment before it becomes repayable.
- (d) changes in the risk adjustment for non-financial risk that relate to future service. An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between (i) a change related to non-financial risk and (ii) the effect of the time value of money and changes in the time value of money. If an entity makes such a disaggregation, it shall adjust the contractual service margin for the change related to non-financial risk, measured at the discount rates specified in paragraph B72(c).

B97 An entity shall not adjust the contractual service margin for a group of insurance contracts without direct participation features for the following changes in fulfilment cash flows because they do not relate to future service:

- (a) the effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk. These effects comprise: ~~(being~~
 - (i) the effect, if any, on estimated future cash flows;
 - (ii) the effect, if disaggregated, on the risk adjustment for non-financial risk; and
 - (iii) the effect of a change in discount rate;~~;~~
- (b) changes in estimates of fulfilment cash flows in the liability for incurred claims; ~~and~~
- (c) ...
- ...

Paragraphs B104, B107, B112, B115–B116 and B118 are amended. Paragraph B117A is added. Paragraph B101 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

Changes in the carrying amount of the contractual service margin for insurance contracts with direct participation features (paragraph 45)

B101 Insurance contracts with direct participation features are insurance contracts that are substantially investment-related service contracts under which an entity promises an investment return based on underlying items. Hence, they are defined as insurance contracts for which:

- (a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items (see paragraphs B105–B106);
- (b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items (see paragraph B107); and
- (c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items (see paragraph B107).

...

B104 The conditions in paragraph B101 ensure that insurance contracts with direct participation features are contracts under which the entity's obligation to the policyholder is the net of:

- (a) ...
- (b) a variable fee (see paragraphs B110–B118) that the entity will deduct from (a) in exchange for the future service provided by the insurance contract, comprising:
 - (i) the amount of the entity's share of the fair value of the underlying items; less
 - (ii) ...

...

- B107 Paragraph B101(b) requires that the entity expects a substantial share of the fair value returns on the underlying items will be paid to the policyholder and paragraph B101(c) requires that the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. An entity shall:
- (a) ...
 - (b) assess the variability in the amounts in paragraphs B101(b) and B101(c):
 - (i) over the duration of the insurance contract~~group of insurance contracts~~; and
 - (ii) ...

...

- B112 Changes in the amount of the entity's share of the fair value of the underlying items (paragraph B104(b)(i)) relate to future service and adjust the contractual service margin, applying paragraph 45(b).

...

Risk mitigation

- B115 To the extent that an entity meets the conditions in paragraph B116, it may choose not to recognise a change in the contractual service margin to reflect some or all of the changes in the effect of the time value of money and financial risk on: the entity's share of the underlying items (see paragraph B112) or the fulfilment cash flows set out in paragraph B113(b).

- (a) the amount of the entity's share of the underlying items (see paragraph B112) if the entity mitigates the effect of financial risk on that amount using derivatives or reinsurance contracts held; and
- (b) the fulfilment cash flows set out in paragraph B113(b) if the entity mitigates the effect of financial risk on those fulfilment cash flows using derivatives, non-derivative financial instruments measured at fair value through profit or loss, or reinsurance contracts held.

- B116 To apply paragraph B115, an entity must have a previously documented risk-management objective and strategy for mitigating financial risk as described in paragraph B115, using derivatives to mitigate financial risk arising from the insurance contracts and, in applying that objective and strategy:

- (a) ~~the entity uses a derivative to mitigate the financial risk arising from the insurance contracts.~~
- (a)(b) an economic offset exists between the insurance contracts and the derivative, non-derivative financial instrument measured at fair value through profit or loss, or reinsurance contract held (ie the values of the insurance contracts and those risk mitigating items~~the derivative~~ generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated). An entity shall not consider accounting measurement differences in assessing the economic offset.
- (b)(c) credit risk does not dominate the economic offset.

...

- B117A If the entity mitigates the effect of financial risk using derivatives or non-derivative financial instruments measured at fair value through profit or loss, it shall include insurance finance income or expenses for the period arising from the application of paragraph B115 in profit or loss. If the entity mitigates the effect of financial risk using reinsurance contracts held, it shall apply the same accounting policy for the presentation of insurance finance income or expenses arising from the application of paragraph B115 as the entity applies to the reinsurance contracts held applying paragraphs 88 and 90.

- B118 If, and only if, any of the conditions in paragraph B116 ~~cease~~ceases to be met, an entity shall:

- (a) ~~cease to apply paragraph B115 from that date, and~~
- (b) An entity shall not make any adjustment for changes previously recognised in profit or loss.

Paragraph B119 is amended and paragraphs B119A–B119B are added. New text is underlined and deleted text is struck through.

Recognition of the contractual service margin in profit or loss

- B119 An amount of the contractual service margin for a group of insurance contracts is recognised in profit or loss in each period to reflect the insurance contract services provided under the group of insurance contracts in that period (see paragraphs 44(e), 45(e) and 66(e)). The amount is determined by:
- (a) identifying the coverage units in the group. The number of coverage units in a group is the quantity of insurance contract services~~coverage~~ provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period~~duration~~.
 - (b) allocating the contractual service margin at the end of the period (before recognising any amounts in profit or loss to reflect the insurance contract services provided in the period) equally to each coverage unit provided in the current period and expected to be provided in the future.
 - (c) recognising in profit or loss the amount allocated to coverage units provided in the period.
- B119A To apply paragraph B119, the period of investment-return service or investment-related service ends at or before the date that all amounts due to current policyholders relating to those services have been paid, without considering payments to future policyholders included in the fulfilment cash flows applying paragraph B68.
- B119B Insurance contracts without direct participation features may provide an investment-return service if, and only if:
- (a) an investment component exists, or the policyholder has a right to withdraw an amount;
 - (b) the entity expects the investment component or amount the policyholder has a right to withdraw to include an investment return (an investment return could be below zero, for example, in a negative interest rate environment); and
 - (c) the entity expects to perform investment activity to generate that investment return.

Paragraphs B119C–B119F and the heading above paragraph BC119C are added. New text is underlined and deleted text is struck through.

Reinsurance contracts held—recognition of recovery of losses on underlying insurance contracts (paragraphs 66A–66B)

- B119C Paragraph 66A applies if, and only if, the reinsurance contract held is entered into before or at the same time as the onerous underlying insurance contracts are recognised.
- B119D To apply paragraph 66A, an entity shall determine the adjustment to the contractual service margin of a group of reinsurance contracts held and the resulting income by multiplying:
- (a) the loss recognised on the underlying insurance contracts; and
 - (b) the percentage of claims on the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.
- B119E Applying paragraphs 14–22, an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraphs 66(c)(i)–(ii) and paragraph 66A in such cases, the entity shall apply a systematic and rational method of allocation to determine the portion of losses recognised on the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.
- B119F After an entity has established a loss-recovery component applying paragraph 66B, the entity shall adjust the loss-recovery component to reflect changes in the loss component of an onerous group of underlying insurance contracts (see paragraphs 50–52). The carrying amount of the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

Paragraphs B121, B123, B124 and B126 are amended and paragraph B123A is added. New text is underlined and deleted text is struck through.

Insurance revenue (paragraphs 83 and 85)

- ...
- B121 Paragraph 83 requires the amount of insurance revenue recognised in a period to depict the transfer of promised services at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. The total consideration for a group of contracts covers the following amounts:
- (a) amounts related to the provision of services, comprising:
 - (i) insurance service expenses, excluding any amounts relating to the risk adjustment for non-financial risk included in (ii) and any amounts allocated to the loss component of the liability for remaining coverage;
 - (ia) amounts related to income tax that are specifically chargeable to the policyholder;
 - (ii) the risk adjustment for non-financial risk, excluding any amounts allocated to the loss component of the liability for remaining coverage; and
 - (iii) ...
 - (b) ...
- ...
- B123 Applying NZ IFRS 15, when an entity provides services, it derecognises the performance obligation for those services and recognises revenue. Consistently, applying NZ IFRS 17, when an entity provides services in a period, it reduces the liability for remaining coverage for the services provided and recognises insurance revenue. The reduction in the liability for remaining coverage that gives rise to insurance revenue excludes changes in the liability that do not relate to services expected to be covered by the consideration received by the entity. Those changes are:
- (a) changes that do not relate to services provided in the period, for example:
 - ...
 - (ia) changes resulting from cash flows from loans to policyholders;
- ...
- B123A** To the extent that an entity derecognises an asset for cash flows other than insurance acquisition cash flows at the date of initial recognition of a group of insurance contracts (see paragraphs 38(c)(ii) and B66A), it shall recognise insurance revenue and expenses for the amount derecognised at that date.
- B124 Consequently, insurance revenue for the period can also be analysed as the total of the changes in the liability for remaining coverage in the period that relates to services for which the entity expects to receive consideration. Those changes are:
- (a) insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period), excluding:
 - ...
 - (iii) amounts that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph B65(i)); ~~and~~
 - (iv) insurance acquisition expenses (see paragraph B125); ~~and~~
 - (v) the amount related to the risk adjustment for non-financial risk (see (b)).
- ...
- (d) other amounts, if any, for example, experience adjustments for premium receipts other than those that relate to future service (see paragraph B96(a)).
- ...
- B126 When an entity applies the premium allocation approach in paragraphs 55–58, insurance revenue for the period is the amount of expected premium receipts (excluding any investment component and adjusted to reflect the time value of money and the effect of financial risk, if applicable, applying paragraph 56) allocated

to the period. The entity shall allocate the expected premium receipts to each period of insurance contract services coverage:

...

Paragraphs B128 and B134 are amended. New text is underlined and deleted text is struck through.

Insurance finance income or expenses (paragraphs 87–92)

B128 Paragraph 87 requires an entity to include in insurance finance income or expenses the effect of the time value of money and financial risk and changes therein ~~in assumptions that relate to financial risk~~. For the purposes of NZ IFRS 17:

- (a) assumptions about inflation based on an index of prices or rates or on prices of assets with inflation-linked returns are assumptions that relate to financial risk; ~~and~~
- (b) assumptions about inflation based on an entity's expectation of specific price changes are not assumptions that relate to financial risk; ~~and~~;
- (c) changes in the measurement of a group of insurance contracts caused by changes in the value of underlying items (excluding additions and withdrawals) are changes arising from the effect of the time value of money and financial risk and changes therein.

...

B134 Paragraph 89 applies if an entity, either by choice or because it is required to, holds the underlying items for insurance contracts with direct participation features. If an entity chooses to disaggregate insurance finance income or expenses applying paragraph 89(b), it shall include in profit or loss expenses or income that exactly match the income or expenses included in profit or loss for the underlying items, resulting in the net of the ~~two~~ separately presented items being nil.

...

Paragraph B137 and its heading are amended. New text is underlined and deleted text is struck through.

The effect of accounting estimates made in interim~~Interim~~ financial statements

B137 If an entity prepares interim financial statements applying NZ IAS 34 *Interim Financial Reporting*, the entity shall make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying NZ IFRS 17 in subsequent interim financial statements and in the annual reporting period. The entity shall apply its choice of accounting policy to all groups of insurance contracts it issues and groups of reinsurance contracts it holds. Notwithstanding the requirement in NZ IAS 34 *Interim Financial Reporting* that the frequency of an entity's reporting shall not affect the measurement of its annual results, an entity shall not change the treatment of accounting estimates made in previous interim financial statements when applying NZ IFRS 17 in subsequent interim financial statements or in the annual reporting period.

Appendix C—Effective date and transition

Paragraph C1 is amended. Paragraph C2 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

Effective date

- C1 An entity shall apply NZ IFRS 17 for annual reporting periods beginning on or after 1 January ~~2023~~2021. If an entity applies NZ IFRS 17 earlier, it shall disclose that fact. Early application is permitted for entities that apply NZ IFRS 9 *Financial Instruments* ~~and NZ IFRS 15 *Revenue from Contracts with Customers*~~ on or before the date of initial application of NZ IFRS 17.
- C2 For the purposes of the transition requirements in paragraphs C1 and C3–C33:
- (a) the date of initial application is the beginning of the annual reporting period in which an entity first applies NZ IFRS 17; and
 - (b) the transition date is the beginning of the annual reporting period immediately preceding the date of initial application.

Paragraphs C3–C5 are amended and paragraphs C5A–C5B are added. New text is underlined and deleted text is struck through.

Transition

- C3 ~~Unless it is impracticable to do so, or paragraph C5A applies, an~~ entity shall apply NZ IFRS 17 retrospectively ~~unless impracticable~~, except that:
- (a) ...
 - (b) an entity shall not apply the option in paragraph B115 for periods before the transition date ~~date of initial application of NZ IFRS 17~~. An entity may apply the option in paragraph B115 prospectively on or after the transition date if, and only if, the entity designates risk mitigation relationships at or before the date it applies the option.
- C4 To apply NZ IFRS 17 retrospectively, an entity shall at the transition date:
- (a) ...
 - (aa) identify, recognise and measure any assets for insurance acquisition cash flows as if NZ IFRS 17 had always applied (except that an entity is not required to apply the recoverability assessment in paragraph 28E before the transition date);
 - ...
- C5 If, and only if, it is impracticable for an entity to apply paragraph C3 for a group of insurance contracts, an entity shall apply the following approaches instead of applying paragraph C4(a):
- (a) the modified retrospective approach in paragraphs C6–~~C19A~~C19, subject to paragraph C6(a); or
 - (b) the fair value approach in paragraphs C20–~~C24B~~C24.
- C5A Notwithstanding paragraph C5, an entity may choose to apply the fair value approach in paragraphs C20–C24B for a group of insurance contracts with direct participation features to which it could apply NZ IFRS 17 retrospectively if, and only if:
- (a) the entity chooses to apply the risk mitigation option in paragraph B115 to the group of insurance contracts prospectively from the transition date; and
 - (b) the entity has used derivatives, non-derivative financial instruments measured at fair value through profit or loss, or reinsurance contracts held to mitigate financial risk arising from the group of insurance contracts, as specified in paragraph B115, before the transition date.

- C5B** If, and only if, it is impracticable for an entity to apply paragraph C4(aa) for an asset for insurance acquisition cash flows, the entity shall apply the following approaches to measure the asset for insurance acquisition cash flows:
- (a) the modified retrospective approach in paragraphs C14B–C14D and C17A, subject to paragraph C6(a); or
 - (b) the fair value approach in paragraphs C24A–C24B.

Paragraphs C7–C9, C11 and C15–C16 and C17 are amended. Paragraphs C9A, C14A–C14D, C16A–C16C and C17A are added. New text is underlined and deleted text is struck through.

Modified retrospective approach

- ...
- C7** Paragraphs C9–~~C19A~~C19 set out permitted modifications to retrospective application in the following areas:
- ...
- C8** To achieve the objective of the modified retrospective approach, an entity is permitted to use each modification in paragraphs C9–~~C19A~~C19 only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

Assessments at inception or initial recognition

- C9** To the extent permitted by paragraph C8, an entity shall determine the following matters using information available at the transition date:
- (a) ...
 - (b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109; ~~and~~
 - (c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100; ~~and~~
 - (d) whether an investment contract meets the definition of an investment contract with discretionary participation features within the scope of NZ IFRS 17, applying paragraph 71.
- C9A** To the extent permitted by paragraph C8, an entity shall classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of NZ IFRS 3.
- ...

Determining the contractual service margin or loss component for groups of insurance contracts without direct participation features

- C11** To the extent permitted by paragraph C8, for contracts without direct participation features, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage (see paragraphs 49–52) at the transition date by applying paragraphs C12–~~C16C~~C16.
- ...
- C14A** Applying paragraph B137, an entity may choose not to change the treatment of accounting estimates made in previous interim financial statements. To the extent permitted by paragraph C8, such an entity shall determine the contractual service margin or loss component at the transition date as if the entity had not prepared interim financial statements before the transition date.
- C14B** To the extent permitted by paragraph C8, an entity shall use the same systematic and rational method the entity expects to use after the transition date when applying paragraph 28A to allocate any insurance acquisition cash flows paid (or for which a liability has been recognised applying another Standard) before the transition date (excluding any amount relating to insurance contracts that ceased to exist before the transition date) to:
- (a) groups of insurance contracts that are recognised at the transition date; and
 - (b) groups of insurance contracts that are expected to be recognised after the transition date.

- C14C Insurance acquisition cash flows paid before the transition date that are allocated to a group of insurance contracts recognised at the transition date adjust the contractual service margin of that group, to the extent insurance contracts expected to be in the group have been recognised at that date (see paragraphs 28C and B35C). Other insurance acquisition cash flows paid before the transition date, including those allocated to a group of insurance contracts expected to be recognised after the transition date, are recognised as an asset, applying paragraph 28B.
- C14D If an entity does not have reasonable and supportable information to apply paragraph C14B, the entity shall determine the following amounts to be nil at the transition date:
- (a) the adjustment to the contractual service margin of a group of insurance contracts recognised at the transition date and any asset for insurance acquisition cash flows relating to that group; and
 - (b) the asset for insurance acquisition cash flows for groups of insurance contracts expected to be recognised after the transition date.
- C15 If applying paragraphs C12–~~C14D~~C14 results in a contractual service margin at the date of initial recognition, to determine the contractual service margin at the date of transition an entity shall:
- ...
- C16 If applying paragraphs C12–~~C14D~~C14 results in a loss component of the liability for remaining coverage at the date of initial recognition, an entity shall determine any amounts allocated to the loss component before the transition date applying paragraphs C12–~~C14D~~C14 and using a systematic basis of allocation.
- C16A For a group of reinsurance contracts held that provides coverage for an onerous group of insurance contracts and was entered into before or at the same time that the insurance contracts were issued, an entity shall establish a loss-recovery component of the asset for remaining coverage at the transition date (see paragraphs 66A–66B). To the extent permitted by paragraph C8, an entity shall determine the loss-recovery component by multiplying:
- (a) the loss component of the liability for remaining coverage for the underlying insurance contracts at the transition date (see paragraphs C16 and C20); and
 - (b) the percentage of claims for the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.
- C16B Applying paragraphs 14–22, at the transition date an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraph C16A in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.
- C16C If an entity does not have reasonable and supportable information to apply paragraph C16A, the entity shall not identify a loss-recovery component for the group of reinsurance contracts held.

Determining the contractual service margin or loss component for groups of insurance contracts with direct participation features

- C17 To the extent permitted by paragraph C8, for contracts with direct participation features an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as:
- (a) the total fair value of the underlying items at that date; minus
 - (b) the fulfilment cash flows at that date; plus or minus
 - (c) an adjustment for:
- ...
- (iv) insurance acquisition cash flows paid (or for which a liability has been recognised applying another Standard) before the transition date that are allocated to the group (see paragraph C17A).
- (d) if (a)–(c) result in a contractual service margin—minus the amount of the contractual service margin that relates to services provided before that date. The total of (a)–(c) is a proxy for the total contractual service margin for all services to be provided under the group of contracts, ie before any amounts that would have been recognised in profit or loss for services provided. The entity shall estimate the amounts that would have been recognised in profit or loss for services provided by comparing the

remaining coverage units at the transition date with the coverage units provided under the group of contracts before the transition date; or

- (e) if (a)–(c) result in a loss component—adjust the loss component to nil and increase the liability for remaining coverage excluding the loss component by the same amount.

C17A To the extent permitted by paragraph C8, an entity shall apply paragraphs C14B–C14D to recognise an asset for insurance acquisition cash flows, and any adjustment to the contractual service margin of a group of insurance contracts with direct participation features for insurance acquisition cash flows (see paragraph C17(c)(iv)).

Paragraph C19A is added. New text is underlined.

Insurance finance income or expenses

...

C19A Applying paragraph B137, an entity may choose not to change the treatment of accounting estimates made in previous interim financial statements. To the extent permitted by paragraph C8, such an entity shall determine amounts related to insurance finance income or expenses at the transition date as if it had not prepared interim financial statements before the transition date.

Paragraphs C20A–C20B and C22A are added and paragraph C21 is amended. New text is underlined and deleted text is struck through.

Fair value approach

...

C20A For a group of reinsurance contracts held to which paragraphs 66A–66B apply (without the need to meet the condition set out in paragraph B119C), an entity shall determine the loss-recovery component of the asset for remaining coverage at the transition date by multiplying:

- (a) the loss component of the liability for remaining coverage for the underlying insurance contracts at the transition date (see paragraphs C16 and C20); and
- (b) the percentage of claims for the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

C20B Applying paragraphs 14–22, at the transition date an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraph C20A in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

C21 In applying the fair value approach, an entity may apply paragraph C22 to determine:

- (a) ...
- (b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109; ~~and~~
- (c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100; ~~and~~
- (d) whether an investment contract meets the definition of an investment contract with discretionary participation features within the scope of NZ IFRS 17, applying paragraph 71.

...

C22A In applying the fair value approach, an entity may choose to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of NZ IFRS 3.

...

Paragraphs C24A–C24B and the heading above paragraphs C24A–C24B are added. New text is underlined.

Asset for insurance acquisition cash flows

- C24A** In applying the fair value approach for an asset for insurance acquisition cash flows (see paragraph C5B(b)), at the transition date, an entity shall determine an asset for insurance acquisition cash flows at an amount equal to the insurance acquisition cash flows the entity would incur at the transition date for the rights to obtain:
- (a) recoveries of insurance acquisition cash flows from premiums of insurance contracts issued before the transition date but not recognised at the transition date;
 - (b) future insurance contracts that are renewals of insurance contracts recognised at the transition date and insurance contracts described in (a); and
 - (c) future insurance contracts, other than those in (b), after the transition date without paying again insurance acquisition cash flows the acquiree has already paid that are directly attributable to the related portfolio of insurance contracts.
- C24B** At the transition date, the entity shall exclude from the measurement of any groups of insurance contracts the amount of any asset for insurance acquisition cash flows.

Paragraph C34 is amended. New text is underlined and deleted text is struck through.

Withdrawal of other Standards

- C34 NZ IFRS 17 supersedes NZ IFRS 4 *Insurance Contracts*, as amended in ~~2020~~2016.

Appendix D—Amendments to other Standards

This appendix sets out the amendments to other Standards that are a consequence of the issuance of NZ IFRS 17 *Insurance Contracts*. An entity shall apply these amendments when it applies NZ IFRS 17.

NZ IFRS 3 *Business Combinations*

In the amendments to NZ IFRS 3 *Business Combinations*, paragraphs 31A and 64N are amended. New text is underlined and deleted text is struck through.

...

Insurance contracts

- 31A The acquirer shall measure a group of contracts within the scope of NZ IFRS 17 *Insurance Contracts* acquired in a business combination, and any assets for insurance acquisition cash flows as defined in NZ IFRS 17, as a liability or asset in accordance with paragraphs 39 and B93–~~B95~~~~B95~~ of NZ IFRS 17, at the acquisition date.

...

Effective date

...

- 64N NZ IFRS 17, issued in August 2017, amended paragraphs 17, 20, 21, 35 and B63, and after paragraph 31 added a heading and paragraph 31A. Amendments to NZ IFRS 17, issued in August 2020, amended paragraph 31A. An entity shall apply the amendments to paragraph 17 to business combinations with an

acquisition date after the date of initial application of NZ IFRS 17. An entity shall apply the other~~these~~ amendments when it applies NZ IFRS 17.

...

NZ IFRS 7 *Financial Instruments: Disclosures*

In the amendments to NZ IFRS 7 *Financial Instruments: Disclosures*, paragraphs 3 and 44DD are amended. New text is underlined and deleted text is struck through.

Scope

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

...

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

(i) derivatives that are embedded in contracts within the scope of NZ IFRS 17, if NZ IFRS 9 requires the entity to account for them separately; ~~and~~

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

(iii) an issuer's rights and obligations arising under insurance contracts that meet the definition of~~Moreover, an issuer shall apply this Standard to financial guarantee contracts,~~ if the issuer applies NZ IFRS 9 in recognising and measuring the contracts. However, the issuer, but shall apply NZ IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of NZ IFRS 17, to apply NZ IFRS 17 in recognising and measuring the contracts~~them~~.

(iv) an entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract if the entity applies NZ IFRS 9 to those rights and obligations in accordance with paragraph 7(h) of NZ IFRS 17 and paragraph 2.1(e)(iv) of NZ IFRS 9.

(v) an entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, if the entity elects, in accordance with paragraph 8A of NZ IFRS 17, to apply NZ IFRS 9 instead of NZ IFRS 17 to such contracts.

(e) ...

...

Effective date and transition

...

44DD NZ IFRS 17, issued in August 2017, amended paragraphs 3, 8 and 29 and deleted paragraph 30. *Amendments to NZ IFRS 17, issued in August 2020, further amended paragraph 3.* An entity shall apply those amendments when it applies NZ IFRS 17.

NZ IFRS 9 *Financial Instruments*

In the amendments to NZ IFRS 9 *Financial Instruments*, paragraphs 2.1 and 7.1.6 are amended. A new heading and paragraphs 7.2.36–7.2.42 are added. New text is underlined and deleted text is struck through.

Chapter 2 Scope

2.1 This Standard shall be applied by all entities to all types of financial instruments except:

...

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

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

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

(iii) an issuer's rights and obligations under insurance contracts that meet the definition of a financial guarantee contract. However ~~Moreover~~, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either this Standard or NZ IFRS 17 to such financial guarantee contracts (see paragraphs B2.5–B2.6). The issuer may make that election contract by contract, but the election for each contract is irrevocable.

(iv) an entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract but which paragraph 7(h) of NZ IFRS 17 excludes from the scope of NZ IFRS 17. However, if, and only if, the insurance coverage is a contractual term of such a financial instrument, the entity shall separate that component and apply NZ IFRS 17 to it (see paragraph 7(h) of NZ IFRS 17).

(v) an entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, if the entity elects, in accordance with paragraph 8A of NZ IFRS 17, to apply NZ IFRS 9 instead of NZ IFRS 17 to such contracts.

(f) ...

...

Chapter 7 Effective date and transition

7.1 Effective date

...

7.1.6 NZ IFRS 17, issued in August 2017, amended paragraphs 2.1, B2.1, B2.4, B2.5 and B4.1.30, and added paragraph 3.3.5. Amendments to NZ IFRS 17, issued in August 2020, further amended paragraph 2.1 and added paragraphs 7.2.36–7.2.42. An entity shall apply those amendments when it applies NZ IFRS 17.

...

7.2 Transition

...

Transition for NZ IFRS 17 as amended in August 2020

- 7.2.36 An entity shall apply the amendments to NZ IFRS 9 made by NZ IFRS 17 as amended in August 2020 retrospectively in accordance with NZ IAS 8, except as specified in paragraphs 7.2.37–7.2.42.
- 7.2.37 An entity that first applies NZ IFRS 17 as amended in August 2020 at the same time it first applies this Standard shall apply paragraphs 7.2.1–7.2.28 instead of paragraphs 7.2.38–7.2.42.
- 7.2.38 An entity that first applies NZ IFRS 17 as amended in August 2020 after it first applies this Standard shall apply paragraphs 7.2.39–7.2.42. The entity shall also apply the other transition requirements in this Standard necessary for applying these amendments. For that purpose, references to the date of initial application shall be read as referring to the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments).
- 7.2.39 With regard to designating a financial liability as measured at fair value through profit or loss, an entity:
- (a) shall revoke its previous designation of a financial liability as measured at fair value through profit or loss if that designation was previously made in accordance with the condition in paragraph 4.2.2(a) but that condition is no longer satisfied as a result of the application of these amendments; and
 - (b) may designate a financial liability as measured at fair value through profit or loss if that designation would not have previously satisfied the condition in paragraph 4.2.2(a) but that condition is now satisfied as a result of the application of these amendments.
- Such a designation and revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application of these amendments. That classification shall be applied retrospectively.
- 7.2.40 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods only if it is possible to do so without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements in this Standard for the affected financial instruments. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.
- 7.2.41 In the reporting period that includes the date of initial application of these amendments, an entity is not required to present the quantitative information required by paragraph 28(f) of NZ IAS 8.
- 7.2.42 In the reporting period that includes the date of initial application of these amendments, the entity shall disclose the following information as at that date of initial application for each class of financial assets and financial liabilities that was affected by these amendments:
- (a) the previous classification, including the previous measurement category when applicable, and carrying amount determined immediately before applying these amendments;
 - (b) the new measurement category and carrying amount determined after applying these amendments;
 - (c) the carrying amount of any financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated; and
 - (d) the reasons for any designation or de-designation of financial liabilities as measured at fair value through profit or loss.

NZ IAS 1 *Presentation of Financial Statements*

In the amendments to NZ IAS 1 *Presentation of Financial Statements* paragraphs 54 and 139R are amended. New text is underlined and deleted text is struck through.

Information to be presented in the statement of financial position

- 54 The statement of financial position shall include line items that present the following amounts:
- ...
- (da) portfolios~~groups~~ of contracts within the scope of NZ IFRS 17 that are assets, disaggregated as required by paragraph 78 of NZ IFRS 17;
- ...
- (ma) portfolios~~groups~~ of contracts within the scope of NZ IFRS 17 that are liabilities, disaggregated as required by paragraph 78 of NZ IFRS 17;
- ...

Transition and effective date

- ...
- 139R NZ IFRS 17, issued in August 2017, amended paragraphs 7, 54 and 82. Amendments to NZ IFRS 17, issued in August 2020, further amended paragraph 54. An entity shall apply those amendments when it applies NZ IFRS 17.
- ...

NZ IAS 32 *Financial Instruments: Presentation*

In the amendments to NZ IAS 32 *Financial Instruments: Presentation* paragraphs 4 and 97T are amended. New text is underlined and deleted text is struck through.

Scope

- 4 This Standard shall be applied by all entities to all types of financial instruments except:
- ...
- (d) insurance contracts as defined in~~contracts within the scope of NZ IFRS 17~~ *Insurance Contracts or investment contracts with discretionary participation features within the scope of NZ IFRS 17.* However, this Standard applies to:
- (i) derivatives that are embedded in contracts within the scope of NZ IFRS 17, if NZ IFRS 9 requires the entity to account for them separately;~~and~~
- (ii) investment components that are separated from contracts within the scope of NZ IFRS 17, if NZ IFRS 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features within the scope of NZ IFRS 17.
- (iii) an issuer's rights and obligations arising under insurance contracts that meet the definition of~~Moreover, an issuer shall apply this Standard to~~ financial guarantee contracts, if the issuer applies NZ IFRS 9 in recognising and measuring the contracts. However, the issuer, but shall apply NZ IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of NZ IFRS 17, to apply NZ IFRS 17 in recognising and measuring the contracts~~them~~.
- (iv) an entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract if the entity applies

NZ IFRS 9 to those rights and obligations in accordance with paragraph 7(h) of NZ IFRS 17 and paragraph 2.1(e)(iv) of NZ IFRS 9.

- (v) an entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract if the entity elects, in accordance with paragraph 8A of NZ IFRS 17, to apply NZ IFRS 9 instead of NZ IFRS 17 to such contracts.

...

Effective date and transition

...

- 97T NZ IFRS 17, issued in August 2017, amended paragraphs 4, AG8 and AG36, and added paragraph 33A. Amendments to NZ IFRS 17, issued in August 2020, further amended paragraph 4. An entity shall apply those amendments when it applies NZ IFRS 17.

NZ IAS 36 *Impairment of Assets*

In the amendments to NZ IAS 36 *Impairment of Assets* paragraphs 2 and 140N are amended. New text is underlined.

Scope

- 2 This Standard shall be applied in accounting for the impairment of all assets, other than:
- ...
- (h) contracts within the scope of NZ IFRS 17 *Insurance Contracts* that are assets and any assets for insurance acquisition cash flows as defined in NZ IFRS 17; and
- ...

Transition provisions and effective date

...

- 140N NZ IFRS 17, issued in August 2017, amended paragraph 2. Amendments to NZ IFRS 17, issued in August 2020, further amended paragraph 2. An entity shall apply those amendments when it applies NZ IFRS 17.

NZ IAS 38 *Intangible Assets*

In the amendments to NZ IAS 38 *Intangible Assets* paragraphs 3 and 130M are amended. New text is underlined.

Scope

...

- 3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:
- ...
- (g) contracts within the scope of NZ IFRS 17 *Insurance Contracts* and any assets for insurance acquisition cash flows as defined in NZ IFRS 17.
- (h) ...

...

Transitional provisions and effective date

...

130M NZ IFRS 17, issued in August 2017, amended paragraph 3. Amendments to NZ IFRS 17, issued in August 2020, further amended paragraph 3. An entity shall apply those amendments when it applies NZ IFRS 17.

Part D – Effective Date

This Standard shall be applied for annual periods beginning on or after 1 January 2023. Earlier application is permitted.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 13 August 2020

To: Michele Embling, Chair XRB Board

From: Michael Bradbury, Acting Chair NZASB

Subject: **Amendments to NZ IFRS 17**

Introduction¹

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *Amendments to NZ IFRS 17*.
2. Since the issue of IFRS 17 *Insurance Contracts* in May 2017, the IASB has been carrying out activities to support companies and monitor their progress in implementing the standard. Those activities helped the IASB to understand the concerns and challenges that some companies identified while implementing the standard and led the IASB to decide that it should propose amendments to IFRS 17 and defer the effective date of the standard. IASB ED/2019/4 *Amendments to IFRS 17* was issued with the objective of assisting companies to implement IFRS 17 while not unduly disrupting implementation or diminishing the usefulness of the information provided by applying the standard.
3. The targeted amendments have three main purposes.
 - (a) *To reduce costs* by simplifying some requirements, including systems-development costs.
 - (b) *To make the results easier to explain*. Some constituents expressed the view that that the results of applying IFRS 17 as originally issued are difficult to explain in some circumstances (for example, because they are perceived to cause accounting mismatches).
 - (c) *To ease transition* by deferring the effective date by a year (to 1 January 2022) and by providing additional transitional reliefs to reduce the complexity of applying IFRS 17 for the first time.

Due process followed in developing *Amendments to NZ IFRS 17*

4. The IASB issued IASB ED/2019/4 *Amendments to IFRS 17* in June 2019, with a due date for comments of 25 September 2019. The IASB received 123 comment letters, including one from

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the New Zealand Society of Actuaries (Inc) (NZSA).² The NZSA sent a copy of its submission, which was generally supportive of the proposals in IASB ED/2019/4, to the XRB. The NZASB did not comment on IASB ED/2019/4.

5. The ED was also issued for comment in New Zealand shortly after the IASB issued it for comment. No comments were received from New Zealand constituents.
6. Respondents supported the IASB's process in considering the concerns and challenges arising from the implementation of IFRS 17 and in proposing amendments to the standard, and generally agreed with the proposals in the ED. The IASB also decided to defer the effective date of IFRS 17 by two years rather than the one year proposed in the ED.
7. Prior to issuing *Amendments to IFRS 17*, the IASB reviewed the due process steps that it had taken over the course of this project and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's meeting on 17 March 2020.³
8. The IASB issued *Amendments to IFRS 17* on 25 June 2020. The standard amends the effective date of IFRS 17 from annual periods beginning on or after 1 January 2021 to annual periods beginning on or after 1 January 2023. Earlier application is permitted for entities that apply IFRS 9 *Financial Instruments* on or before the date of initial application of IFRS 17.
9. The due process followed by the Board complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.
10. 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 Commission is required.

Major issues raised by New Zealand constituents

11. Although the NZSA generally agreed with the proposals in IASB ED/2019/4, it raised some issues in its comment letter to the IASB. The major issues raised by the NZSA and the subsequent action by the IASB are as follows.
 - (a) *Expected recovery of insurance acquisition cash flows*. The respondent was of the view that there should be a single asset recognised for insurance cash flows rather than an asset for each existing or future group of insurance contracts. This would be more practical to implement and would achieve an outcome that is more consistent with the way goodwill intangible assets are tested for impairment under other accounting

² The IASB also received five submissions from Australian entities: the Institute of Actuaries, Australia; the Insurance Council of Australia; the AASB; Insurance Australia Group; and a joint submission from Chartered Accountants Australia and New Zealand and CPA Australia.

³ A summary of the IASB's March 2020 meeting is available at: <https://www.ifrs.org/news-and-events/updates/iasb-updates/march-2020/#1>

requirements. The respondent also supported the IASB providing transitional relief for determining the asset related to acquisition costs that is allocated to future groups to address concerns with identifying assumptions for mature insurers writing long-term business due to data availability and existing systems.

The IASB decided to keep the proposal to allocate insurance acquisition cash flows directly attributable to a group of insurance contracts applying a systematic and rational method to (i) that group, and (ii) any groups that include contracts that are expected to arise from renewals of the contracts in that group. The IASB added requirements for the identification, recognition and measurement of an asset for acquisition costs at transition.

- (b) *Reinsurance contracts held – recovery of losses on underlying insurance contracts.* IASB ED/2019/4 proposed that a company that recognises losses on insurance contracts on initial recognition would at the same time recognise expected recoveries of those losses from reinsurance contract held. One of two criteria was that the reinsurance contract held covers the claims of the insurance contracts on a proportionate basis (a fixed percentage of the claim is recovered). The respondent was concerned that restricting the criterion to proportionate coverage was too narrow, and there could also be inconsistency within the standard between the accounting of reinsurance contracts at initial recognition and at subsequent measurement.

The IASB extended the scope of the proposed amendment to *all* reinsurance contracts held into which a company enters before or at the same time as it recognises a loss on the underlying insurance contracts.

- (c) *Interim reporting.* The respondent disagreed with the requirement in IFRS 17 that prohibited a company from changing the interim reporting estimates at the annual reporting date. The respondent was of the view that adjustments to interim reporting estimates should be allowable on principle as it would be costly to maintain compliance with IFRS 17 where contracts are grouped by year of issue and with more frequent reporting periods. Furthermore, when a parent entity reports on an interim basis and its subsidiaries do not, the requirement will lead to different entities within the group having different accounting outcomes and multiples set of books will need to be maintained.

To reduce costs, the IASB amended IFRS 17 to (i) allow a company to choose whether to change the estimates made in previous interim financial statements when applying IFRS 17 subsequently; and (ii) require the company to apply its choice of accounting policy to all insurance contracts the company issues and to all reinsurance contracts it holds.

Consistency with XRB Financial Reporting Strategy

12. The amending standard is a standard in its own right. *Amendments to NZ IFRS 17* is identical to *Amendments to IFRS 17* issued by the IASB except for the New Zealand specific introduction and a scope paragraph limiting the application of the amending standard to Tier 1 and Tier 2 for-profit entities.

13. The Australian Accounting Standards Board (AASB) has recently approved equivalent amendments to AASB 17 *Insurance Contracts*.
14. The amending standard both amends existing disclosure requirements and establishes new disclosure requirements. We do not propose any RDR concessions in respect of the new disclosure requirements because there are currently no concessions in NZ IFRS 17 (or AASB 17).
15. 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*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand’s Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case by case basis. Paragraph BC88(b) of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* states that “... AASB 17 *Insurance Contracts* ... is not addressed in this Standard as the majority of entities applying these Standards would have public accountability by holding assets in a fiduciary capacity.”
16. The issue of the amending standard is consistent with all three elements of Financial Reporting Strategy: it adopts the international standard, retains a harmonised position with Australia for Tier 1 for-profit entities and is consistent with the accounting standards framework.
17. The NZASB has approved *Amendments to NZ IFRS 17* because the NZASB considers that there is no reason not to maintain alignment between International Financial Reporting Standards and New Zealand equivalents to International Financial Reporting Standards in accordance with the XRB’s financial reporting strategy.

Effective date

18. The amending standard will be applicable for annual reporting periods beginning on or after 1 January 2023. Early application is permitted for entities that apply NZ IFRS 9 *Financial Instruments* on or before the date of initial application of NZ IFRS 17.

Other matters

19. 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

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

Attachments

Amendments to NZ IFRS 17

Certificate of determination (*Amendments to NZ IFRS 17*)

Michael Bradbury
Acting Chair NZASB



Extension of the Temporary Exemption from Applying NZ IFRS 9

Issued August 2020

This Standard was issued on 20 August 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 17 September 2020.

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

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

This Tier 1 and Tier 2 For-profit Accounting Standard is based on *Extension of the Temporary Exemption from Applying IFRS 9* issued by the International Accounting Standards Board.

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The following is available within New Zealand on the XRB website as additional material

APPROVAL BY THE IASB OF *EXTENSION OF THE TEMPORARY EXEMPTION FROM APPLYING IFRS 9* ISSUED IN JUNE 2020

AMENDMENTS TO THE BASIS FOR CONCLUSIONS ON IFRS 4 *INSURANCE CONTRACTS*

Part A – Introduction

This Standard sets out amendments to NZ IFRS 4 to provide an extension of the temporary exemption from applying NZ IFRS 9 *Financial Instruments* for those entities that are permitted to apply the exemption.

The aim of these amendments is to enable some insurers to first apply NZ IFRS 9 and NZ IFRS 17 at the same time.

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

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments to NZ IFRS 4 Insurance Contracts

Paragraphs 20A, 20J and 20O are amended. New text is underlined and deleted text is struck through.

Temporary exemption from NZ IFRS 9

20A NZ IFRS 9 addresses the accounting for financial instruments and is effective for annual periods beginning on or after 1 January 2018. However, for an insurer that meets the criteria in paragraph 20B, this Standard provides a temporary exemption that permits, but does not require, the insurer to apply NZ IAS 39 *Financial Instruments: Recognition and Measurement* rather than NZ IFRS 9 for annual periods beginning before 1 January 2023~~2021~~. An insurer that applies the temporary exemption from NZ IFRS 9 shall:

(a) ...

...

20J If an entity no longer qualifies for the temporary exemption from NZ IFRS 9 as a result of a reassessment (see paragraph 20G(a)), then the entity is permitted to continue to apply the temporary exemption from NZ IFRS 9 only until the end of the annual period that began immediately after that reassessment. Nevertheless, the entity must apply NZ IFRS 9 for annual periods beginning on or after 1 January 2023~~2021~~. For example, if an entity determines that it no longer qualifies for the temporary exemption from NZ IFRS 9 applying paragraph 20G(a) on 31 December 2018 (the end of its annual period), then the entity is permitted to continue to apply the temporary exemption from NZ IFRS 9 only until 31 December 2019.

...

Temporary exemption from specific requirements in NZ IAS 28

20O Paragraphs 35–36 of NZ IAS 28 *Investments in Associates and Joint Ventures* require an entity to apply uniform accounting policies when using the equity method. Nevertheless, for annual periods beginning before 1 January 2023~~2021~~, an entity is permitted, but not required, to retain the relevant accounting policies applied by the associate or joint venture as follows:

(a) ...

...

Part D – Effective Date

This Standard shall be applied for annual periods beginning on or after 1 January 2021. Earlier application is permitted.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 13 August 2020

To: Michele Embling, Chair XRB Board

From: Michael Bradbury, Acting Chair NZASB

Subject: **Extension of the Temporary Exemption from Applying NZ IFRS 9**

Introduction¹

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *Extension of the Temporary Exemption from Applying NZ IFRS 9*.
2. The temporary exemption in NZ IFRS 4 *Insurance Contracts* allows entities to either:
 - (a) apply NZ IFRS 9 and also apply NZ IAS 39 *Financial Instruments: Recognition and Measurement* to eligible financial assets to calculate a single line item adjustment to profit or loss so that the overall impact on profit or loss is the same as if NZ IAS 39 had been applied (the 'overlay approach'); or
 - (b) temporarily defer the application of NZ IFRS 9 when their activities are predominantly connected with insurance, provided they make additional disclosures to enable users to make comparisons with insurers applying NZ IFRS 9 (the 'deferral approach').

This enables certain entities to first apply NZ IFRS 9 and NZ IFRS 17 *Insurance Contracts* at the same time.

3. In New Zealand, this exemption applies only to Tier 1 and Tier 2 for-profit entities that issue insurance contracts but which do not apply Appendix C *Life Insurance Entities* or Appendix D *Financial Reporting of Insurance Activities* of NZ IFRS 4.

Due process followed in developing *Extension of the Exemption from Applying NZ IFRS 9*

4. The IASB's due process for extending this exemption was undertaken in conjunction with the IASB's consultation on amendments to IFRS 17 *Insurance Contracts*. The IASB subsequently issued two amending standards; one which amended IFRS 17 and one which extended the exemption. This memo focuses on respondents' comments on the extension of the exemption.
5. The IASB issued IASB ED/2019/4 *Amendments to IFRS 17* in June 2019, with a due date for comments of 25 September 2019. IASB ED/2019/4 included proposals to defer the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2022 (instead of

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- 1 January 2021) and to extend the expiry date in IFRS 4 for the temporary exemption from applying IFRS 9 to annual reporting periods beginning on or after 1 January 2022 (instead of 1 January 2021). The IASB received 123 comment letters, including one from the New Zealand Society of Actuaries (Inc) (NZSA). The NZSA sent a copy of its submission, which was generally supportive of the proposals in IASB ED/2019/4, to the XRB. The NZASB did not comment on IASB ED/2019/4.
6. The ED was also issued for comment in New Zealand shortly after the IASB issued it for comment. No comments were received from New Zealand constituents.
 7. Most respondents to the IASB said that continuing to enable some insurers to first apply IFRS 17 and IFRS 9 at the same time would reduce IFRS 9 implementation costs and accounting mismatches for those insurers.
 8. However, some users of financial statements and regulators were concerned about further delaying improved information on expected credit losses by insurers, many of whom hold significant amounts of financial assets.
 9. The IASB considered whether to specify additional disclosures which would require entities applying the temporary exemption to provide additional information about expected credit losses. However, the IASB concluded that requiring such disclosures would be disruptive when many insurers were at a late stage of IFRS 9 and IFRS 17 implementation.
 10. The IASB issued *Extension of the Temporary Exemption from Applying IFRS 9* on 25 June along with *Amendments to IFRS 17*. The amending standard extends the temporary exemption from applying IFRS 9 to annual reporting periods beginning on or after 1 January 2023. This is the same as the effective date of IFRS 17.
 11. Prior to issuing *Extension of the Temporary Exemption from Applying IFRS 9* the IASB reviewed the due process steps that it had taken over the course of this project and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's meeting on 17 March 2020.²
 12. The NZASB has approved *Extension of the Temporary Exemption from Applying NZ IFRS 9*. 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.
 13. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the standard is likely to require the disclosure of personal information. In the NZASB's view, the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commission is required.

² A summary of the IASB's March 2020 meeting is available at:
<https://www.ifrs.org/news-and-events/updates/iasb-updates/march-2020/#1>

Consistency with XRB Financial Reporting Strategy

14. The amending standard is a standard in its own right. The amending standard *Extension of the Temporary Exemption from Applying NZ IFRS 9* is identical to *Extension of the Temporary Exemption from Applying IFRS 9* issued by the IASB except for the New Zealand specific introduction and a scope paragraph limiting the application of the standard to Tier 1 and Tier 2 for-profit entities.
15. The Australian Accounting Standards Board (AASB) has recently approved equivalent amendments to AASB 4 *Insurance Contracts* as part of *Amendments to AASB 17*.
16. The amending standard neither amends existing disclosures nor adds new disclosures in NZ IFRS 4 so no RDR concessions are needed.
17. 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*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand's Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case by case basis. There will be no disclosure concessions in the equivalent Australian standard because the standard neither amends nor adds disclosure concessions.
18. The issue of the amending standard is consistent with all three elements of Financial Reporting Strategy: it adopts the international standard, retains a harmonised position with Australia for Tier 1 for-profit entities and is consistent with the Accounting Standards Framework.³

Effective date

19. The amending standard will be applicable for annual reporting periods beginning on or after 1 January 2021, with early application permitted.

Other matters

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

Recommendation

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

³ The disclosure requirements for Australian and New Zealand Tier 2 for-profit entities will also be harmonised because the amendments neither amend nor add disclosure requirements.

Attachments

Extension of the Temporary Exemption from Applying NZ IFRS 9

Certificate of determination (*Extension of the Temporary Exemption from Applying NZ IFRS 9*)

Michael Bradbury
Acting Chair NZASB



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 31 July 2020

To: NZASB Members

From: Vanessa Sealy-Fisher

Subject: **Amendments to PBE IFRS 17**

Recommendations¹

1. We recommend that the Board:
 - (a) AGREES that *Extension of the Exemption from Applying NZ IFRS 9* should not be incorporated into PBE Standards;
 - (b) AGREES to replace the term 'equity' in PBE IFRS 17 *Insurance Contracts* with the term 'net assets/equity' in the paragraphs listed in Table 1 (following paragraph 17 in this memo);
 - (c) AGREES to replace the term 'business combination' in PBE IFRS 17 with the term 'PBE combination' except for two cases where the term 'business combination' would be replaced with the term 'acquisition' (see paragraphs 19–32 in this memo);
 - (d) APPROVES for issue *Amendments to PBE IFRS 17* (agenda item 9.9); and
 - (e) APPROVES the draft signing memorandum for *Amendments to PBE IFRS 17* from the Acting Chair of the NZASB to the Chair of the XRB Board (agenda item 9.10).

Introduction

2. The draft *Amendments to PBE IFRS 17* ensure that PBE IFRS 17 *Insurance Contracts* remains aligned with NZ IFRS 17 *Insurance Contracts*, by incorporating amendments equivalent to those recently made to IFRS 17 *Insurance Contracts*.
3. The Board issued PBE IFRS 17 in July 2019, effective for annual financial statements covering periods beginning on or after 1 January 2022. Early application is permitted for entities that apply PBE IPSAS 41 *Financial Instruments* on or before the date of initial application of PBE IFRS 17. PBE IFRS 17 is substantively the same as NZ IFRS 17, which in turn is based on IFRS 17. PBE IFRS 17 applies only to Tier 1 and Tier 2 not-for-profit entities. Four not-for-profit PBEs are licensed insurers reporting in accordance with PBE Standards. Any public sector PBEs with insurance contracts continue to report in accordance with PBE IFRS 4 *Insurance Contracts*, pending further work on public sector insurance issues.

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4. In June 2019 the IASB issued for comment IASB ED/2019/4 *Amendments to IFRS 17*. The IASB issued this ED in response to concerns raised by stakeholders about the implementation of IFRS 17.
5. Because PBE IFRS 17 is so closely aligned with IFRS 17 the Board considered that it was important that the two standards remained aligned. Therefore, in August 2019 the Board issued for comment NZASB ED 2019-3 *Amendments to PBE IFRS 17*, with a comment date ending on 19 November 2019. The proposals were aligned with the amendments proposed to IFRS 17 in IASB ED/2019/4. The Board did not receive any submissions on NZASB ED 2019-3.
6. At its meeting in March 2020 the IASB decided to defer the effective date of IFRS 17 by two years, rather than the one year proposed in IASB ED/2019/4. To make sure that the effective date of PBE IFRS 17 and NZ IFRS 17 remain aligned, the Board issued for comment NZASB ED 2020-4 *PBE IFRS 17 – Deferral of Effective Date* which proposed to defer the effective date of PBE IFRS 17 by one year. Comments were due by 20 July 2020. Staff notified the Reserve Bank and the member of the TRG who organised the outreach event for not-for-profit insurance entities of the issue of the ED. The Board did not receive any submissions on NZASB ED 2020-4.

Reasons for issuing the standard

7. *Amendments to PBE IFRS 17*, including the deferral of the effective date of PBE IFRS 17, is being issued to align the requirements in PBE IFRS 17 with the requirements in NZ IFRS 17. This will result in consistent accounting requirements for all licensed insurers in New Zealand.

Temporary exemption in NZ IFRS 4 from applying NZ IFRS 9

8. Agenda items 9.1 and 9.5 explain why the IASB has issued *Extension of the Temporary Exemption from Applying IFRS 9* and seek approval of equivalent amendments to NZ IFRS. This section of the memo explains why we do not propose equivalent amendments to PBE Standards.
9. Agenda item 9.1 seeks the Board's approval of *Extension of the Temporary Exemption from Applying NZ IFRS 9*. As noted in agenda item 9.1, the temporary exemption from applying NZ IFRS 9 is not available to entities that apply Appendix C or Appendix D of NZ IFRS 4.
10. In December 2016 the Board considered the application of the *Policy Approach to the Development of PBE Standards* (PBE Policy Approach) to *Applying NZ IFRS 9 Financial Instruments with NZ IFRS 4 Insurance Contracts* (Amendments to NZ IFRS 4). The Board:
 - (a) NOTED that if a PBE did not early adopt PBE IFRS 9, neither the deferral approach nor the overlay approach in *Applying NZ IFRS 9 with NZ IFRS 4* was relevant;
 - (b) NOTED that if a PBE early adopted PBE IFRS 9, the deferral approach in *Applying NZ IFRS 9 with NZ IFRS 4* was not relevant;
 - (c) NOTED that if a PBE early adopted PBE IFRS 9, the overlay approach in *Applying NZ IFRS 9 with NZ IFRS 4* would be relevant only if the Board expected to develop a new insurance standard for PBEs in the next couple of years;

- (d) NOTED that, in any case, few PBEs would be expected to be able to make use of amendments equivalent to those in *Applying NZ IFRS 9 with NZ IFRS 4*; and
 - (e) AGREED no further work needed to be undertaken in respect of applying the PBE Policy Approach to *Applying NZ IFRS 9 with NZ IFRS 4*.
11. The IASB initially proposed extending the date of the temporary exemption from applying IFRS 9 as part of IASB ED/2019/4. This would result in the temporary exemption expiring when IFRS 17 becomes effective.
 12. Most respondents to IASB ED/2019/4 said that continuing to enable some insurers to first apply IFRS 17 and IFRS 9 at the same time would reduce IFRS 9 implementation costs and accounting mismatches for those insurers.
 13. However, some users of financial statements and regulators were concerned about further delaying improved information on expected credit losses by insurers, many of whom hold significant amounts of financial assets.
 14. In June 2020 the IASB issued *Extension of the Temporary Exemption from Applying IFRS 9* along with *Amendments to IFRS 17*. The IASB "... was reluctant to extend the temporary exemption beyond 1 January 2021 because doing so results in some entities (including entities with significant holdings of financial assets) first applying IFRS 9 up to five years after other entities. However, the Board noted that in originally introducing a temporary exemption from IFRS 9 for some insurers, it had concluded that, for this limited population of entities, the benefit of the relief provided by the temporary exemption outweighed the disadvantages of delaying the improved information resulting from applying IFRS 9 (see paragraph BC249). For similar reasons, the Board concluded that, on balance, the benefit of extending the availability of the relief to continue to enable some insurers to first apply IFRS 17 and IFRS 9 at the same time outweighs the disadvantages of the additional delay to the application of IFRS 9." (This quote comes from new paragraph BC277B which is being added to the Basis for Conclusions on IFRS 4).
 15. The IASB also considered whether to specify additional disclosures which would require entities applying the temporary exemption to provide additional information about expected credit losses. However, the IASB concluded requiring such disclosures would be disruptive when many insurers were at a late stage of IFRS 9 and IFRS 17 implementation.
 16. We do not propose to incorporate *Extension of the Temporary Exemption from Applying IFRS 9* into PBE Standards for the following reasons.
 - (a) The four not-for-profit entities that are New Zealand licensed insurers would be applying either Appendix C or Appendix D of PBE IFRS 4 *Insurance Contracts*, so the temporary exemption would not be available to them.
 - (b) As mentioned above, the IASB was reluctant to extend the exemption, because applying IFRS 9 results in the reporting of better financial information.
 - (c) We do not know how many not-for-profit entities that are not licensed insurers issue insurance contracts and would be able to apply the temporary exemption. We are

unaware of any. For example, the temporary exemption is relevant only if an entity has early adopted the newer financial instrument standards.

Question for the Board

1. Does the Board agree that *Extension of the Temporary Exemption from Applying IFRS 9* should not be incorporated into PBE Standards?

Aligning terminology with other PBE Standards

Net assets/equity

17. We have noticed that for consistency with the terminology used throughout PBE Standards, some references to ‘equity’ in PBE IFRS 17 should be ‘net assets/equity’. We are proposing amendments to PBE IFRS 17. These editorial amendments are shown in Table 1 below.

Table 1: Net assets/equity

Paragraph	New text is underlined and deleted text is struck through
PBE IFRS 17.128(a)	An entity shall disclose information about sensitivities to changes in risk variables arising from contracts within the scope of PBE IFRS 17. To comply with this requirement, an entity shall disclose: (a) A sensitivity analysis that shows how surplus or deficit and <u>net assets/equity</u> would have been affected ...
PBE IFRS 17.132.4(c)	To apply PBE IFRS 17 retrospectively, an entity shall at the transition date: (a) ... (c) Recognise any resulting net difference in <u>net assets/equity</u> .
PBE IFRS 17.132.31	An entity that applies paragraph 132.29 is not required to restate prior periods to reflect such changes in designations or classifications. ... If an entity does not restate prior periods, the entity shall recognise, in the opening accumulated comprehensive revenue and expense (or other component of <u>net assets/equity</u> , as appropriate) at the date of initial application, any difference between: ...
PBE IPSAS 28.38.1	Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund and recognise financial liabilities for the amounts to be paid to those investors. ... Instead, the entity may elect to continue to account for that treasury share as <u>net assets/equity</u> and to account for the reacquired instrument as if the instrument were a financial asset and measure it at fair value through surplus or deficit in accordance with PBE IPSAS 41. ...

18. Amendments to PBE IFRS 17 at agenda item 9.9 incorporates the changes shown in Table 1.

Question for the Board

2. Does the Board agree with the proposed editorial amendments to use the term ‘net assets/equity’ in the paragraphs listed in Table 1 above?

Business combination

19. We have noticed that some paragraphs in PBE IFRS 17 still use the terms ‘business’ and ‘business combination’. This is not consistent with other PBE Standards which were updated when PBE IPSAS 40 *PBE Combinations* was issued. The Board did not discuss the use of these terms and how they should be amended for consistency with PBE Standards when we were developing PBE IFRS 17 or the amendments to PBE IFRS 17.
20. We have looked at the use of the terms business and business combination to see if they should be replaced with the relevant terms used in PBE Standards, which are ‘operation’ and ‘PBE combination’ respectively. In most cases, it would be appropriate to replace the term business combination with PBE combination. However, there are some paragraphs where referring to a PBE combination might be more than an editorial correction.
21. Before looking at the options to deal with this matter we note that very few entities are likely to be affected by the use of these terms in PBE IFRS 17. There are four not-for-profit licensed insurers in New Zealand. There may be other public benefit entities (PBEs) that issue insurance contracts as part of their activities but we are not aware of any such entities. We also do not know how often entities applying PBE IFRS 17 would acquire insurance contracts via a PBE combination.
22. We have thought about the following options to deal with this matter.
 - (a) Option 1: leave the wording unchanged and consider this separately or as part of the public sector insurance project; or
 - (b) Option 2: replace the term business combination with the term PBE combination in all but two cases, where the term acquisition is likely more appropriate.
23. We recommend Option 2.
24. The pros and cons of these options are outlined in Table 2 below and the proposed amendments are outlined in Table 3.
25. The detailed discussion regarding our preferred option follows Table 3.

Table 2: Pros and cons of the two options

Pros	Cons
<i>Option 1: Leave the wording unchanged and consider separately or as part of the public sector insurance project</i>	
<ul style="list-style-type: none"> • This terminology was used in developing PBE IFRS 17 and the amendments to PBE IFRS 17. It has therefore been subject to due process. • We would have time to undertake targeted outreach to understand and consider the matter in more detail. For example, some paragraphs in PBE IFRS 17 require use of “the consideration received or paid for the contracts as a proxy for the premiums 	<ul style="list-style-type: none"> • The term ‘business combination’ is not consistent with the title of PBE IPSAS 40 <i>PBE Combinations</i> or terminology used in PBE Standards. • Inconsistent terminology within the suite of PBE Standards could be confusing for constituents.

Pros	Cons
<p>received”. However, the modified pooling of interests method applied in accounting for amalgamations under PBE IPSAS 40 makes no reference to consideration paid or received.</p> <ul style="list-style-type: none"> The effective date of PBE IFRS 17 is annual financial statements covering periods beginning on or after 1 January 2023, so we have time to consider this matter. 	
<p>Option 2: Replace the term business combination with the term PBE combination in all but two cases, where the term acquisition is likely more appropriate</p>	
<ul style="list-style-type: none"> This is consistent with the title of PBE IPSAS 40 and terminology used in PBE Standards. Use of consistent terminology avoids confusion for constituents. Most of the changes are editorial in nature. However, two of the changes are more than editorial (see green highlights in Table 3). 	<ul style="list-style-type: none"> We are not sure whether constituents would agree with the proposed changes to paragraphs AG94 and AG95 as they have not been exposed for comment. Although they might be regarded as minor amendments, in the absence of feedback we cannot be sure. Further consultation might identify a better alternative to address this matter.

26. The paragraphs containing business and/or business combination are listed in Table 3 below. We have highlighted in blue the replacement of business combination with PBE combination, and in green the replacement of business combination with acquisition.

Table 3: Business and business combination

Paragraph	New text is underlined and deleted text is struck through
PBE IFRS 17.5	All references in PBE IFRS 17 to insurance contracts issued also apply to insurance contracts acquired by the entity in a transfer of insurance contracts or a <u>business PBE</u> combination other than reinsurance contracts held.
PBE IFRS 17.7(f)	An entity shall not apply PBE IFRS 17 to: (a) ... (f) Contingent consideration payable or receivable in a <u>business PBE</u> combination (see PBE IPSAS 40 Entity PBE <u>Combinations</u>)
PBE IFRS 17.39	For insurance contracts acquired in a transfer of insurance contracts or a <u>business PBE</u> combination within the scope of PBE IPSAS 40, an entity shall apply paragraph 38 in accordance with paragraphs AG93–AG95.
PBE IFRS 17.108(a)	In the disclosures required by paragraph 107, an entity shall separately disclose amounts resulting from: (a) Contracts acquired from other entities in transfers of insurance contracts or <u>business PBE</u> combinations; and (b) ...
PBE IFRS 17.AG93 and preceding heading	<u>Initial Recognition of Transfers of Insurance Contracts and Business PBE Combinations (paragraph 39)</u> When an entity acquires insurance contracts issued or reinsurance contracts held in a transfer of insurance contracts that do not form a business an operation or in a <u>business PBE</u> combination within the scope of PBE IPSAS 40, the entity shall apply paragraphs 14–24 to identify the groups of contracts acquired, as if it had entered into the contracts on the date of the transaction.

Paragraph	New text is underlined and deleted text is struck through
PBE IFRS 17.AG94	An entity shall use the consideration received or paid for the contracts as a proxy for the premiums received. The consideration received or paid for the contracts excludes the consideration received or paid for any other assets and liabilities acquired in the same transaction. In a business combination <u>an acquisition</u> within the scope of PBE IPSAS 40, the consideration received or paid is the fair value of the contracts at that date.
PBE IFRS 17.AG95	Unless the premium allocation approach for the liability for remaining coverage in paragraphs 55–59 applies, on initial recognition the contractual service margin is calculated applying paragraph 38 for acquired insurance contracts issued and paragraph 65 for acquired reinsurance contracts held using the consideration received or paid for the contracts as a proxy for the premiums received or paid at the date of initial recognition. If acquired insurance contracts issued are onerous, applying paragraph 47, the entity shall recognise the excess of the fulfilment cash flows over the consideration paid or received as part of goodwill or gain on a bargain purchase for contracts acquired in a business combination <u>an acquisition</u> within the scope of PBE IPSAS 40 or as a loss in surplus or deficit for contracts acquired in a transfer. The entity shall establish a loss component of the liability for remaining coverage for that excess, and apply paragraphs 49–52 to allocate subsequent changes in fulfilment cash flows to that loss component.
PBE IPSAS 40.126.2	PBE IFRS 17, issued in July 2019, ... An entity shall apply the amendments to paragraph 71 to business <u>PBE</u> combinations with an acquisition date after the date of initial application of PBE IFRS 17. ...

27. The remainder of this section of the memo outlines our thinking behind our recommendation to go with Option 2.
28. NZ IFRS 3 *Business Combinations* establishes principles and requirements for how the acquirer in a business combination (a) recognises and measures the assets acquired, the liabilities assumed and the non-controlling interests of the acquiree; (b) recognises and measures goodwill; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination (NZ IFRS 3.1). An entity is required to apply the acquisition method to account for each business combination.
29. PBE IPSAS 40 *PBE Combinations* establishes principles and requirements for how an entity classifies a PBE combination as an amalgamation or an acquisition, and then how to account for the combination and what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the PBE combination (PBE IPSAS 40.1). The accounting requirements for acquisitions (acquisition-date fair value) are based on the requirements in IFRS 3 *Business Combinations* (on which NZ IFRS 3 is based). The accounting requirements for amalgamations (modified pooling of interests – assets and liabilities are [mostly] recognised at their carrying amounts at the amalgamation date) have been developed by the International Public Sector Accounting Standards Board (IPSASB) because of the prevalence of amalgamations in the public sector. Although the section of PBE IPSAS 40 dealing with classification refers to the possibility of consideration in an amalgamation, the paragraphs dealing with accounting for amalgamations do not mention consideration paid by the resulting entity.

30. Paragraph 39 of PBE IFRS 17 requires an entity to apply paragraph 38 of PBE IFRS 17 (measurement of the contractual service margin on initial recognition of a group of insurance contracts that are not onerous) in accordance with paragraphs AG93–AG95 for insurance contracts acquired in “a transfer of insurance contracts or a business combination”. Paragraph AG93 also refers to a transfer of insurance contracts or a business combination.
31. Paragraphs AG94 and AG95 of PBE IFRS 17 require the use of “the consideration received or paid for the contracts as a proxy for the premiums received”. Paragraph AG95 also refers to “... part of goodwill or gain on a bargain purchase for contracts acquired in a business combination or as a loss in surplus or deficit for contracts acquired in a transfer”. However, both paragraphs refer to “a business combination within the scope of PBE IPSAS 40”. In the for-profit sector, a “business combination within the scope of NZ IFRS 3” would be accounted for as an acquisition because NZ IFRS 3 does not include accounting for amalgamations/mergers. Referring to the consideration paid or received implies that the combination would more likely be an acquisition rather than an amalgamation.
32. However, PBE IPSAS 40 contains requirements for assets and acquired and liabilities assumed for both acquisitions and amalgamations. Under PBE IPSAS 40 there could be different measurements for the initial recognition of insurance contracts acquired in a PBE combination, depending on whether the combination is an amalgamation or an acquisition.
33. If we replace the term business combination in paragraphs AG94 and AG95 with the term acquisition, PBE IFRS 17 would then be silent as to how an entity accounts for insurance contracts ‘acquired’ in an amalgamation. This would create a gap in PBE Standards. However, an entity could look to the requirements in PBE IPSAS 40 to account for the initial recognition of insurance contracts acquired in an amalgamation rather than the requirements in PBE IFRS 17.
34. In accordance with our recommendation for Option 2, *Amendments to PBE IFRS 17* at agenda item 9.9 incorporates the changes shown in Table 3 above (highlighted in blue or green in the amending standard). If the Board would prefer to wait and undertake further work (Option 1), we will make the necessary changes to *Amendments to PBE IFRS 17*.

Question for the Board

3. Does the Board agree with our recommendation to replace the term business combination with PBE combination, except for paragraphs AG94 and AG95, where the term business combination would be replaced by acquisition?

RDR concessions

35. We do not propose RDR concessions for the amended or new disclosure requirements in *Amendments to PBE IFRS 17* because there are currently no disclosure concessions in PBE IFRS 17.

Due process

36. The due process followed by the Board complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.
37. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the standard is likely to require the disclosure of personal information. In our view, the standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commission is required.

Draft standard and signing memo *Amendments to PBE IFRS 17*

38. Attached as agenda item 9.9 is a copy of *Amendments to PBE IFRS 17*. Its application is limited to Tier 1 and Tier 2 not-for-profit entities only.
39. Attached as agenda item 9.10 is a draft signing memorandum from the Acting Chair of the NZASB to the Chair of the XRB Board.

Attachments

Agenda item 9.9: *Amendments to PBE IFRS 17*

Agenda item 9.10: Draft signing memorandum *Amendments to PBE IFRS 17*



NZ ACCOUNTING
STANDARDS
BOARD

AMENDMENTS TO PBE IFRS 17

Issued August 2020

This Standard was issued on 20 August 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 17 September 2020.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date in Part D.

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

This Tier 1 and Tier 2 PBE Standard has been issued to maintain alignment between PBE IFRS 17 and NZ IFRS 17 *Insurance Contracts* by:

- (a) incorporating recent amendments to IFRS 17 *Insurance Contracts* and NZ IFRS 17 *Insurance Contracts* into PBE IFRS 17; and
- (b) deferring the effective date of PBE IFRS 17 by one year, from 1 January 2022 to 1 January 2023.

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

AMENDMENTS TO PBE IFRS 17

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The following is available within New Zealand on the XRB website as additional material

APPROVAL BY THE IASB OF *AMENDMENTS TO IFRS 17* ISSUED IN JUNE 2020

AMENDMENTS TO ILLUSTRATIVE EXAMPLES ON IFRS 17

AMENDMENTS TO BASIS FOR CONCLUSIONS ON IFRS 17

Part A – Introduction

This Standard sets out targeted amendments to PBE IFRS 17 *Insurance Contracts*. The amendments are based on equivalent amendments to IFRS 17 issued by the International Accounting Standards Board (IASB).

The aim of these amendments is to ease implementation of PBE IFRS 17 by reducing implementation costs and making it easier for entities to explain the result of applying PBE IFRS 17. Although narrow in scope, the targeted amendments address many of the concerns and challenges raised to the IASB by stakeholders in relation to IFRS 17. The amendments also defer the effective date of PBE IFRS 17 by one year (that is, from 1 January 2022 to 1 January 2023) so that the effective date of PBE IFRS 17 remains aligned with the revised effective date of IFRS 17 and NZ IFRS 17.

The amendments also give effect to minor editorial corrections to align terminology within PBE Standards.

Tier 2 not-for-profit entities are required to comply with all the requirements in this Standard.

Part B – Scope

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

Part C – Amendments

PBE IFRS 17 *Insurance Contracts*

Paragraphs 4, 5 and 7 are amended, and paragraph 8A is added. New text is underlined and deleted text is struck through.

Scope

- ...
4. All references in PBE IFRS 17 to insurance contracts also apply to:
- (a) Reinsurance contracts held, except:
 - (i) ...
 - (ii) As described in paragraphs 60–~~70A~~70.
 - (b) ...
5. All references in PBE IFRS 17 to insurance contracts issued also apply to insurance contracts acquired by the entity in a transfer of insurance contracts or a ~~business~~ PBE combination other than reinsurance contracts held.
- ...
7. An entity shall not apply PBE IFRS 17 to:
- (a) ...
 - (f) Contingent consideration payable or receivable in a ~~business~~ PBE combination (see PBE IPSAS 40 ~~Entity~~ PBE Combinations).
 - (g) ...

- (h) Credit card contracts, or similar contracts that provide credit or payment arrangements, that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer (see PBE IPSAS 41 and other applicable Standards). However, if, and only if, PBE IPSAS 41 requires an entity to separate an insurance coverage component (see paragraph 2(e)(iv) of PBE IPSAS 41) that is embedded in such a contract, the entity shall apply PBE IFRS 17 to that component.

...

- 8A Some contracts meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). An entity shall choose to apply either PBE IFRS 17 or PBE IPSAS 41 to such contracts that it issues unless such contracts are excluded from the scope of PBE IFRS 17 by paragraph 7. The entity shall make that choice for each portfolio of insurance contracts, and the choice for each portfolio is irrevocable.

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

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

10. An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an investment component or a ~~service~~ component for services other than insurance contract services (or both). An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.
11. An entity shall:
- (a) ...
- (b) Separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs AG31–AG32). The entity shall apply PBE IPSAS 41 to account for the separated investment component unless it is an investment contract with discretionary participation features within the scope of PBE IFRS 17 (see paragraph 3(c)).
12. After applying paragraph 11 to separate any cash flows related to embedded derivatives and distinct investment components, an entity shall separate from the host insurance contract any promise to transfer to a policy holder distinct goods or ~~non-insurance~~ services other than insurance contract services ~~to a policyholder~~. To separate the promise, the entity shall apply paragraphs AG33–AG35 of PBE IFRS 17 and, on initial recognition, shall:
- (a) Attribute the cash inflows between the insurance component and any promises to provide distinct goods or ~~non-insurance~~ services other than insurance contract services; and
- (b) Attribute the cash outflows between the insurance component and any promised goods or ~~non-insurance~~ services other than insurance contract services accounted for so that:
- ...

In paragraph 13.1 the definitions of 'contractual service margin', 'coverage period', 'group of insurance contracts', 'insurance acquisition cash flows', 'investment component', liability for incurred claims' and 'liability for remaining coverage' are amended and a definition of 'insurance contract services' is added. New text is underlined and deleted text is struck through. The defined term is double underlined.

Definitions

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

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

~~For insurance contracts without direct participation features, †~~ The coverage period is the period during which the entity provides insurance contract services ~~coverage for insured events~~. This period includes the insurance contract services that relate ~~coverage that relates to all premiums~~

within the boundary of the insurance contract. ~~For insurance contracts with direct participation features, the period during which the entity provides coverage for insured events or investment-related services. This period includes the coverage for insured events or investment-related services that relates to all premiums within the boundary of the insurance contract.~~

...

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

- (a) Are onerous, if any;
- (b) Have no significant possibility of becoming onerous subsequently, if any; or
- (c) Do not fall into either (a) or (b), if any.

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

...

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

- (a) Coverage for an insured event (insurance coverage);
- (b) For insurance contracts without direct participation features, the generation of an investment return for the policyholder, if applicable (investment-return service); and
- (c) For insurance contracts with direct participation features, the management of underlying items on behalf of the policyholder (investment-related service).

...

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

...

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

- (a) Investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; and
- (b) Pay amounts that are not included in (a) and that relate to:
 - (i) Insurance contract services that have already been provided; or
 - (ii) Any investment components or other amounts that are not related to the provision of insurance contracts services and that are not in the liability for remaining coverage.

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

- (a) Investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (i.e., the obligation that relates to the unexpired portion of the insurance coverage period); and
- (b) Pay amounts under existing insurance contracts that are not included in (a) and that relate to:
 - (i) Insurance contract services not yet provided (i.e., the obligations that relate to future provision of insurance contract services); or

- (ii) Any investment components or other amounts that are not related to the provision of insurance contract services and that have not been transferred to the liability for incurred claims.

...

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

Level of Aggregation of Insurance Contracts

...

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

...

24. An entity shall apply the recognition and measurement requirements of PBE IFRS 17 to the groups of contracts determined by applying paragraphs 14–23. An entity shall establish the groups at initial recognition and add contracts to the groups applying paragraph 28. ~~and~~ The entity shall not reassess the composition of the groups subsequently, except as set out in paragraph 28. To measure a group of contracts, an entity may estimate the fulfilment cash flows at a higher level of aggregation than the group or portfolio, provided the entity is able to include the appropriate fulfilment cash flows in the measurement of the group, applying paragraphs 32(a), 40(a)(i) and 40(b), by allocating such estimates to groups of contracts.

Paragraph 27 is deleted and paragraph 28 is amended. Paragraphs 28A–28F and the heading above paragraph 28A are added. Paragraph 25 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

Recognition

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

- (a) **The beginning of the coverage period of the group of contracts;**
- (b) **The date when the first payment from a policyholder in the group becomes due; and**
- (c) **For a group of onerous contracts, when the group becomes onerous.**

...

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

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

Insurance Acquisition Cash Flows (paragraphs AG35A–AG35D)

- 28A An entity shall allocate insurance acquisition cash flows to groups of insurance contracts using a systematic and rational method applying paragraphs AG35A–AG35B, unless it chooses to recognise them as expenses applying paragraph 59(a).
- 28B An entity not applying paragraph 59(a) shall recognise as an asset insurance acquisition cash flows paid (or insurance acquisition cash flows for which a liability has been recognised applying another Standard) before the related group of insurance contracts is recognised. An entity shall recognise such an asset for each related group of insurance contracts.
- 28C An entity shall derecognise an asset for insurance acquisition cash flows when the insurance acquisition cash flows are included in the measurement of the related group of insurance contracts applying paragraph 38(c)(i) or paragraph 55(a)(iii).
- 28D If paragraph 28 applies, an entity shall apply paragraphs 28B–28C in accordance with paragraph AG35C.
- 28E At the end of each reporting period, an entity shall assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired (see paragraph AG35D). If an entity identifies an impairment loss, the entity shall adjust the carrying amount of the asset and recognise the impairment loss in surplus or deficit.
- 28F An entity shall recognise in surplus or deficit a reversal of some or all of an impairment loss previously recognised applying paragraph 28E and increase the carrying amount of the asset, to the extent that the impairment conditions no longer exist or have improved.

Paragraph 29 and the heading above it are amended. New text is underlined and deleted text is struck through.

Measurement (paragraphs AG36–AG119F)

29. An entity shall apply paragraphs 30–52 to all groups of insurance contracts within the scope of PBE IFRS 17, with the following exceptions:
- (a) ...
- (b) For groups of reinsurance contracts held, an entity shall apply paragraphs 32–46 as required by paragraphs 63–~~70A~~~~70~~. Paragraphs 45 (on insurance contracts with direct participation features) and paragraphs 47–52 (on onerous contracts) do not apply to groups of reinsurance contracts held.
- ...

The heading for paragraph 32 is amended. Paragraphs 34, 38 and 39 are amended. New text is underlined and deleted text is struck through.

Measurement on Initial Recognition (paragraphs AG36–AG95F)

...

Estimates of Future Cash Flows (paragraphs AG36–AG71)

...

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

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

...

Contractual Service Margin

38. The contractual service margin is a component of the asset or liability for the group of insurance contracts that represents the unearned surplus the entity will recognise as it provides insurance contract services in the future. An entity shall measure the contractual service margin on initial recognition of a group of insurance contracts at an amount that, unless paragraph 47 (on onerous contracts) or paragraph 123A (on insurance revenue relating to paragraph 38(c)(ii)) applies, results in no revenue or expenses arising from:
- (a) ...
- (b) Any cash flows arising from the contracts in the group at that date;
- (c) The derecognition at the date of initial recognition of:
- (i) Any asset or liability recognised for insurance acquisition cash flows applying paragraph 28C27; and
- (ii) Any other asset or liability previously recognised for cash flows related to the group of contracts as specified in paragraph AG66A.
- ~~(e) Any cash flows arising from the contracts in the group at that date.~~
39. For insurance contracts acquired in a transfer of insurance contracts or a business PBE combination within the scope of PBE IPSAS 40, an entity shall apply paragraph 38 in accordance with paragraphs AG93–AG95.

Paragraphs 44–45 and the heading above them are amended. New text is underlined and deleted text is struck through.

Contractual Service Margin (paragraphs AG96—AG119)

...

44. For insurance contracts without direct participation features, the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for:
- (a) ...
- (e) The amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period applying paragraph AG119.
45. For insurance contracts with direct participation features (see paragraphs AG101–AG118), the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for the amounts specified in subparagraphs (a)–(e) below. An entity is not required to identify these adjustments separately. Instead, a combined amount may be determined for some, or all, of the adjustments. The adjustments are:
- (a) ...
- (b) The change in the amount of the entity's share of the ~~change in the~~ fair value of the underlying items (see paragraph AG104(b)(i)), except to the extent that:
- (i) ...
- (ii) The decrease in the amount of the entity's share of a ~~decrease in the~~ fair value of the underlying items exceeds the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or

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

...

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

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

Onerous Contracts

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

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

- (a) Unfavourable changes relating to future service in the fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk relating to future service; and
- (b) For a group of insurance contracts with direct participation features, the decrease in the amount of the entity's share of a decrease in the fair value of the underlying items.

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

...

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

- (a) ...
- (b) Solely to the loss component until that component is reduced to zero:
- (i) Any subsequent decrease relating to future service in fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk; relating to future service and
- (ii) ~~Any subsequent increases in the amount of the entity's share in~~ of the fair value of the underlying items solely to the loss component until that component is reduced to zero.

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

...

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

Premium Allocation Approach

53. An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach set out in paragraphs 55–59 if, and only if, at the inception of the group:
- (a) ...
 - (b) The coverage period of each contract in the group (including insurance contract services coverage arising from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.
- ...
55. Using the premium allocation approach, an entity shall measure the liability for remaining coverage as follows:
- (a) On initial recognition, the carrying amount of the liability is:
 - (i) ...
 - (iii) Plus or minus any amount arising from the derecognition at that date of:
 1. Any asset for insurance acquisition cash flows applying paragraph 28C; and the asset or liability recognised for insurance acquisition cash flows applying paragraph 27.
 2. Any other asset or liability previously recognised for cash flows related to the group of contracts as specified in paragraph AG66A.
 - (b) At the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period:
 - (i) ...
 - (v) Minus the amount recognised as insurance revenue for services coverage provided in that period (see paragraph AG126); and
 - (vi) ...
56. If insurance contracts in the group have a significant financing component, an entity shall adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk using the discount rates specified in paragraph 36, as determined on initial recognition. The entity is not required to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk if, at initial recognition, the entity expects that the time between providing each part of the services coverage and the related premium due date is no more than a year.
- ...

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

Reinsurance Contracts Held

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

Recognition

62. Instead of applying paragraph 25, an entity shall recognise a group of reinsurance contracts held from the earlier of the following:

- (a) The beginning of the coverage period of the group of reinsurance contracts held; and
- (b) The date the entity recognises an onerous group of underlying insurance contracts applying paragraph 25(c), if the entity entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

62A Notwithstanding paragraph 62(a), an entity shall delay the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date that any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held.

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

- ~~(a) If the reinsurance contracts held provide proportionate coverage— at the beginning of the coverage period of the group of reinsurance contracts held or at the initial recognition of any underlying contract, whichever is the later; and~~
- ~~(b) In all other cases— from the beginning of the coverage period of the group of reinsurance contracts held.~~

...

Measurement

...

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

- ~~(a) The fulfilment cash flows;~~
- ~~(b) The amount derecognised at that date of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held; and~~
- ~~(c) Any cash flows arising at that date; and~~
- (d) Any revenue recognised in surplus or deficit applying paragraph 66A. ~~unless~~

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

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

- (a) ...
- (ba) Revenue recognised in surplus or deficit in the reporting period applying paragraph 66A;
- (bb) Reversals of a loss-recovery component recognised applying paragraph 66B (see paragraph AG119F) to the extent those reversals are not changes in the fulfilment cash flows of the group of reinsurance contracts held;
- (c) Changes in the fulfilment cash flows, measured at the discount rates specified in paragraph AG72(c), to the extent that the change relates to future service, unless:
 - ~~(i) — Relates to future service; unless~~

- (i) The change results from a change in fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for the group of underlying insurance contracts; or
- (ii) The change results from applying paragraphs 57–58 (on onerous contracts), if the entity measures a group of underlying insurance contracts applying the premium allocation approach.

...

66A An entity shall adjust the contractual service margin of a group of reinsurance contracts held, and as a result recognise revenue, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group (see paragraphs AG119C–AG119E).

66B An entity shall establish (or adjust) a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses recognised applying paragraphs 66(c)(i)–(ii) and 66A. The loss-recovery component determines the amounts that are presented in surplus or deficit as reversals of recoveries of losses from reinsurance contracts held and are consequently excluded from the allocation of premiums paid to the reinsurer (see paragraph AG119F).

...

Premium Allocation Approach for Reinsurance Contracts Held

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

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

...

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

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

Investment Contracts with Discretionary Participation Features

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

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

...

Paragraphs 72 and 76 are amended. New text is underlined and deleted text is struck through.

Modification and Derecognition

Modification of an Insurance Contract

72. If the terms of an insurance contract are modified, for example by agreement between the parties to the contract or by a change in regulation, an entity shall derecognise the original contract and recognise the

modified contract as a new contract, applying PBE IFRS 17 or other applicable Standards if, and only if, any of the conditions in (a)–(c) are satisfied. The exercise of a right included in the terms of a contract is not a modification. The conditions are that:

- (a) If the modified terms had been included at contract inception:
 - (i) The modified contract would have been excluded from the scope of PBE IFRS 17, applying paragraphs 3–8A;
 - (ii) ...

...

Derecognition

...

76. An entity derecognises an insurance contract from within a group of contracts by applying the following requirements in PBE IFRS 17:
- (a) ...
 - (c) The number of coverage units for expected remaining insurance contract services~~coverage~~ is adjusted to reflect the coverage units derecognised from the group, and the amount of the contractual service margin recognised in surplus or deficit in the period is based on that adjusted number, applying paragraph AG119.

...

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

Presentation in the Statement of Financial Position

78. **An entity shall present separately in the statement of financial position the carrying amount of portfolios~~groups~~ of:**
- (a) **Insurance contracts issued that are assets;**
 - (b) **Insurance contracts issued that are liabilities;**
 - (c) **Reinsurance contracts held that are assets; and**
 - (d) **Reinsurance contracts held that are liabilities.**
79. An entity shall include any assets ~~or liabilities~~ for insurance acquisition cash flows recognised applying paragraph ~~28B~~27 in the carrying amount of the related portfolios~~groups~~ of insurance contracts issued, and any assets or liabilities for cash flows related to portfolios~~groups~~ of reinsurance contracts held (see paragraph 65~~(b)~~(a)) in the carrying amount of the portfolios~~groups~~ of reinsurance contracts held.

Paragraphs 83, 86 and 88–89 are amended and paragraph 87A is added. New text is underlined and deleted text is struck through.

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

...

Insurance Service Result

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

...

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

- (a) ...
- (b) Treat amounts from the reinsurer that it expects to receive that are not contingent on claims of the underlying contracts (for example, some types of ceding commissions) as a reduction in the premiums to be paid to the reinsurer; ~~and~~
- (ba) Treat amounts recognised relating to recovery of losses applying paragraphs 66(c)(i)–(ii) and 66A–66B as amounts recovered from the reinsurer; and
- (c) Not present the allocation of premiums paid as a reduction in revenue.

Insurance Finance Revenue or Expenses (see paragraphs AG128–AG136)

...

87A An entity shall apply:

- (a) Paragraph AG117A to insurance finance revenue or expenses arising from the application of paragraph AG115 (risk mitigation); and
- (b) Paragraphs 88 and 89 to all other insurance finance revenue or expenses.

88. In applying paragraph 87A(b), unless~~Unless~~ paragraph 89 applies, an entity shall make an accounting policy choice between:

...

89. In applying paragraph 87A(b), for~~For~~ insurance contracts with direct participation features, for which the entity holds the underlying items, an entity shall make an accounting policy choice between:

...

...

Disclosure

...

Paragraphs 97, 99–101, 103–105 and 106–109 are amended, paragraphs 105A–105B, and 109A are added. New text is underlined and deleted text is struck through.

Explanation of Recognised Amounts

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

...

...

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

- (a) Disclose, in a table, the reconciliations set out in paragraphs 100–105B; and
- (b) For each reconciliation, present the net carrying amounts at the beginning and at the end of the period, disaggregated into a total for portfolios~~groups~~ of contracts that are assets and a total for

~~portfolios~~ groups of contracts that are liabilities, that equal the amounts presented in the statement of financial position applying paragraph 78.

100. An entity shall disclose reconciliations from the opening to the closing balances separately for each of:
- (a) ...
 - (c) The liabilities for incurred claims. For insurance contracts to which the premium allocation approach described in paragraphs 53–59 or 69–70A has been applied, an entity shall disclose separate reconciliations for:
 - (i) The estimates of the present value of the future cash flows; and
 - (ii) The risk adjustment for non-financial risk.
101. For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70A has been applied, an entity shall also disclose reconciliations from the opening to the closing balances separately for each of:
- ...
- ...
103. An entity shall separately disclose in the reconciliations required in paragraph 100 each of the following amounts related to ~~insurance~~ services, if applicable:
- (a) ...
 - (c) Investment components excluded from insurance revenue and insurance service expenses (combined with refunds of premiums unless refunds of premiums are presented as part of the cash flows in the period described in paragraph 105(a)(i)).
104. An entity shall separately disclose in the reconciliations required in paragraph 101 each of the following amounts related to ~~insurance~~ services, if applicable:
- (a) ...
 - (b) Changes that relate to current service. i.e.;
 - (i) ...
 - (ii) The change in the risk adjustment for non-financial risk that does not relate to future service or past service; and
 - (iii) Experience adjustments (see paragraphs AG97(c) and AG113(a)), excluding amounts relating to the risk adjustment for non-financial risk included in (ii).
 - (c) ...
105. To complete the reconciliations in paragraphs 100–101, an entity shall also disclose separately each of the following amounts not related to ~~insurance~~ services provided in the period, if applicable:
- ...
- 105A An entity shall disclose a reconciliation from the opening to the closing balance of assets for insurance acquisition cash flows recognised applying paragraph 28B. An entity shall aggregate information for the reconciliation at a level that is consistent with that for the reconciliation of insurance contracts, applying paragraph 98.
- 105B An entity shall separately disclose in the reconciliation required by paragraph 105A any impairment losses and reversals of impairment losses recognised applying paragraph 28E–28F.
106. For insurance contracts issued other than those to which the premium allocation approach described in paragraphs 53–59 has been applied, an entity shall disclose an analysis of the insurance revenue recognised in the period comprising:
- (a) The amounts relating to the changes in the liability for remaining coverage as specified in paragraph AG124, separately disclosing:
 - (i) ...

- (ii) The change in the risk adjustment for non-financial risk, as specified in paragraph AG124(b); ~~and~~
 - (iii) The amount of the contractual service margin recognised in surplus or deficit because of the transfer of insurance contract services in the period, as specified in paragraph AG124(c); ~~and~~
 - (iv) Other amounts, if any, for example, experience adjustments for premium receipts other than those that relate to future service as specified in paragraph AG124(d).
- (b) The allocation of the portion of the premiums that relate to the recovery of insurance acquisition cash flows (see paragraph AG125).
107. For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70A has been applied, an entity shall disclose the effect on the statement of financial position separately for insurance contracts issued and reinsurance contracts held that are initially recognised in the period, showing their effect at initial recognition on:
- ...
108. In the disclosures required by paragraph 107, an entity shall separately disclose amounts resulting from:
- (a) Contracts acquired from other entities in transfers of insurance contracts or ~~business-PBE~~ combinations; and
 - (b) ...
109. For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70A has been applied, an entity shall disclose ~~an explanation of~~ when it expects to recognise the contractual service margin remaining at the end of the reporting period in surplus or deficit, ~~either~~ quantitatively, in appropriate time bands, or by providing qualitative information. Such information shall be provided separately for insurance contracts issued and reinsurance contracts held.
- 109A An entity shall disclose quantitatively, in appropriate time bands, when it expects to derecognise an asset for insurance acquisition cash flows applying paragraph 28C.
- ...

Paragraph 114 is amended. New text is underlined and deleted text is struck through.

Transition Amounts

114. An entity shall provide disclosures that enable users of financial statements to identify the effect of groups of insurance contracts measured at the transition date applying the modified retrospective approach (see paragraphs 132.6–132.19A or the fair value approach (see paragraphs 132.20–132.24B) on the contractual service margin and insurance revenue in subsequent periods. Hence an entity shall disclose the reconciliation of the contractual service margin applying paragraph 101(c), and the amount of insurance revenue applying paragraph 103(a), separately for:
- ...
- ...

Paragraphs 117 and 128 are amended. New text is underlined and deleted text is struck through.

Significant Judgements in Applying PBE IFRS 17

117. An entity shall disclose the significant judgements and changes in judgements made in applying PBE IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:
- (a) ...
 - (c) To the extent not covered in (a), the approach used:

- (i) ...
- (iii) To determine discount rates; ~~and~~
- (iv) To determine investment components; and
- (v) To determine the relative weighting of the benefits provided by insurance coverage and investment-return service or by insurance coverage and investment-related service (see paragraphs AG119–AG119B).

...

128. An entity shall disclose information about sensitivities to changes in risk variables arising from contracts within the scope of PBE IFRS 17. To comply with this requirement, an entity shall disclose:

- (a) A sensitivity analysis that shows how surplus or deficit and net assets/equity would have been affected by changes in risk variables that were reasonably possible at the end of the reporting period:

...

...

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

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

...

Liquidity Risk—Other Information

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

- (a) ...
- (b) Separate maturity analyses for ~~portfolios~~groups of insurance contracts issued that are liabilities and ~~portfolios~~groups of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the ~~portfolios~~groups for each of the first five years after the reporting date and in aggregate beyond the first five years. An entity is not required to include in these analyses liabilities for remaining coverage measured applying paragraphs 55–59 and paragraphs 69–70A. The analyses may take the form of:
 - ...
- (c) The amounts that are payable on demand, explaining the relationship between such amounts and the carrying amount of the related ~~portfolios~~groups of contracts, if not disclosed applying (b) of this paragraph.

Paragraph 132.1 is amended. Paragraph 132.2 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

Effective Date and Transition

Effective Date

132.1 **An entity shall apply PBE IFRS 17 for annual financial statements covering periods beginning on or after 1 January ~~2023~~2022. If an entity applies PBE IFRS 17 earlier, it shall disclose that fact. Early application is permitted for entities that apply PBE IPSAS 41 on or before the date of initial application of PBE IFRS 17.**

132.2 For the purposes of the transition requirements in paragraphs 132.1 and 132.3–132.33:

- (a) The date of initial application is the beginning of the annual reporting period in which an entity first applies PBE IFRS 17; and

- (b) The transition date is the beginning of the annual reporting period immediately preceding the date of initial application.

Paragraphs 132.3–132.5 are amended and paragraphs 132.5A–132.5B are added. New text is underlined and deleted text is struck through.

Transition

- 132.3 Unless it is impracticable to do so, or paragraph 132.5A applies, an entity shall apply PBE IFRS 17 retrospectively ~~unless impracticable~~, except that:
- (a) ...
- (b) An entity shall not apply the option in paragraph AG115 for periods before the transition date of initial application of PBE IFRS 17. An entity may apply the option in paragraph AG115 prospectively on or after the transition date if, and only if, the entity designates risk mitigation relationships at or before the date it applies the option.
- 132.4 To apply PBE IFRS 17 retrospectively, an entity shall at the transition date:
- (a) ...
- (aa) Identify, recognise and measure any assets for insurance acquisition cash flows as if PBE IFRS 17 had always applied (except that an entity is not required to apply the recoverability assessment in paragraph 28E before the transition date);
- ...
- (c) Recognise any resulting net difference in net assets/equity.
- ...
- 132.5 If, and only if, it is impracticable for an entity to apply paragraph 132.3 for a group of insurance contracts, an entity shall apply the following approaches instead of applying paragraph 132.4(a):
- (a) The modified retrospective approach in paragraphs 132.6–132.19A, subject to paragraph 132.6(a); or
- (b) The fair value approach in paragraphs 132.20–132.24B.
- 132.5A Notwithstanding paragraph 132.5, an entity may choose to apply the fair value approach in paragraphs 132.20–132.24B for a group of insurance contracts with direct participation features to which it could apply PBE IFRS 17 retrospectively if, and only if:
- (a) The entity chooses to apply the risk mitigation option in paragraph AG115 to the group of insurance contracts prospectively from the transition date; and
- (b) The entity has used derivatives, non-derivative financial instruments measured at fair value through surplus or deficit, or reinsurance contracts held to mitigate financial risk arising from the group of insurance contracts, as specified in paragraph AG115, before the transition date.
- 132.5B If, and only if, it is impracticable for an entity to apply paragraph 132.4(aa) for an asset for insurance acquisition cash flows, the entity shall apply the following approaches to measure the asset for insurance acquisition cash flows:
- (a) The modified retrospective approach in paragraphs 132.14B–132.14D and 132.17A, subject to paragraph 132.6(a); or
- (b) The fair value approach in paragraphs 132.24A–132.24B.

Paragraphs 132.7–132.9, 132.11 and 132.15–132.16 and 132.17 are amended. Paragraphs 132.9A, 132.14A–132.14D, 132.16A–132.16C and 132.17A are added. New text is underlined and deleted text is struck through.

Modified Retrospective Approach

...

132.7 Paragraphs 132.9–132.19A set out permitted modifications to retrospective application in the following areas:

...

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

Assessments at Inception or Initial Recognition

132.9 To the extent permitted by paragraph 132.8, an entity shall determine the following matters using information available at the transition date:

(a) ...

(b) Whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs AG101–AG109; ~~and~~

(c) How to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs AG98–AG100; and

(d) Whether an investment contract meets the definition of an investment contract with discretionary participation features within the scope of PBE IFRS 17, applying paragraph 71.

132.9A To the extent permitted by paragraph 132.8, an entity shall classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form an operation or in a PBE combination within the scope of PBE IPSAS 40.

...

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

132.11 To the extent permitted by paragraph 132.8, for contracts without direct participation features, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage (see paragraphs 49–52) at the transition date by applying paragraphs 132.12–132.16C.

...

132.14A Applying paragraph AG137, an entity may choose not to change the treatment of accounting estimates made in previous interim financial statements. To the extent permitted by paragraph 132.8, such an entity shall determine the contractual service margin or loss component at the transition date as if the entity had not prepared interim financial statements before the transition date.

132.14B To the extent permitted by paragraph 132.8, an entity shall use the same systematic and rational method the entity expects to use after the transition date when applying paragraph 28A to allocate any insurance acquisition cash flows paid (or for which a liability has been recognised applying another Standard) before the transition date (excluding any amount relating to insurance contracts that ceased to exist before the transition date) to:

(a) Groups of insurance contracts that are recognised at the transition date; and

(b) Groups of insurance contracts that are expected to be recognised after the transition date.

132.14C Insurance acquisition cash flows paid before the transition date that are allocated to a group of insurance contracts recognised at the transition date adjust the contractual service margin of that group, to the extent insurance contracts expected to be in the group have been recognised at that date (see paragraphs 28C

and AG35C). Other insurance acquisition cash flows paid before the transition date, including those allocated to a group of insurance contracts expected to be recognised after the transition date, are recognised as an asset, applying paragraph 28B.

132.14D If an entity does not have reasonable and supportable information to apply paragraph 132.14B, the entity shall determine the following amounts to be nil at the transition date:

- (a) The adjustment to the contractual service margin of a group of insurance contracts recognised at the transition date and any asset for insurance acquisition cash flows relating to that group; and
- (b) The asset for insurance acquisition cash flows for groups of insurance contracts expected to be recognised after the transition date.

132.15 If applying paragraphs 132.12–132.14D results in a contractual service margin at the date of initial recognition, to determine the contractual service margin at the date of transition an entity shall:

...

132.16 If applying paragraphs 132.12–132.14D results in a loss component of the liability for remaining coverage at the date of initial recognition, an entity shall determine any amounts allocated to the loss component before the transition date applying paragraphs 132.12–132.14D and using a systematic basis of allocation.

132.16A For a group of reinsurance contracts held that provides coverage for an onerous group of insurance contracts and was entered into before or at the same time that the insurance contracts were issued, an entity shall establish a loss-recovery component of the asset for remaining coverage at the transition date (see paragraphs 66A–66B). To the extent permitted by paragraph 132.8, an entity shall determine the loss-recovery component by multiplying:

- (a) The loss component of the liability for remaining coverage for the underlying insurance contracts at the transition date (see paragraphs 132.16 and 132.20); and
- (b) The percentage of claims for the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

132.16B Applying paragraphs 14–22, at the transition date an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraph 132.16A in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

132.16C If an entity does not have reasonable and supportable information to apply paragraph 132.16A, the entity shall not identify a loss-recovery component for the group of reinsurance contracts held.

Determining the Contractual Service Margin or Loss Component for Groups of Insurance Contracts with Direct Participation Features

132.17 To the extent permitted by paragraph 132.8, for contracts with direct participation features an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as:

- (a) The total fair value of the underlying items at that date; minus
- (b) The fulfilment cash flows at that date; plus or minus
- (c) An adjustment for:
 - (i) ...
 - (iv) Insurance acquisition cash flows paid (or for which a liability has been recognised applying another Standard) before the transition date that are allocated to the group (see paragraph 132.17A).
- (d) If (a)–(c) result in a contractual service margin—minus the amount of the contractual service margin that relates to services provided before that date. The total of (a)–(c) is a proxy for the total contractual service margin for all services to be provided under the group of contracts,

i.e., before any amounts that would have been recognised in surplus or deficit for services provided. The entity shall estimate the amounts that would have been recognised in surplus or deficit for services provided by comparing the remaining coverage units at the transition date with the coverage units provided under the group of contracts before the transition date; or

- (e) If (a)–(c) result in a loss component—adjust the loss component to nil and increase the liability for remaining coverage excluding the loss component by the same amount.

132.17A To the extent permitted by paragraph 132.8, an entity shall apply paragraphs 132.14B–132.14D to recognise an asset for insurance acquisition cash flows, and any adjustment to the contractual service margin of a group of insurance contracts with direct participation features for insurance acquisition cash flows (see paragraph 132.17(c)(iv)).

Paragraph 132.19A is added. New text is underlined.

Insurance Finance Revenue or Expenses

...

132.19A Applying paragraph AG137, an entity may choose not to change the treatment of accounting estimates made in previous interim financial statements. To the extent permitted by paragraph 132.8, such an entity shall determine amounts related to insurance finance revenue or expenses at the transition date as if it had not prepared interim financial statements before the transition date.

Paragraphs 132.20A–132.20B and 132.22A are added and paragraph 132.21 is amended. New text is underlined and deleted text is struck through.

Fair Value Approach

...

132.20A For a group of reinsurance contracts held to which paragraphs 66A–66B apply (without the need to meet the condition set out in paragraph AG119C), an entity shall determine the loss-recovery component of the asset for remaining coverage at the transition date by multiplying:

- (a) The loss component of the liability for remaining coverage for the underlying insurance contracts at the transition date (see paragraphs 132.16 and 132.20); and
- (b) The percentage of claims for the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

132.20B Applying paragraphs 14–22, at the transition date an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraph 132.20A in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

132.21 In applying the fair value approach, an entity may apply paragraph 132.22 to determine:

- (a) ...
- (b) Whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs AG101–AG109; ~~and~~
- (c) How to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs AG98–AG100; ~~and~~
- (d) Whether an investment contract meets the definition of an investment contract with discretionary participation features within the scope of PBE IFRS 17, applying paragraph 71.

...

132.22A In applying the fair value approach, an entity may choose to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form an operation or in a PBE combination within the scope of PBE IPSAS 40.

...

Paragraphs 132.24A–132.24B and the heading above paragraphs 132.24A–132.24B are added. New text is underlined.

Asset for Insurance Acquisition Cash Flows

132.24A In applying the fair value approach for an asset for insurance acquisition cash flows (see paragraph 132.5B(b)), at the transition date, an entity shall determine an asset for insurance acquisition cash flows at an amount equal to the insurance acquisition cash flows the entity would incur at the transition date for the rights to obtain:

- (a) Recoveries of insurance acquisition cash flows from premiums of insurance contracts issued before the transition date but not recognised at the transition date;
- (b) Future insurance contracts that are renewals of insurance contracts recognised at the transition date and insurance contracts described in (a); and
- (c) Future insurance contracts, other than those in (b), after the transition date without paying again insurance acquisition cash flows the acquiree has already paid that are directly attributable to the related portfolio of insurance contracts.

132.24B At the transition date, the entity shall exclude from the measurement of any groups of insurance contracts the amount of any asset for insurance acquisition cash flows.

Paragraph 132.31 is amended. New text is underlined.

132.31 An entity that applies paragraph 132.29 is not required to restate prior periods to reflect such changes in designations or classifications. The entity may restate prior periods only if it is possible without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements of PBE IPSAS 41 for those affected financial assets. If an entity does not restate prior periods, the entity shall recognise, in the opening accumulated comprehensive revenue and expense (or other component of net assets/equity, as appropriate) at the date of initial application, any difference between:

...

...

Appendix B—Application Guidance

Paragraph AG1 is amended. New text is underlined and deleted text is struck through.

AG1. This appendix provides guidance on the following:

- (a) ...
- (ba) Asset for reinsurance acquisition cash flows (see paragraphs AG35A–AG35D);
- (c) Measurement (see paragraphs AG36–AG119F);

...

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

Definition of an Insurance Contract (paragraph 13.1)

...

Uncertain Future Event

...

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

...

The Distinction between Insurance Risk and Other Risks

...

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

...

Paragraphs AG33–AG35 and the heading above paragraph AG33 are amended. New text is underlined and deleted text is struck through.

Promises to Transfer Distinct Goods or ~~Non-Insurance Services~~ other than Insurance Contract Services (paragraph 12)

AG33. Paragraph 12 requires an entity to separate from an insurance contract a promise to transfer distinct goods or ~~non-insurance services~~ other than insurance contract services to a policyholder. For the purpose of separation, an entity shall not consider activities that an entity must undertake to fulfil a contract unless the entity transfers a good or service other than insurance contract services to the policyholder as those activities occur. For example, an entity may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the policyholder as the tasks are performed.

AG34. A good or ~~non-insurance service~~ other than insurance contract services promised to a policyholder is distinct if the policyholder can benefit from the good or service either on its own or together with other resources readily available to the policyholder. Readily available resources are goods or services that are sold separately (by the entity or by another entity), or resources that the policyholder has already got (from the entity or from other transactions or events).

AG35. A good or ~~non-insurance service~~ other than insurance contract services that is promised to the policyholder is not distinct if:

(a) ...

(b) The entity provides a significant service in integrating the good or ~~non-insurance~~ service with the insurance components.

Paragraphs AG35A–AG35D and the heading above paragraph AG35A are added. New text is underlined.

Insurance Acquisition Cash Flows (paragraphs 28A–28F)

AG35A To apply paragraph 28A, an entity shall use a systematic and rational method to allocate:

- (a) Insurance acquisition cash flows directly attributable to a group of insurance contracts:
 - (i) To that group; and
 - (ii) To groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group.
- (b) Insurance acquisition cash flows directly attributable to a portfolio of insurance contracts, other than those in (a), to groups of contracts in the portfolio.

AG35B At the end of each reporting period, an entity shall revise amounts allocated as specified in paragraph AG35A to reflect any changes in assumptions that determine the inputs to the method of allocation used. An entity shall not change amounts allocated to a group of insurance contracts after all contracts have been added to the group (see paragraph AG35C).

AG35C An entity might add insurance contracts to a group of insurance contracts across more than one reporting period (see paragraph 28). In those circumstances, an entity shall derecognise the portion of an asset for insurance acquisition cash flows that relates to insurance contracts added to the group in that period and continue to recognise an asset for insurance acquisition cash flows to the extent that the asset relates to insurance contracts expected to be added to the group in a future reporting period.

AG35D To apply paragraph 28E:

- (a) An entity shall recognise an impairment loss in surplus or deficit and reduce the carrying amount of an asset for insurance acquisition cash flows so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group of insurance contracts, determined applying paragraph 32(a).
- (b) When an entity allocates insurance acquisition cash flows to groups of insurance contracts applying paragraph AG35A(a)(ii), the entity shall recognise an impairment loss in surplus or deficit and reduce the carrying amount of the related assets for insurance acquisition cash flows to the extent that:
 - (i) The entity expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals, determined applying paragraph 32(a); and
 - (ii) The excess determined applying (b)(i) has not already been recognised as an impairment loss applying (a).

Paragraphs AG64–AG66 and AG71–AG72 are amended and paragraph AG66A is added. New text is underlined and deleted text is struck through.

Estimates of Future Cash Flows (paragraphs 33–35)

...

Cash Flows within the Contract Boundary (paragraph 34)

...

AG64. Paragraph 34 refers to an entity's practical ability to set a price at a future date (a renewal date) that fully reflects the risks in the contract from that date. An entity has that practical ability in the absence of constraints that prevent the entity from setting the same price it would for a new contract with the same characteristics as the existing contract issued on that date, or if it can amend the benefits to be consistent with the price it will charge. Similarly, an entity has that practical ability to set a price when it can reprice an existing contract so that the price reflects overall changes in the risks in a portfolio of insurance contracts, even if the price set for each individual policyholder does not reflect the change in risk for that specific policyholder. When assessing whether the entity has the practical ability to set a price that fully

reflects the risks in the contract or portfolio, it shall consider all the risks that it would consider when underwriting equivalent contracts on the renewal date for the remaining ~~service coverage~~. In determining the estimates of future cash flows at the end of a reporting period, an entity shall reassess the boundary of an insurance contract to include the effect of changes in circumstances on the entity's substantive rights and obligations.

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

(a) ...

(ka) Costs the entity will incur:

(i) Performing investment activity, to the extent the entity performs that activity to enhance benefits from insurance coverage for policyholders. Investment activities enhance benefits from insurance coverage if the entity performs those activities expecting to generate an investment return from which policyholders will benefit if an insured event occurs.

(ii) Providing investment-return services to policyholders of insurance contracts without direct participation features (see paragraph AG119B).

(iii) Providing investment-related service to policyholders of insurance contracts with direct participation features.

...

AG66. The following cash flows shall not be included when estimating the cash flows that will arise as the entity fulfils an existing insurance contract:

(a) ...

(f) Income tax payments and receipts the insurer does not pay or receive in a fiduciary capacity or that are not specifically chargeable to the policyholder under the terms of the contract. ~~Such payments and receipts are recognised, measured and presented separately applying PBE IAS 12 Income Taxes.~~

...

AG66A Before the recognition of a group of insurance contracts, an entity might be required to recognise an asset or liability for cash flows related to the group of insurance contracts other than insurance acquisition cash flows either because of the occurrence of the cash flows or because of the requirements of another Standard. Cash flows are related to the group of insurance contracts if those cash flows would have been included in the fulfilment cash flows at the date of initial recognition of the group had they been paid or received after that date. To apply paragraph 38(c)(ii) an entity shall derecognise such an asset or liability to the extent that the asset or liability would not be recognised separately from the group of insurance contracts if the cash flow or the application of the Standard occurred at the date of initial recognition of the group of insurance contracts.

...

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

...

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

Discount Rates (paragraph 36)

AG72. An entity shall use the following discount rates in applying PBE IFRS 17:

- (a) ...
 - (c) To measure the changes to the contractual service margin applying paragraphs AG96(a)–AG96(b) and AG96(d) ~~AG96(c)~~ for insurance contracts without direct participation features—discount rates applying paragraph 36 determined on initial recognition;
- ...

Paragraphs AG93–AG95 are amended. Paragraph AG95 is bifurcated creating new paragraph AG95A. Paragraphs AG95B–AG95F and the heading above paragraph AG95E are added. New text is underlined.

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

...

AG93. When an entity acquires insurance contracts issued or reinsurance contracts held in a transfer of insurance contracts that do not form ~~a business an operation~~ or in a ~~business PBE~~ combination within the scope of PBE IPSAS 40, the entity shall apply paragraphs 14–24 to identify the groups of contracts acquired, as if it had entered into the contracts on the date of the transaction.

AG94. An entity shall use the consideration received or paid for the contracts as a proxy for the premiums received. The consideration received or paid for the contracts excludes the consideration received or paid for any other assets and liabilities acquired in the same transaction. In ~~a business combination an acquisition~~ within the scope of PBE IPSAS 40, the consideration received or paid is the fair value of the contracts at that date.

AG95. Unless the premium allocation approach for the liability for remaining coverage in paragraphs 55–59 and 69–70A applies, on initial recognition the contractual service margin is calculated applying paragraph 38 for acquired insurance contracts issued and paragraph 65 for acquired reinsurance contracts held using the consideration received or paid for the contracts as a proxy for the premiums received or paid at the date of initial recognition.

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

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

- (a) The loss component of the liability for remaining coverage of the underlying insurance contracts at the date of the transaction; and
- (b) The percentage of claims on the underlying insurance contracts the entity expects at the date of the transaction to recover from the group of reinsurance contracts held.

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

AG95D Applying paragraphs 14–22, at the date of the transaction an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous contracts not covered by the group of reinsurance contracts held. To apply paragraph AG95B in such cases, an entity shall use a systematic and rational basis of allocation to

determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

Asset for Insurance Acquisition Cash Flows

AG95E When an entity acquires insurance contracts issued in a transfer of insurance contracts that do not form an operation or in a PBE combination within the scope of PBE IPSAS 40, the entity shall recognise an asset for insurance acquisition cash flows at fair value at the date of the transaction for the rights to obtain:

- (a) Future insurance contracts that are renewals of insurance contracts recognised at the date of the transaction; and
- (b) Future insurance contracts, other than those in (a), after the date of the transaction without paying again insurance acquisition cash flows the acquiree has already paid that are directly attributable to the related portfolio of insurance contracts.

AG95F At the date of the transaction, the amount of any asset for insurance acquisition cash flows shall not be included in the measurement of the acquired group of insurance contracts applying paragraphs AG93–AG95A.

Paragraphs AG96–AG97 are amended. New text is underlined and deleted text is struck through.

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

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

- (a) Experience adjustments arising from premiums received in the period that relate to future service, and related cash flows such as insurance acquisition cash flows and premium-based taxes, measured at the discount rates specified in paragraph AG72(c);
- (b) Changes in estimates of the present value of the future cash flows in the liability for remaining coverage, except those described in paragraph AG97(a), measured at the discount rates specified in paragraph AG72(c);
- (c) Differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period. Those differences are determined by comparing (i) the actual investment component that becomes payable in the period with (ii) the payment in the period that was expected at the start of the period plus any insurance finance revenue or expenses related to that expected payment before it becomes payable, ~~measured at the discount rates specified in paragraph AG72(c); and~~
- (ca) Differences between any loan to a policyholder expected to become repayable in the period and the actual loan to a policyholder that becomes repayable in the period. Those differences are determined by comparing (i) the actual load to a policyholder that becomes repayable in the period with (ii) the repayment in the period that was expected at the start of the period plus any insurance finance revenue or expenses related to that expected repayment before it becomes repayable.
- (d) Changes in the risk adjustment for non-financial risk that relate to future service. An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between (i) a change related to non-financial risk and (ii) the effect of the time value of money and changes in the time value of money. If an entity makes such a disaggregation, it shall adjust the contractual service margin for the change related to non-financial risk, measured at the discount rates specified in paragraph AG72(c).

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

- (a) The effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk. These effects comprise: ~~(being-~~
 - (i) ~~£~~The effect, if any, on estimated future cash flows;
 - (ii) The effect, if disaggregated, on the risk adjustment for non-financial risk; and
 - (iii) ~~£~~The effect of a change in discount rate;
- (b) Changes in estimates of fulfilment cash flows in the liability for incurred claims; ~~and~~
- (c) ...

...

Paragraphs AG104, AG107, AG112, AG115–AG116 and AG118 are amended. Paragraph AG117A is added. Paragraph AG101 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

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

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

- (a) The contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items (see paragraphs AG105–AG106);
- (b) The entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items (see paragraph AG107); and
- (c) The entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items (see paragraph AG107).

...

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

- (a) ...
- (b) A variable fee (see paragraphs AG110–AG118) that the entity will deduct from (a) in exchange for the future service provided by the insurance contract, comprising:
 - (i) The amount of the entity's share of the fair value of the underlying items; less
 - (ii) ...

...

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

- (a) ...
- (b) Assess the variability in the amounts in paragraphs AG101(b) and AG101(c):
 - (i) Over the duration of the insurance contract~~group of insurance contracts~~; and
 - (ii) ...

...

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

...

Risk Mitigation

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

(a) The amount of the entity's share of the underlying items (see paragraph AG112) if the entity mitigates the effect of financial risk on that amount using derivatives or reinsurance contracts held; and

(b) The fulfilment cash flows set out in paragraph AG113(b) if the entity mitigates the effect of financial risk on those fulfilment cash flows using derivatives, non-derivative financial instruments measured at fair value through surplus or deficit, or reinsurance contracts held.

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

(a) ~~The entity uses a derivative to mitigate the financial risk arising from the insurance contracts.~~

(~~a~~b) An economic offset exists between the insurance contracts and the derivative, non-derivative financial instrument measured at fair value through surplus or deficit, or reinsurance contract held (i.e., the values of the insurance contracts and those risk-mitigating items~~the derivative~~ generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated). An entity shall not consider accounting measurement differences in assessing the economic offset.

(~~b~~e) Credit risk does not dominate the economic offset.

...

AG117A If the entity mitigates the effect of financial risk using derivatives or non-derivative financial instruments measured at fair value through surplus or deficit, it shall include insurance finance revenue or expenses for the period arising from the application of paragraph AG115 in surplus or deficit. If the entity mitigates the effect of financial risk using reinsurance contracts held, it shall apply the same accounting policy for the presentation of insurance finance revenue or expenses arising from the application of paragraph AG115 as the entity applies to the reinsurance contracts held applying paragraphs 88 and 90.

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

(~~a~~) ~~Ce~~ ~~cease~~ to apply paragraph AG115 from that date, ~~and~~

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

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

Recognition of the Contractual Service Margin in Surplus or Deficit

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

(a) Identifying the coverage units in the group. The number of coverage units in a group is the quantity of insurance contract services~~coverage~~ provided by the contracts in the group, determined by

considering for each contract the quantity of the benefits provided under a contract and its expected coverage period.

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

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

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

- (a) An investment component exists, or the policyholder has a right to withdraw an amount;
- (b) The entity expects the investment component or amount the policyholder has a right to withdraw to include an investment return (an investment return could be below zero, for example, in a negative interest rate environment); and
- (c) The entity expects to perform investment activity to generate that investment return.

Paragraphs AG119C–AG119F and the heading above paragraph AG119C are added. New text is underlined and deleted text is struck through.

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

AG119C Paragraph 66A applies if, and only if, the reinsurance contract held is entered into before or at the same time as the onerous underlying insurance contracts are recognised.

AG119D To apply paragraph 66A, an entity shall determine the adjustment to the contractual service margin of a group of reinsurance contracts held and the resulting revenue by multiplying:

- (a) The loss recognised on the underlying insurance contracts; and
- (b) The percentage of claims on the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

AG119E Applying paragraphs 14–22, an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraphs 66(c)(i)–(ii) and paragraph 66A in such cases, the entity shall apply a systematic and rational method of allocation to determine the portion of losses recognised on the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

AG119FAfter an entity has established a loss-recovery component applying paragraph 66B, the entity shall adjust the loss-recovery component to reflect changes in the loss component of an onerous group of underlying insurance contracts (see paragraphs 50–52). The carrying amount of the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

Paragraphs AG121, AG123, AG124 and AG126 are amended and paragraph AG123A is added. New text is underlined and deleted text is struck through.

Insurance Revenue (paragraphs 83 and 85)

...

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

- (a) Amounts related to the provision of services, comprising:
 - (i) Insurance service expenses, excluding any amounts relating to the risk adjustment for non-financial risk included in (ii) and any amounts allocated to the loss component of the liability for remaining coverage;
 - (ia) Amounts related to income tax that are specifically chargeable to the policyholder;
 - (ii) ...
- (b) ...

...

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

- (a) Changes that do not relate to services provided in the period, for example:
 - (i) ...
 - (ia) Changes resulting from cash flows from loans to policyholders;
 - (iii) ...
- (b) ...

AG123A To the extent that an entity derecognises an asset for cash flows other than insurance acquisition cash flows at the date of initial recognition of a group of insurance contracts (see paragraphs 38(c)(ii) and B66A), it shall recognise insurance revenue and expenses for the amount derecognised at that date.

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

- (a) Insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period), excluding:
 - (i) Amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(a);
 - (ii) Repayments of investment components;
 - (iii) Amounts that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph AG65(i));
 - (iv) Insurance acquisition expenses (see paragraph AG125); and
 - (v) The amount related to the risk adjustment for non-financial risk (see (b)).

...

- (d) Other amounts, if any, for example, experience adjustments for premium receipts other than those that relate to future service (see paragraph AG96(a)).

...

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

...

Paragraphs AG128 and AG134 are amended. New text is underlined and deleted text is struck through.

Insurance Finance Revenue or Expenses (paragraphs 87–92)

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

- (a) Assumptions about inflation based on an index of prices or rates or on prices of assets with inflation-linked returns are assumptions that relate to financial risk; ~~and~~
- (b) Assumptions about inflation based on an entity's expectation of specific price changes are not assumptions that relate to financial risk; and
- (c) Changes in the measurement of a group of insurance contracts caused by changes in the value of underlying items (excluding additions and withdrawals) are changes arising from the effect of the time value of money and financial risk and changes therein.

...

AG134. Paragraph 89 applies if an entity, either by choice or because it is required to, holds the underlying items for insurance contracts with direct participation features. If an entity chooses to disaggregate insurance finance revenue or expenses applying paragraph 89(b), it shall include in surplus or deficit expenses or revenue that exactly match the revenue or expenses included in surplus or deficit for the underlying items, resulting in the net of the ~~two~~ separately presented items being nil.

...

Paragraph AG137 and its heading are amended. New text is underlined and deleted text is struck through.

The Effect of Accounting Estimates Made in Interim Financial Statements

AG137 If an entity prepares interim financial statements applying PBE IAS 34 *Interim Financial Reporting*, the entity shall make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying PBE IFRS 17 in subsequent interim financial statements and in the annual reporting period. The entity shall apply its choice of accounting policy to all groups of insurance contracts it issues and groups of reinsurance contracts it holds. ~~Notwithstanding the requirement in PBE IAS 34 *Interim Financial Reporting* that the frequency of an entity's reporting shall not affect the measurement of its annual results, an entity shall not change the treatment of accounting estimates made in previous interim financial statements when applying PBE IFRS 17 in subsequent interim financial statements or in the annual reporting period.~~

Appendix D – Amendments to other Standards

This appendix sets out the amendments to other Standards that are a consequence of the issuance of *Amendments to PBE IFRS 17* in August 2020. An entity shall apply these amendments when it applies PBE IFRS 17.

PBE IPSAS 1 *Presentation of Financial Reports*

In the amendments to PBE IPSAS 1 *Presentation of Financial Reports* paragraphs 88 and 154.12 are amended. New text is underlined and deleted text is struck through.

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

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

(a) ...

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

(e) ...

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

(n) ...

...

Effective Date

...

154.12 **PBE IFRS 17, issued in July 2019, amended paragraphs 7, 88 and 99.1. Amendments to PBE IFRS 17, issued in August 2020, further amended paragraph 88. An entity shall apply those amendments when it applies PBE IFRS 17.**

PBE IPSAS 26 *Impairment of Cash-Generating Assets*

In the amendments to PBE IPSAS 26 *Impairment of Cash-Generation Assets* paragraphs 2 and 127.10 are amended. New text is underlined and deleted text is struck through.

Scope

2. **An entity that prepares and presents financial statements shall apply this Standard in accounting for the impairment of cash-generating assets, except for:**

(a) ...

(k) **Contracts within the scope of PBE IFRS 17 Insurance Contracts that are assets and any assets for insurance acquisition cash flows as defined in PBE IFRS 17; and**

(l) ...

Effective Date

...

- 127.10 PBE IFRS 17, issued in July 2019, amended paragraph 2. Amendments to PBE IFRS 17, issued in August 2020, further amended paragraph 2. An entity shall apply that amendment when it applies PBE IFRS 17.

PBE IPSAS 28 *Financial Instruments: Presentation* (as amended by PBE IPSAS 41 and PBE IFRS 17)

In the amendments to PBE IPSAS 28 *Financial Instruments: Presentation* paragraphs 3, 38.1 and 62.7 are amended. New text is underlined and deleted text is struck through.

Scope (see also paragraphs AG3–AG9)

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

...

- (c) Insurance contracts as defined in PBE IFRS 17 *Insurance Contracts* ~~and~~ investment contracts with discretionary participation features within the scope of PBE IFRS 17. However, this Standard applies to:
- (i) Derivatives that are embedded in contracts within the scope of PBE IFRS 17 if PBE IPSAS 41 requires the entity to account for them separately. ~~and~~
 - (ii) Investment components that are separated from contracts within the scope of PBE IFRS 17, if PBE IFRS 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features within the scope of PBE IFRS 17.
 - (iii) An issuer's rights and obligations arising under insurance contracts that meet the definition of ~~Moreover, an issuer shall apply this Standard to financial guarantee contracts, if the issuer applies PBE IPSAS 41 in recognising and measuring the contracts. However, the issuer but shall apply PBE IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of PBE IFRS 17, to apply PBE IFRS 17 in recognising and measuring the contracts~~ ~~them.~~
 - (iv) An entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract if the entity applies PBE IPSAS 41 to those rights and obligations in accordance with paragraph 7(h) of PBE IFRS 17 and paragraph 2(e)(iv) of PBE IPSAS 41.
 - (v) An entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, if the entity elects, in accordance with paragraph 8A of PBE IFRS 17, to apply PBE IPSAS 41 instead of PBE IFRS 17 to such contracts.

...

...

- 38.1 Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund and recognise financial liabilities for the amounts to be paid to those investors. Similarly, some entities issue groups of insurance contracts with direct participation features and those entities hold the underlying items. Some such funds or underlying items include the entity's treasury shares. Despite paragraph 38, an entity may elect not to deduct from net assets/equity a

treasury share that is included in such a fund or is an underlying item when, and only when, an entity reacquires its own equity instrument for such purposes. Instead, the entity may elect to continue to account for that treasury share as net assets/equity and to account for the reacquired instrument as if the instrument were a financial asset and measure it at fair value through surplus or deficit in accordance with PBE IPSAS 41. That election is irrevocable and made on an instrument-by-instrument basis. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See PBE IFRS 17 for terms used in this paragraph that are defined in that Standard.)

...

Effective Date

...

- 62.7 PBE IFRS 17, issued in July 2019, amended paragraphs 3, 9, AG9, AG15 and AG61, and added paragraph 38.1. Amendments to PBE IFRS 17, issued in August 2020, further amended paragraphs 3 and 38.1. An entity shall apply those amendments when it applies PBE IFRS 17.

PBE IPSAS 30 *Financial Instruments: Disclosures* (as amended by PBE IPSAS 41 and PBE IFRS 17)

In the amendments to PBE IPSAS 30 *Financial Instruments: Disclosures* paragraphs 3 and 53.8 are amended. New text is underlined and deleted text is struck through.

Scope

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

...

- (c) ~~under~~ Insurance contracts as defined in PBE IFRS 17 *Insurance Contracts* ~~and~~ or investment contracts with discretionary participation features within the scope of PBE IFRS 17. However, this Standard applies to:
- (i) Derivatives that are embedded in contracts within the scope of PBE IFRS 17 if PBE IPSAS 41 requires the entity to account for them separately, ~~and~~
 - (ii) Investment components that are separated from contracts within the scope of PBE IFRS 17, if PBE IFRS 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features.
 - (iii) An issuer's rights and obligations arising under insurance contracts that meet the definition of ~~Moreover, an issuer shall apply this Standard to financial guarantee contracts, if the issuer applies PBE IPSAS 41 in recognising and measuring the contracts. However, the issuer but shall apply PBE IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of PBE IFRS 17, to apply PBE IFRS 17 in recognising and measuring the contracts~~ ~~them.~~
 - (iii) An entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract if the entity applies PBE IPSAS 41 to those rights and obligations in accordance with paragraph 7(h) of PBE IFRS 17 and paragraph 2(e)(iv) of PBE IPSAS 41.
 - (v) An entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, if the entity elects, in accordance with paragraph 8A of PBE IFRS 17, to apply PBE IPSAS 41 instead of PBE IFRS 17 to such contracts.

(d) ...

...

Effective Date and Transition

...

53.8 PBE IFRS 17, issued in July 2019, amended paragraphs 3, 11 and 35 and deleted paragraph 36. Amendments to PBE IFRS 17, issued in August 2020, further amended paragraph 3. An entity shall apply those amendments when it applies PBE IFRS 17.

PBE IPSAS 31 *Intangible Assets*

In the amendments to PBE IPSAS 31 *Intangible Assets* paragraphs 3 and 133.9 are amended. New text is underlined and deleted text is struck through.

Scope

3. This Standard shall be applied in accounting for intangible assets, except:

(a) ...

(i) **Contracts within the scope of PBE IFRS 17 *Insurance Contracts* any assets for insurance acquisition cash flows as defined in PBE IFRS 17; and**

(j) ...

Effective Date

...

133.9 PBE IFRS 17, issued in July 2019, amended paragraph 3. Amendments to PBE IFRS 17, issued in August 2020, further amended paragraph 3. An entity shall apply that amendment when it applies PBE IFRS 17.

PBE IPSAS 40 *PBE Combinations*

In the amendments to PBE IPSAS 40 *PBE Combinations* paragraphs 84.2 and 126.2 are amended. New text is underlined and deleted text is struck through.

Classifying or Designating Identifiable Assets Acquired and Liabilities Assumed in an Acquisition

...

Insurance Contracts

84.2 The acquirer shall measure a group of contracts within the scope of PBE IFRS 17 *Insurance Contracts* acquired in an acquired operation, and any assets for insurance acquisition cash flows as defined in PBE IFRS 17, as a liability or asset in accordance with paragraphs 39 and AG93–AG95F of PBE IFRS 17, at the acquisition date.

...

Effective Date

...

126.2 PBE IFRS 17, issued in July 2019, amended paragraphs 71, 74, 75, 89 and AG107, and after paragraph 84.1 added a heading and paragraph 84.2. Amendments to PBE IFRS 17, issued in August 2020, further amended paragraph 84.2. An entity shall apply the amendments to paragraph 71 to

PBE business combinations with an acquisition date after the date of initial application of PBE IFRS 17. An entity shall apply the other amendments when it applies PBE IFRS 17.

PBE IPSAS 41 *Financial Instruments* (as amended by PBE IFRS 17)

In the amendments to PBE IPSAS 41 *Financial Instruments* paragraphs 2 and 156.2 are amended and a new heading and paragraphs 184A–184G are added. New text is underlined and deleted text is struck through.

2. This Standard shall be applied by all entities to all types of financial instruments except:
- (a) ...
 - (c) Rights and obligations arising under an insurance contract as defined in PBE IFRS 17 *Insurance Contracts*, or an investment contract with discretionary participation features within the scope of PBE IFRS 17. However, this Standard applies to:
 - (i) ~~a derivative that is embedded in a contract~~ within the scope of PBE IFRS 17, if the derivatives are not themselves is not itself a contract within the scope of PBE IFRS 17, ~~and~~
 - (ii) ~~an investment component that is separated from a contract~~ within the scope of PBE IFRS 17, if PBE IFRS 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features within the scope of PBE IFRS 17.
 - (iii) An issuer's rights and obligations under insurance contracts that meet the definition of a financial guarantee contract. ~~Moreover,~~ if an issuer of financial guarantee contracts has previously applied accounting that is applicable to insurance contracts and adopted an accounting policy that treated financial guarantee contracts as insurance contracts, the issuer may elect to apply either this Standard or PBE IFRS 17 to such financial guarantee contracts (see paragraphs AG5–AG6). The issuer may make that election contract by contract, but the election for each contract is irrevocable.
 - (iv) An entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract but which paragraph 7(h) of PBE IFRS 17 excludes from the scope of PBE IFRS 17. However, if, and only if, the insurance coverage is a contractual term of such a financial instrument, the entity shall separate that component and apply PBE IFRS 17 to it (see paragraph 7(h) of PBE IFRS 17).
 - (v) An entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, if the entity elects, in accordance with paragraph 8A of PBE IFRS 17, to apply PBE IPSAS 41 instead of PBE IFRS 17 to such contracts.

Effective Date and Transition

Effective Date

156 ...

156.2 PBE IFRS 17, issued in July 2019, amended paragraphs 2, AG1, AG4, AG5 and AG92 and added paragraph 38.1. Amendments to PBE IFRS 17, issued in August 2020, further amended paragraph 2

and added paragraphs 184A–184G. An entity shall apply those amendments when it applies PBE IFRS 17.

Transition

...

Transition for PBE IFRS 17 as amended in August 2020

184A An entity shall apply the amendments to PBE IPSAS 41 made by PBE IFRS 17 as amended in August 2020 retrospectively in accordance with PBE IPSAS 3, except as specified in paragraphs 184B–184G.

184B An entity that first applies PBE IFRS 17 as amended in August 2020 at the same time it first applies this Standard shall apply paragraphs 158–184 instead of paragraphs 184C–184G.

184C An entity that first applies PBE IFRS 17 as amended in August 2020 after it first applies this Standard shall apply paragraphs 84D–184G. The entity shall also apply the other transition requirements in this Standard necessary for applying these amendments. For that purpose, references to the date of initial application shall be read as referring to the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments).

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

- (a) Shall revoke its previous designation of a financial liability as measured at fair value through surplus or deficit if that designation was previously made in accordance with the condition in paragraph 46(a) but that condition is no longer satisfied as a result of the application of these amendments; and
- (b) May designate a financial liability as measured at fair value through surplus or deficit if that designation would not have previously satisfied the condition in paragraph 46(a) but that condition is now satisfied as a result of the application of these amendments.

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

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

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

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

- (a) The previous classification, including the previous measurement category when applicable, and carrying amount determined immediately before applying these amendments;
- (b) The new measurement category and carrying amount determined after applying these amendments;
- (c) The carrying amount of any financial liabilities in the statement of financial position that were previously designated as measured at fair value through surplus or deficit but are no longer so designated; and
- (d) The reasons for any designation or de-designation of financial liabilities as measured at fair value through surplus or deficit.

In the Basis for Conclusions, a new heading and paragraphs BC9–BC12 are added. For ease of reading new text is not underlined.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IFRS 17.

BC1. ...

Amendments to PBE IFRS 17 (August 2020)

- BC9. In June 2019, the International Accounting Standard Board (IASB) issued for comment IASB ED/2019/4 *Amendments to IFRS 17* (ED/2019/4). The aim of the proposed amendments was to ease the implementation of IFRS 17 by reducing implementation costs and making it easier for entities to explain the results of applying IFRS 17 to investors and others. ED/2019/4 also included a proposal to defer the effective date of IFRS 17 by one year. ED/2019/4 was issued for comment in New Zealand.
- BC10. In August 2019, the NZASB issued for comment NZASB ED 2019-3 *Amendments to PBE IFRS 17* (ED 2019-3), which proposed equivalent amendments to PBE IFRS 17. However, ED 2019-3 did not propose to defer the effective date of PBE IFRS 17 because PBE IFRS 17 was originally issued with an effective date of 1 January 2022, which was the date the IASB proposed in ED/2019/4.
- BC11. During its redeliberations on ED/2019/4, the IASB decided to defer the effective date of IFRS 17 by two years, that is, from 1 January 2021 to 1 January 2023. Therefore, to ensure that the effective date of PBE IFRS 17 remained aligned with that of NZ IFRS 17, in June 2020 the NZASB issued NZASB ED 2020-4 *PBE IFRS 17 – Deferral of Effective Date*. That ED proposed to defer the effective date of PBE IFRS 17 by a further year (from 1 January 2022 to 1 January 2023).
- BC12. In August 2020 the NZASB issued *Amendments to PBE IFRS 17*. This amending standard finalised the proposals in ED 2019-3 and ED 2020-4 and was aligned with *Amendments to NZ IFRS 17* issued in August 2020.

PBE IFRS 4 Insurance Contracts

The text box on the front page of PBE IFRS 4 is amended.

This Standard is superseded by PBE IFRS 17 *Insurance Contracts* for Tier 1 and Tier 2 not-for-profit public benefit entities for annual financial statements covering periods beginning on or after 1 January ~~2023~~~~2022~~. Early application is permitted for entities that apply PBE IPSAS 41 *Financial Instruments* on or before the date of initial application of PBE IFRS 17.

This Standard continues to apply to Tier 1 and Tier 2 public sector public benefit entities after 1 January 2023~~2022~~.

Part D – Effective Date

This Standard shall be applied for annual periods beginning on or after 1 January 2023. Earlier application is permitted.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 13 August 2020

To: Michele Embling, Chair XRB Board

From: Michael Bradbury, Acting Chair NZASB

Subject: ***Amendments to PBE IFRS 17***

Introduction¹

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *Amendments to PBE IFRS 17*.
2. PBE IFRS 17 *Insurance Contracts* was issued in July 2019, effective for annual financial statements covering periods beginning on or after 1 January 2022. Early application is permitted for entities that apply PBE IPSAS 41 *Financial Instruments* on or before the date of initial application of PBE IFRS 17. PBE IFRS 17 is substantively the same as NZ IFRS 17 *Insurance Contracts*, which in turn is based on IFRS 17 *Insurance Contracts*. The scope of PBE IFRS 17 is currently limited to not-for-profit entities. There are a small number of not-for-profit entities that are licensed insurers and from a regulatory point of view it is considered important for licensed insurers to report in the same way, regardless of whether the entity reports in accordance with NZ IFRS or PBE Standards.
3. Since the issue of IFRS 17 in May 2017, the IASB has been carrying out activities to support companies and monitor their progress in implementing the standard. Those activities helped the IASB to understand the concerns and challenges that some companies identified while implementing the standard. As a result, in June 2019 the IASB issued IASB ED/2019/4 *Amendments to IFRS 17* and in June 2020 it issued *Amendments to NZ IFRS 17*. The purpose of the amendments to IFRS 17 and the due process followed in finalising the amendments to IFRS 17 and NZ IFRS 17 are discussed in a separate signing memorandum. This memorandum outlines the due process for incorporating equivalent amendments in PBE IFRS 17 so that NZ IFRS 17 and PBE IFRS 17 remain aligned.

Due process followed in developing *Amendments to PBE IFRS 17*

4. When PBE IFRS 17 was issued in June 2019, the IASB had already indicated its intention to defer the effective date of IFRS 17 by one year. PBE IFRS 17 was therefore issued with an effective date of 1 January 2022, which was one year later than the effective date of NZ IFRS 17.

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).

5. Because of the importance of keeping NZ IFRS 17 and PBE IFRS 17 aligned, the NZASB issued NZASB ED 2019-3 *Amendments to PBE IFRS 17* in August 2019, with a due date for comments of 19 November 2019. The amendments were based on the amendments proposed to IFRS 17 in IASB ED/2019/4.² The NZASB did not receive any submissions on NZASB ED 2019-3.
6. In March 2020, the IASB decided to defer the effective date in IFRS 17 by two years, rather than the one year initially proposed in IASB ED/2019/4. As this was also one year later than the effective date of PBE IFRS 17, in June 2020 the NZASB issued NZASB ED 2020-4 *PBE IFRS 17 – Deferral of Effective Date*, which proposed to defer the effective date of PBE IFRS 17 to 1 January 2023, to align it with the expected effective date of NZ IFRS 17. Comments on NZASB ED 2020-4 were due by 22 July 2020. The short comment period was to enable the NZASB to finalise the amendments proposed in NZASB ED 2019-3 and NZASB ED 2020-4 in a single amending standard. The NZASB did not receive any submissions on NZASB ED 2020-4.
7. The IASB finalised its amendments to IFRS 17 and issued *Amendments to IFRS 17* on 25 June 2020. The IASB’s amending standard amends the effective date of IFRS 17 from annual periods beginning on or after 1 January 2021 to annual periods beginning on or after 1 January 2023. Earlier application is permitted for entities that apply IFRS 9 *Financial Instruments* on or before the date of initial application of IFRS 17
8. The NZASB approved *Amendments to PBE IFRS 17* at its meeting on 13 August 2020.
9. The due process followed by the Board with respect to *Amendments to PBE IFRS 17* complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.
10. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the standard is likely to require the disclosure of personal information. In our view, the standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commission is required.

Consistency with XRB Financial Reporting Strategy

11. The amending standard is a standard in its own right. *Amendments to PBE IFRS 17* is substantively the same as *Amendments to NZ IFRS 17* except for a scope paragraph limiting the application of the standard to Tier 1 and Tier 2 not-for-profit public benefit entities. This is because the scope of PBE IFRS 17 is limited to not-profit PBEs.
12. The amending standard both amends existing disclosure requirements and establishes new disclosure requirements. We do not propose any RDR concessions in respect of the new disclosure requirements because there are currently no concessions in PBE IFRS 17.
13. The issue of this amending standard is consistent with the current Financial Reporting Strategy: it adopts the international standard on which it is based and is consistent with the

² When PBE IFRS 17 was issued, it included some editorial corrections that the IASB had approved to IFRS 17 prior to issuing IASB ED/2019/4. Some of those editorial corrections were changed when IASB ED/2019/4 was issued for comment. *Amendments to PBE IFRS 17* results in the requirements in PBE IFRS 17 being identical to the requirements in IFRS 17 and NZ IFRS 17.

Accounting Standards Framework. Unlike the majority of PBE Standards which are applied by both not-for-profit and public sector PBEs, PBE IFRS 17 applies only to not-for-profit PBEs. A project to extend the scope of PBE IFRS 17 to public sector PBEs is expected to commence later this year.

Effective date

14. The amending standard will be applicable for annual reporting periods beginning on or after 1 January 2023. Early application is permitted for entities that apply PBE IPSAS 41 *Financial Instruments* on or before the date of initial application of PBE IFRS 17.

Other matters

15. The NZASB has also taken this opportunity to make editorial corrections to some of the terms used PBE IFRS 17 for consistency with the terminology in other PBE Standards (for example, referring to net assets/equity rather than only equity).
16. There are no other matters relating to the issue of this standard that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

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

Attachments

Amendments to PBE IFRS 17

Certificate of determination

Michael Bradbury
Acting Chair NZASB



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 31 July 2020

To: NZASB Members

From: Joanne Scott

Subject: ***2020 Amendments to PBE FRS 48***

Recommendations

1. We recommend that the Board:
 - (a) NOTES the submissions on NZASB ED 2020-1 *Proposed 2020 Amendments to PBE FRS 48*;
 - (b) APPROVES for issue *2020 Amendments to PBE FRS 48*; and
 - (c) APPROVES the signing memorandum from the Acting Chair of the NZASB to the Chair of the XRB Board requesting approval to issue *2020 Amendments to PBE FRS 48*.
2. We originally planned to seek approval of these amendments in September but, due to feedback from constituents about the urgency of finalising the amendments, we are seeking approval at this meeting. The closing date for comments is 10 August. This analysis is based on comments received prior to finalising the agenda papers distributed on 31 July. Additional comments will be circulated and tabled as late papers. We will discuss the most appropriate way of dealing with any additional issues raised at the meeting.

Background

3. Earlier this year the Board became aware that, as a result of the COVID-19 pandemic, many entities would face disruption to their operations and might be unable to complete the steps required to implement PBE FRS 48 *Service Performance Reporting* by its effective date. The Board therefore proposed to defer the effective date of PBE FRS 48 by one year (from 1 January 2021 to 1 January 2022).
4. Communications accompanying the ED stressed the Board's ongoing support for the objective of the standard and the importance of service performance information for users of PBE financial reports. The Board noted that its intention was to provide affected PBEs with more time, in the current circumstances, to successfully implement, and meet the objective of the standard.
5. NZASB ED 2020-1 was issued on 8 May 2020. It proposed to defer the effective date of PBE FRS 48 by one year. It also proposed to clarify that (i) explanations of variances between prospective and actual information are required only when an entity presents such comparisons; and (ii) a Tier 2 not-for-profit entity is not required to present comparative

service performance information in its first financial report prepared in accordance with PBE Standards.

6. Comments on the ED close on 10 August (giving the usual 90 day comment period). To date we have received two submissions and four sets of comments via online feedback (see agenda item 10.4). Any further comments will be circulated and tabled as late papers.

Outreach

7. In addition to notifying constituents in the usual ways (eg via NZASB Updates), staff contacted a number of constituents directly, with a particular focus on medium-sized firms providing accounting or auditing services to Tier 1 and 2 registered charities. Some accounting firms with not-for profit clients have also raised awareness of the proposal in newsletters and online forums.

Analysis of responses

8. There were four questions in the ED.
 - 1 Do you agree with the proposal to defer the effective date of PBE FRS 48 *Service Performance Reporting* by one year (from 1 January 2021 to 1 January 2022)? If you disagree, please explain why.
 - 2 Do you agree with the proposed clarification regarding explaining variances (see paragraphs 37 and 38A)? If you disagree, please explain why.
 - 3 Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.
 - 4 Do you have any other comments on the ED?
9. Table 1 summarises the responses to the questions in the ED.

Table 1

	Q1 Defer	Q2 Variances	Q3 Effective date	Q4 Other?
R1	✓			See below
R2	✓	✓	✓	See below
<u>Online feedback</u>				
R3	✓	✓		
R4	✓			
R5	✓			
R6	✓			

10. R1 requested that the deferral of the effective date be communicated as quickly as possible. That request prompted us to seek approval of the amendments at this meeting.
11. R2 requested that consideration be given to the possibility of providing relief from the requirements for comparative information, given the impact of the pandemic on operations. We acknowledge that the pandemic will have affected the scale and nature of operations for some entities and may lead to differences between years in activities and measures. However,

we do not recommend providing relief from the requirements in PBE FRS 48 for comparative information for the following reasons.

- (a) The Board considered whether to provide relief from comparative before issuing the ED and decided not to. The May 2020 agenda papers set out two proposals for consideration by the Board: (i) relief from comparative information requirements in the first year that the standard is effective; and (ii) deferral of the effective date. The Board chose to defer the effective date and require compliance with the standard as a whole.
- (b) PBE FRS 48 acknowledges that an entity’s activities and measures may change over time and allows for this. Although the pandemic is likely to have resulted in more widespread change than envisaged when PBE FRS 48 was developed, the requirements can still be applied.
- (c) If the effective date is deferred until 1 January 2022 the first comparative period required would be for the year ending 31 December 2021. This gives some time for a new normal to emerge. Early adopters could face more issues.

Question for the Board

Q1. Does the Board agree not to provide relief from the requirements for comparative information?

Changes made in finalising the amendments

- 12. In finalising the amendments we have reworded two effective date paragraphs (see shaded text in Table 2) to clarify that:
 - (a) entities electing to early adopt PBE FRS 48 must apply the amendments from 1 January 2021, and may apply them earlier if they wish; and
 - (b) entities applying PBE FRS 48 from the revised effective date of 1 January 2022 must apply these amendments.
- 13. We think these changes are necessary because the amendments cannot apply to any financial reports already prepared in accordance with PBE FRS 48. We recommend the changes shown in Table 2 and have incorporated them in the amendments.

Table 2

ED proposals	Final wording for amendments
Part C – Amendments to PBE FRS 48	
<p>Effective Date</p> <p>48. A public benefit entity shall apply this Standard for annual financial reports covering periods beginning on or after 1 January <u>2022</u> 2021. Earlier application is permitted.</p> <p>49. <u>2020 Amendments to PBE FRS 48, issued in August 2020, amended paragraphs 19, 37 and 48 and added paragraph 38A. If an entity applies PBE FRS 48 before the revised</u></p>	<p>Effective Date</p> <p>48. A public benefit entity shall apply this Standard for annual financial reports covering periods beginning on or after 1 January <u>2022</u> 2021. Earlier application is permitted.</p> <p>49. <u>2020 Amendments to PBE FRS 48, issued in August 2020, amended paragraphs 19, 37 and 48 and added paragraph 38A. These amendments revised the effective date of</u></p>

<p><u>effective date of PBE FRS 48 (as set out in paragraph 48) it shall apply those amendments.</u></p>	<p><u>PBE FRS 48 from 1 January 2021 to 1 January 2022. If an entity elects to apply PBE FRS 48 to annual financial reports beginning on or after 1 January 2021 it shall also apply those amendments. Earlier application of the amendments is permitted.</u></p>
<p>Part D – Amendments to Other Standards (to PBE FRS 47 <i>First-time Adoption of PBE Standards</i>)</p>	
<p>Effective Date ... <u>42.13 2020 Amendments to PBE FRS 48, issued in August 2020, amended paragraphs RDR 27.2 and RDR 27.3. An entity shall apply those amendments when it applies 2020 Amendments to PBE FRS 48. [Proposed effective date of those amendments is 1 January 2021].</u></p>	<p>Effective Date ... <u>42.13 2020 Amendments to PBE FRS 48, issued in August 2020, amended paragraphs RDR 27.2 and RDR 27.3. 2020 Amendments to PBE FRS 48 revised the effective date of PBE FRS 48 from 1 January 2021 to 1 January 2022. If an entity elects to apply PBE FRS 48 to annual financial reports beginning on or after 1 January 2021 it shall also apply the amendments to paragraphs RDR 27.2 and RDR 27.3. Earlier application of the amendments is permitted.</u></p>
<p>Part E – Effective Date <i>All amending standards are required to have an overall effective date section.</i></p>	
<p>This Standard shall be applied for annual financial reports covering periods beginning on or after 1 January 2021. Earlier application is permitted.</p>	<p>As per ED.</p>

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 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.

Draft amending standard and signing memo

16. Attached as agenda item 10.2 is a copy of *2020 Amendments to PBE FRS 48*. It applies to Tier 1 and Tier 2 public benefit entities.
17. Attached as agenda item 10.3 is a draft certificate signing memorandum from the Acting Chair of the NZASB to the Chair of the XRB Board.

Audit NZ guidance

18. For the Board's information, Audit NZ Bulletin two: *Implications of the COVID-19 emergency for service performance reporting* (see agenda item 10.5 in the supporting papers) discusses some of the matters that public sector entities might need to consider in meeting their existing legislative requirements to report service performance information. We already have links to the Audit NZ COVID-19 bulletins on the XRB website.

Next steps

19. Once the amending standard has been issued we will reload PBE FRS 48, with the revised effective date and other amendments, on the website. We will also reload the standards that were substantively amended by PBE FRS 48 (with an explanatory text box on the front cover noting that the standard incorporates amendments from PBE FRS 48, and that the effective date of PBE FRS 48 has been deferred). These standards are:
- (a) PBE IPSAS 1 *Presentation of Financial Reports*;
 - (b) PBE IAS 34 *Interim Financial Reporting*; and
 - (c) PBE FRS 43 *Summary Financial Statements*.

Attachments

Agenda item 10.2: Draft 2020 Amendments to PBE FRS 48

Agenda item 10.3: Draft signing memorandum

Agenda item 10.4: Submissions and comments received

10.4.1 R1 BDO

10.4.2 R2 InterChurch Bureau

10.4.3 Online feedback

10.4.4 Placeholder for further submissions and online feedback
(post Board mail out)

Agenda item 10.5: Audit NZ Bulletin two: *Implications of the COVID-19 emergency for service performance reporting* (in supporting papers)



2020 AMENDMENTS TO PBE FRS 48

Issued August 2020

This Standard was issued on [20 August 2020] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [17 September 2020].

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

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

This Tier 1 and Tier 2 PBE Standard has been issued to defer the effective date of PBE FRS 48 *Service Performance Reporting* by one year. The relief has been granted because, as a result of the disruption caused by the COVID-19 pandemic in 2020, some entities may have experienced difficulty in collecting the information that would be required to report in accordance with PBE FRS 48.

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Part A – Introduction

This Standard sets out amendments to PBE FRS 48 *Service Performance Reporting*. It defers the effective date by one year, from 1 January 2021 to 1 January 2022. It also clarifies that explanations of variances are required only when an entity presents comparisons of actual versus prospective information.

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

Part B – Scope

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

Part C – Amendments to PBE FRS 48 *Service Performance Reporting*

Paragraphs 19, 37 and 48 are amended. Paragraphs 38A and 49 are added. New text is underlined and deleted text is struck through. Paragraphs 36 and 38–39 are shown for context.

19. The nature of the information that an entity provides to meet the requirements of paragraph 15(b) will depend on the circumstances of the entity. An entity shall consider all of the following factors in deciding what to report.
- (a) ...
 - (b) *What it intended to achieve during the reporting period.* ... Public sector entities are often required to publish information about planned performance in planning documents. In such cases this Standard requires comparisons between actual and planned performance (see paragraph ~~37~~38A).

Comparative Information and Consistency of Reporting

36. Service performance information should provide users with a basis and context to compare an entity's service performance over time, and where appropriate, against planned performance or the performance of other entities. Consistency of reporting aids comparability and this Standard establishes requirements for consistent reporting. However, an entity's service performance activities and performance measures and/or descriptions may change over time. This Standard requires that an entity provide information about those changes.
37. **An entity shall report comparative information in respect of the preceding period. ~~An entity may also be required by legislation, or may elect, to report comparative information in respect of previously published prospective service performance information.~~ An entity shall report comparative information for all amounts reported in the current period and, where relevant, for the narrative and descriptive information reported in the current period. ~~Explanations for major variances shall be given.~~**
38. Comparative information shall be included for those performance measures and/or descriptions for which an amount is reported in the current period. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's service performance information. Judgement is required in deciding when to provide comparative narrative and descriptive information.
- 38A. An entity may also be required by legislation, or may elect, to report comparisons of previously published prospective service performance information and current period service performance information (also referred to as budget versus actual). In such cases an entity shall report comparisons of previously published prospective information and current period information for all amounts reported in the current period and, where relevant, for the narrative and descriptive information reported in the current period. Explanations for major variances shall be given.

39. An entity reporting against previously published prospective service performance information shall consider whether original levels of planned activity or revised plans provide the most relevant and useful information. Information about revisions to plans during the period may help explain variances between original plans and actual results.

...

Effective Date

48. A public benefit entity shall apply this Standard for annual financial reports covering periods beginning on or after 1 January ~~2022~~ 2024. Earlier application is permitted.
49. 2020 Amendments to PBE FRS 48, issued in August 2020, amended paragraphs 19, 37 and 48 and added paragraph 38A. These amendments revised the effective date of PBE FRS 48 from 1 January 2021 to 1 January 2022. If an entity elects to apply PBE FRS 48 to annual financial reports beginning on or after 1 January 2021 it shall also apply those amendments. Earlier application of the amendments is permitted.

In the Basis for Conclusions, a footnote is added to paragraph BC39 and paragraphs BC46 and BC47 are added.

Effective Date

...

- BC39. The NZASB agreed that the Standard should have a three-year implementation period, with early adoption permitted.*

* 2020 Amendments to PBE FRS 48, issued in August 2020, subsequently deferred the effective date by one year. See paragraphs BC46 and BC47.

2020 Amendments

- BC46. In May 2020 the NZASB issued ED 2020-1 *Proposed 2020 Amendments to PBE FRS 48*. The ED proposed to defer the effective date of PBE FRS 48 by one year (from 1 January 2021 to 1 January 2022). The NZASB acknowledged that the disruption caused by the COVID-19 pandemic in 2020 would have resulted in some PBEs being unable to complete the steps required to implement PBE FRS 48 by its original effective date. The ED also proposed to clarify that explanations of variances are required only when an entity presents comparisons of actual versus prospective information.
- BC47. The NZASB finalised the amendments in August 2020.

Part D – Amendments to Other Standards

Amendments to PBE FRS 47 *First-time Adoption of PBE Standards*

Paragraphs RDR 27.2 and RDR 27.3 are amended. Paragraph 42.13 is added. New text is underlined and deleted text is struck through. Paragraphs 25 to RDR 27.1 are shown for context.

Comparative Information

25. **An entity's first set of financial statements under PBE Standards shall include at least three statements of financial position, two statements of comprehensive revenue and expense, two separate statements of financial performance (if presented), two cash flow statements and two statements of changes in net assets/equity, and related notes, including comparative information for all statements presented.**
26. An entity's opening statement of financial position may be presented in the notes.
27. An entity is required to present all comparative information in accordance with PBE Standards, including the presentation of a comparative cash flow statement in accordance with PBE IPSAS 2 *Cash Flow Statements*.

RDR 27.1 A Tier 2 entity is not required to provide a statement of financial position as at the beginning of the earliest comparative period in accordance with paragraphs 25 and 26.

RDR 27.2 A Tier 2 not-for-profit entity is not required to present comparative information in its first set of financial statements under PBE Standards, but is required to present the opening statement of financial position. A Tier 2 not-for-profit entity is not required to present comparative service performance information in its first financial report under PBE Standards.

RDR 27.3 A Tier 2 not-for-profit entity which applies RDR 27.2 ~~to its first set of financial statements under PBE Standards~~ shall attach a copy of the previous year's financial statements, and explain in the notes the significant differences in accounting policies applied between the two sets of financial statements.

...

Effective Date

...

42.13 2020 Amendments to PBE FRS 48, issued in August 2020, amended paragraphs RDR 27.2 and RDR 27.3. 2020 Amendments to PBE FRS 48 revised the effective date of PBE FRS 48 from 1 January 2021 to 1 January 2022. If an entity elects to apply PBE FRS 48 to annual financial reports beginning on or after 1 January 2021 it shall also apply the amendments to paragraphs RDR 27.2 and RDR 27.3. Earlier application of the amendments is permitted.

Paragraph BC17 and the preceding heading are added. New text is underlined.

Basis for Conclusions

2020 Amendments to PBE FRS 48

BC17. In 2020 the NZASB acknowledged that the disruption caused by the COVID-19 pandemic could result in some entities experiencing difficulty in collecting the information required to report in accordance with PBE FRS 48 Service Performance Reporting from the original effective date of 1 January 2021. 2020 Amendments to PBE FRS 48 deferred the effective date of PBE FRS 48 by one year. The amendment also clarified that the RDR not-for-profit concession (in paragraph RDR 27.2) also applies to comparative service performance information.

Part E – Effective Date

This Standard shall be applied for annual financial reports covering periods beginning on or after 1 January 2021. Earlier application is permitted.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 13 August 2020

To: Michele Embling, Chair External Reporting Board

From: Michael Bradbury, Acting Chair NZASB

Subject: **2020 Amendments to PBE FRS 48**

Introduction

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *2020 Amendments to PBE FRS 48*. PBE FRS 48 *Service Performance Reporting* is a domestic PBE Standard which was issued in November 2017 and is due to take effect from 1 January 2021.
2. Earlier this year the NZASB became aware that, as a result of the COVID-19 pandemic, many entities would face disruption to their operations and might be unable to complete the steps required to implement PBE FRS 48 *Service Performance Reporting* by its effective date. The Board therefore proposed to defer the effective date of PBE FRS 48 by one year.

Due process

3. NZASB ED 2020-1 *Proposed 2020 Amendments to PBE FRS 48* was issued on 8 May 2020. It proposed to defer the effective date of PBE FRS 48 by one year and to clarify some requirements (regarding when reporting on variances is required and the RDR concessions available to first-time adopters of PBE Standards).
4. The NZASB's communications about the ED expressed its continued support for the objective of PBE FRS 48 and its desire for entities to report the information required by the standard in meeting that objective.
5. Comments closed on 10 August (giving the usual 90 day comment period). The NZASB received six submissions (including four via the online feedback option), all of which were broadly supportive of the proposals. The NZASB also received informal feedback that the proposed deferral of the effective date was well received. One respondent requested that the NZASB consider providing relief from the comparative requirements in PBE FRS 48 for Tier 2 entities (and possibly all entities). The NZASB had already considered this matter before it issued the ED and chose to propose deferral of the effective date by a year rather than providing relief from the comparative requirements.
6. 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.

7. 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

8. This amending standard will be applicable for Tier 1 and Tier 2 public benefit entities.
9. The issue of this amending standard is consistent with the Financial Reporting Strategy and the Accounting Standards Framework: PBE FRS 48 is a domestic standard which establishes requirements for a topic not covered by international standards.

Effective date

10. The amending standard will be applicable for annual financial reports covering periods beginning on or after 1 January 2021. The effective date in the amending standard is merely to make sure that the deferral of the effective date takes effect before the standard would otherwise become effective. Earlier application is permitted.

Other matters

11. 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

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

Attachments

2020 Amendments to PBE FRS 48

Certificate of determination

Michael Bradbury
Acting Chair NZASB

From: Henry McClintock <Henry.McClintock@bdo.co.nz>
Sent: Monday, 25 May 2020 2:13 PM
To: Joanne Scott <Joanne.Scott@xrb.govt.nz>
Subject: RE: Proposed deferral of effective date of PBE FRS 48

Hi Joanne

Sorry, I meant to come back to you on this last week, but it ran away with me! Good to have a discussion with you on the phone just now

I had a good chat to a few others who work in the PBE sector within BDO and our overall view is that while it is a shame, as a number of entities are beginning to set this up (or indeed have), it is probably a good show of support for the sector by the XRB to delay. Those that want to do it, can still do it, but for those that are finding it hard a delay would reduce pressure. So overall we would support a delay.

The main extra thought I would like to make is whether you can make the decision any more **quickly?! I know that is hard as you have a process to go through. A large number of PBE's are June y/e and so by July will be in the period they need to report so they may be in a no man's land so to speak** - do they need to get on to it or not? Before this announcement we were talking with June y/e clients and suggesting that they should plan now to ensure they start collecting data from 1 July (although most are already collecting the data in reality). A great result would be to make the call asap, that is what would provide most relief I think.

I hope that comes across in the right way. Having just spoken to you it sounds like you are aware of this and are trying to work it through as quickly as possible.

I am happy for this to be treated as a formal submission. And also very happy to discuss further if needed.

Thanks very much

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Response To

Invitation to Comment

Proposed 2020 Amendments to PBE FRS 48

General

This submission is made by Inter Churches Bureau (ICB) which a group is made up of Christian based organisation from around New Zealand who meet on a regular basis to discuss matters which affect all members.

Staff of the External Reporting Board (XRB) will be familiar with this group as they have on going meetings to discuss changes to the reporting framework. Peter van Hout (a member of ICB) is also a member of XRAPP, a representation group that meets with the XRB twice per year.

Members of ICB had an opportunity to discuss the proposals outlined in the Invitation to Comment at their meeting held earlier in the week.

Questions to Respondents and Answers

Do you agree with the proposal to defer the effective date of PBE FRS 48 Service Performance Reporting by one year (from 1 January 2021 to 1 January 2022)? If you disagree, please explain why.

Members of ICB agree that the effective date for implementing PBE FRS 48 should be deferred for 12 months but that early adoption should be available to any reporting entity who wishes to take up that opportunity.

Do you agree with the proposed clarification regarding explaining variances (see paragraphs 37 and 38A)? If you disagree, please explain why.

Given that the inclusion of clause 38A is quite narrow (from our interpretation of the new paragraph), that being, that it will only apply to reporting entities who are required by legislation or who elect to include the information and only when the reporting entity has published prospective service information (which we assume as meaning budget information), then members of ICB are happy for that clause to be inserted.

Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.

We agree that the effective date for implementing PBE FRS 48 should be changed from 1 January 2021 to 1 January 2022 as provided in clause 49.

Do you have any other comments on the ED?

Could the staff of the XRB look at the reduced discloser requirements of Tier 2 (and possibility Tier 1) because, as a result of COVID 19 and a reporting entities operating requirements, operational service performance targets may have needed to be changed significantly and therefore previous years

comparative information may not be available or service performance results may not be comparable with the financial results when taken as a whole.

Peter van Hout
On behalf of Inter Church Bureau
12 June 2020

**Online Feedback on NZASB ED 2020-1
2020 Proposed 2020 Amendments to PBE FRS 48**

R3 Nathan Barthow, Emerge Aotearoa Group

I would like to express support for the deferred effective date to PBE FRS 48.

As a tier 1 charity we are excited by the opportunity to combine non-financial information to tell our story and outcomes that contribute to our charitable purpose.

Our planning for this was very much underway with a workshop planned during May 2020 to enable comparative to before the effective date. This workshop facilitated by PWC has unfortunately been deferred due to COVID 19.

Our focus during this lockdown period has been around responsiveness to the different alert levels, avoidance of disruptions and adaptiveness to a new way of working. This new standard has had to take a backseat and not had the focus and attention required.

On this basis, Emerge Aotearoa Group would support the deferral of the effective date by 12 months.

We also support the changes to paragraphs 37 and 38. This will keep reporting simplified and directed to the audience.

R4 Alex Bass, Tourism Industry Aotearoa

I agree with this proposal.

Deferring PBE FRS 48 by one year makes sense given our pre and post COVID measures may appear significantly different. Entities are trying to survive and any minimisation of compliance costs is good.

R5 Philip Eilenberg, Cornwall Trust Park Board

We are a Tier 2 charity and due to the Covid 19 disruption we would like to defer the effective date of PBE FRS 48 by one year (from 1 January 2021 to 1 January 2022).

R6 Simon Rowbotham, RNDM

I support the proposal (re PBE FRS 48) to defer the implementation of service performance reporting by 12 months.



APPROVAL NZASB 118

Approval to Issue *Reference to the Conceptual Framework*

In accordance with the protocols established between the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB Board), the NZASB has:

- approved for issue *Reference to the Conceptual Framework*; and
- provided a signing memorandum outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memorandum and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue *Reference to the Conceptual Framework* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 19th day of June 2020

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Michele J Embling
Chair
External Reporting Board



APPROVAL NZASB 119

Approval to Issue *Onerous Contracts—Cost of Fulfilling a Contract*

In accordance with the protocols established between the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB Board), the NZASB has:

- approved for issue *Onerous Contracts—Cost of Fulfilling a Contract*; and
- provided a signing memorandum outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memorandum and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue *Onerous Contracts—Cost of Fulfilling a Contract* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 19th day of June 2020

A handwritten signature in black ink, appearing to read 'Michele J Embling', written over a large, faint circular scribble.

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Michele J Embling
Chair
External Reporting Board



APPROVAL NZASB 120

Approval to Issue *Annual Improvements to NZ IFRS 2018–2020*

In accordance with the protocols established between the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB Board), the NZASB has:

- approved for issue *Annual Improvements to NZ IFRS 2018–2020*; and
- provided a signing memo outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memo and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue *Annual Improvements to NZ IFRS 2018–2020* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 19th day of June 2020

A handwritten signature in black ink, appearing to read 'Michele Embling', is written over a large, faint circular watermark or stamp.

.....
Michele Embling
Chair
External Reporting Board



APPROVAL NZASB 121

Approval to Issue *Property, Plant and Equipment—Proceeds before Intended Use*

In accordance with the protocols established between the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB Board), the NZASB has:

- approved for issue *Property, Plant and Equipment—Proceeds before Intended Use*; and
- provided a signing memorandum outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memorandum and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue *Property, Plant and Equipment—Proceeds before Intended Use* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 19th day of June 2020

A handwritten signature in black ink, appearing to read 'Michele J Embling', written over a faint circular watermark or background.

.....
Michele J Embling
Chair
External Reporting Board